



Thursday, 27 October 2016

ASX ANNOUNCEMENT

NAB 2016 Full Year Results

Highlights

- Cash earnings¹ up 4% over the year to \$6.48 billion and cash ROE 14.3%
- Statutory net profit of \$352 million reflects loss on sale for both CYBG PLC (CYBG) and 80% of NAB Wealth's life insurance business
- Final dividend 99 cents per share fully franked, \$2.63 billion declared
- Successful completion of sale of 80% of NAB Wealth's life insurance business and strategic partnership with Nippon Life Insurance Company (Nippon Life)
- Expenses well managed, declining 2% over September 2016 half year
- Balance sheet remains strong, CET1 ratio of 9.8% well above 8.75-9.25% target range

Key points

The September 2016 full year results for continuing operations are compared with September 2015 full year results for continuing operations unless otherwise stated, and reflect revisions to prior comparative financial information as detailed in NAB's ASX announcement on 13 October 2016.

- On a statutory basis, net profit attributable to the owners of the Company was \$352 million, down 94.4% reflecting the loss on sale for both CYBG and 80% of NAB Wealth's life insurance business. Excluding discontinued operations², statutory net profit decreased 5.6% to \$6.42 billion.
- Cash earnings¹ were \$6.48 billion, an increase of \$261 million or 4.2%. The main difference between statutory and cash earnings over the year relates to discontinued operations (demerger and IPO of CYBG and sale of 80% of NAB Wealth's life insurance business), distributions and the effects of fair value and hedge ineffectiveness¹.
- On a cash earnings basis:
 - Revenue increased 2.5%. Excluding gains in the March 2015 half year from a legal settlement and the UK Commercial Real Estate loan portfolio sale and SGA asset sales, revenue rose approximately 3.7%, benefitting from higher lending balances and stronger Markets and Treasury income³. Group net interest margin (NIM) declined 2 basis points mainly due to higher funding costs.

¹ Refer to note on cash earnings on page 4 of this document.

² Discontinued operations primarily relate to the operations and loss on sale for both CYBG and 80% of NAB Wealth's life insurance business. The comparative information also includes the post-tax profit/(loss) of Great Western Bank discontinued operations. Refer to Note 14 – Discontinued Operations of the 2016 Full Year Results Announcement for further detail.

³ Markets and Treasury income represents Customer Risk Management and NAB Risk Management income.

- Expenses rose 2.2%. Key drivers include higher personnel costs and increased technology related amortisation and project spend, partly offset by productivity savings. Expenses in the September 2016 half year were tightly managed, declining 1.9% compared to the March 2016 half year.
- The charge for Bad and Doubtful Debts (B&DDs) rose 7.0% to \$800 million. The increase primarily reflects higher specific charges relating to the impairment of a small number of large single name exposures in Australian Banking.
- The ratio of Group 90+ days past due and gross impaired assets to gross loans and acceptances of 0.85% at 30 September 2016 was 7 basis points higher compared to 31 March 2016 mainly reflecting increased impairment of New Zealand dairy exposures of which the majority are currently classified as no loss based on collective provisions and security held.
- The Group's Common Equity Tier 1 (CET1) ratio was 9.8% as at 30 September 2016, an increase of 8 basis points from 31 March 2016 reflecting the sale of 80% of NAB Wealth's life insurance business and strong capital generation, largely offset by the impact of higher mortgage risk weights from 1 July 2016. The Group's CET1 target ratio remains between 8.75% – 9.25%, based on current regulatory requirements.
- The final dividend is 99 cents per share fully franked, unchanged from the 2016 interim and 2015 final dividends.
- The Group maintains a well diversified funding profile and has raised \$36.4 billion of term wholesale funding in the 2016 financial year. The weighted average term to maturity of the funds raised by the Group over the 2016 financial year was 5.4 years. The stable funding index was 91% at 30 September 2016, 2 percentage points higher than at 31 March 2016.
- The Group's quarterly average liquidity coverage ratio as at 30 September 2016 was 121%.

Executive commentary

"This has been a milestone year for the Group with the completion of major divestments including our exit from CYBG and the sale of 80% of our life insurance business to Nippon Life. NAB moves into 2017 a reshaped business – stronger, simpler and focused on helping our customers in Australia and New Zealand," NAB Group CEO Andrew Thorburn said.

"These changes have been achieved while delivering an improved operating performance and maintaining a strong balance sheet, sound asset quality and tight control of costs. This is against a backdrop of favourable Australian and New Zealand economic conditions, but also rising funding costs and global uncertainty.

