

FIRST QUARTER TRADING UPDATE 2019



Jane and
Colin Campbell
Campbells Wines

The December 2018 quarter results are compared with the quarterly average of the September 2018 half year results for continuing operations (excluding customer-related remediation) unless otherwise stated. Cash and statutory earnings are rounded to the nearest \$50 million. Revenue, expenses and asset quality are expressed on a cash earnings basis.

1Q19 FINANCIAL HIGHLIGHTS

\$1.70^{BN}

Unaudited statutory
net profit

\$1.65^{BN}

Unaudited
Cash earnings¹

-3.0%

Cash earnings growth
Vs 1Q18²

10.0%

Group Common Equity
Tier 1 ratio (CET1)

“ Notwithstanding a challenging environment, 1Q19 revenue is broadly stable with good growth in housing and SME lending, and expenses are lower as benefits of our transformation continue to be delivered.

Our SME franchise continues to deliver good results as our ‘Best Business Bank’ initiatives gain traction, including increased focus on specialisation and the roll out of our small business customer hub with bankers available to assist customers after hours and seven days a week.

As previously highlighted, customer remediation programs and regulatory compliance investigations are continuing in FY19 with potential for additional costs, although amounts and timing remain uncertain.³

The Royal Commission’s Final Report is comprehensive and will bring the necessary change for our bank and industry to be better. We are using it to create greater urgency and intensity as we build a culture that puts customers first always. That is our highest priority. We are confident we have the right strategy to deliver sustainably better customer outcomes through being simpler and easier to bank with, and to earn the trust of the community. ”

GARY LENNON - NAB CFO

OPERATING PERFORMANCE

- Cash earnings were up 2% compared to the 2H18 quarterly average but 3% lower than 1Q18.
- Compared to the 2H18 quarterly average:
 - Revenue was broadly stable with good volume growth offset by lower margins and lower markets and treasury income;
 - Net interest margin declined primarily due to pressures in housing lending and lower markets and treasury earnings;
 - Expenses decreased by 3% given productivity initiatives, and lower Royal Commission and marketing spend.

BACKING OUR CUSTOMERS & THE COMMUNITY

- Priority Segments Net Promoter Score (NPS)⁴ declined from -14 in September to -17 in December with NAB ranked first of the major banks.
- Extending the roll out of small business customer hub to Agri and regional customers – open seven days with longer operating hours.
- Only Australian major bank to hold standard variable rates from September 2018 to January 2019, saving around \$70 million for over 930,000 loyal customers.
- Almost 3,000 volunteer days contributed to the community in 1Q19, up 15.5% on 1Q18.

¹ Refer note on cash earnings on page 3.

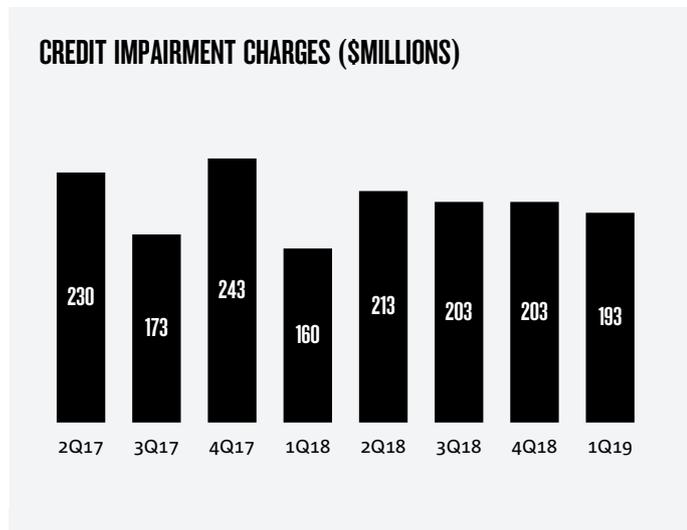
² 1Q18 cash earnings excludes restructuring-related costs.

³ Refer to note 29 in the Financial Statements in NAB’s 2018 Annual Financial Report for further detail on disclosed items. The outcome of these items and other continuing regulatory investigations and customer remediation programs remain uncertain. Further detail will be provided with NAB’s 2019 Half Year Results.

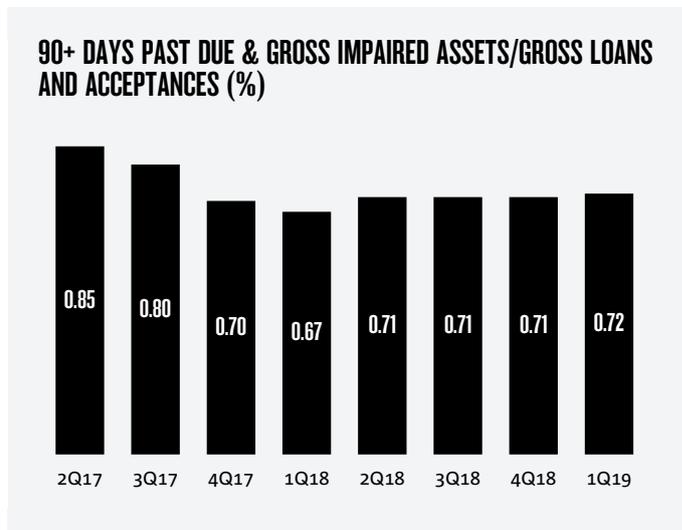
⁴ Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. Priority Segment Net Promoter Score (NPS) is a simple average of the NPS scores of four priority segments: Home Owners, Investors, Small Business (\$0.1m–\$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.

ASSET QUALITY

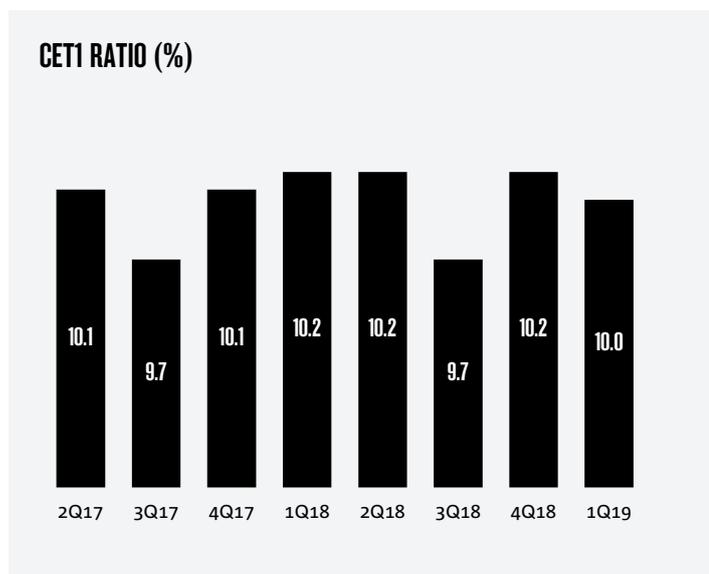
- Credit impairment charges fell 5% to \$193 million and included a \$62 million increase in the drought-related Forward Looking Adjustment (FLA). FLAs for targeted sectors now total \$643 million.



- Asset quality remains sound with the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances broadly stable at 0.72%.



CAPITAL, FUNDING & LIQUIDITY



KEY RATIOS AS AT 31 DECEMBER 2018

- Group Common Equity Tier 1 (CET1) ratio of 10.0%, compared to 10.2% at September 2018, largely reflecting the timing of the final 2018 dividend declaration (45bps net of DRP).
- Leverage ratio (APRA basis) of 5.2%.
- Liquidity Coverage Ratio (LCR) quarterly average of 130%.
- Net Stable Funding Ratio (NSFR) of 112%.

MLC UPDATE

Plans to exit our MLC wealth management business have good momentum under new leadership, with recent fee reductions one of many steps underway to reposition the business. Internal separation is progressing well to give MLC management increased autonomy to execute a new strategy, continue to invest in a program of modernisation, continue to focus on customer remediation, and operate as a standalone business within the NAB Group as we prepare to exit.

While there is more detail to come via proposed legislative changes, the recommendations of the Royal Commission are now known and bring more clarity to the proposed divestment of MLC. However, the current regulatory and operating environment for wealth businesses remains challenging and a delay of the intended public markets exit of MLC to FY20 is now likely. NAB retains the flexibility to consider trade sale options. NAB will take a disciplined approach to the exit of MLC and will execute a transaction at the appropriate time.

The proposed exit remains subject to market conditions, regulatory and other approvals. A further update will be provided with NAB's 1H19 result announcement.

FOR FURTHER INFORMATION

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DISCLAIMER – FORWARD LOOKING STATEMENTS

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", "target", "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. You are cautioned not to place undue reliance on such 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.

Page 1 of this announcement describes certain initiatives relating to the Group's strategic agenda, including certain forward-looking statements which were first announced at the Group's 2017 Full Year Results Announcement. These statements are subject to a number of risk, assumptions and qualifications. Please refer to the Group's 2018 Full Year Results Announcement for an updated description of the key risks, assumptions and qualifications.

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 2018 Annual Financial Report, which is available at www.nab.com.au.

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 2018 is set out on pages 2 to 8 of the 2018 Full Year Results Announcement under the heading "Profit Reconciliation".

The Group's 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. 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, were published in the Group's 2018 Annual Financial Report.