"Improving momentum and stabilising margins in Business Banking have been particularly pleasing, with lending and revenue growth focused on higher returning priority segments. In Personal Banking, we made good progress in restoring home loan volume growth back to system levels after a period of significant change in pricing and credit policies.

"We have lifted our Priority Segments Net Promoter Score (NPS)^{4,5} performance among the major banks from third to first over the year to 30 September 2016. However there is more to do to achieve a level of customer advocacy we can be proud of, particularly in our priority segments.

⁴ Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld.

⁵ Priority segments Net Promoter Score (NPS) is a simple average of the NPS scores of five priority segments: Mortgage Customers, Debt Free, Micro Business (<\$1m), Small Business (\$1m-<\$5m) and Medium Business (\$5m-<\$50m). The Priority Segments NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research.

“Our sustained focus on driving the right culture, living our core values and putting customers at the centre of everything we do has seen us address over 100 customer pain points over the past two years. This has made it easier for 4.6 million customers to do business with us. We know customers expect simple and easy banking and we continue to focus on improving services and reliability.

“We completed the national roll out of the Personal Banking Origination Platform (PBOP), which is now used for originating and fulfilling personal products, resulting in simpler processes and faster turnaround times for cards and personal lending. With this significant step in our technology transformation complete, our focus shifts to fully leveraging the benefits and expanding the capability to other channels.

“In August 2016 we announced a refresh of our organisational structure and management team to create a simpler, more customer-focused organisation.

“NAB is well positioned to deliver improved customer outcomes and attractive returns for shareholders in the year ahead, with a clear plan and the right organisational structure in place,” Mr Thorburn said.

Business Unit Commentary

Australian Banking cash earnings were \$5,472 million, an increase of 7% reflecting higher revenue and lower B&DD charges. Revenue rose 5% benefitting from stronger Markets and Treasury³ performance, combined with higher volumes of housing and business lending and a 3 basis point lift in NIM. Revenue for Business Banking increased 2% and for Personal Banking increased 7%. Expenses rose 4% due mainly to personnel cost increases, but over the September 2016 half year decreased 1%. B&DD charges of \$639 million fell 4% reflecting improved credit quality in the broader business lending portfolio partly offset by higher specific charges arising from a small number of large single name impairments.

NZ Banking local currency cash earnings of NZ\$836 million rose 2% over the year. The key drivers were improved revenue and lower B&DD charges reflecting favourable economic conditions outside the dairy sector. Revenue rose 1% with improved lending volumes and fee income, partly offset by a decline in NIM due to competitive pressure and higher funding costs. Expense growth was contained to 1% despite continued investment in the Auckland focused growth strategy.

NAB Wealth cash earnings increased 13% to \$356 million reflecting stronger revenue and lower expenses. Net income rose 2% benefitting from higher average funds under management (FUM), up 12% given strong investment markets, positive net funds flow and the inclusion of JBWere FUM from January 2016. Expenses declined 4% reflecting lower regulatory and compliance spend combined with tight control of discretionary costs.

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This announcement contains statements that are, or may be deemed to be, forward-looking statements. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believe", "estimate", "plan", "project", "anticipate", "expect", "intend", "likely", "may", "will", "could" or "should" or, in each case, their negative or other variations or other similar expressions, or by discussions of strategy, plans, objectives, targets, goals, future events or intentions. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Group, which may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements. Further information on important factors that could cause actual results to differ materially from those projected in such statements is contained in the Group's Annual Financial Report.

NOTE ON CASH EARNINGS

Full detail on how cash earnings is defined, a discussion of non-cash earnings items and a full reconciliation of statutory net profit attributable to owners of NAB for the year ended 30 September 2016 is set out on pages 2 to 8 of the 2016 Full Year Results Announcement under the heading "Profit Reconciliation".
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The Group's results and Review of Divisional Operations and Results are presented on a cash earnings basis, unless otherwise stated. Cash earnings is a key financial performance measure used by NAB, the investment community and NAB's Australian peers with a similar business portfolio. NAB also uses cash earnings for its internal management reporting, as it better reflects what NAB considers to be the underlying performance of the Group. It is not a statutory financial measure, is not presented in accordance with Australian Accounting Standards, and is not audited or reviewed in accordance with Australian Auditing Standards. "Cash earnings" is calculated by excluding discontinued operations and certain other items which are included within the statutory net profit attributable to owners of NAB. Section 5 of the Full Year Results Announcement sets out the Consolidated Income Statement of the Group, including statutory net profit. The Group's financial statements, prepared in accordance with the *Corporations Act 2001* (Cth) and Australian Accounting Standards, and audited by the auditors in accordance with Australian Auditing Standards, will be released on 14 November 2016 in NAB's 2016 Annual Financial Report.