

ASX ANNOUNCEMENT*Thursday, 7 February 2013***NAB 2013 First Quarter Trading Update****Result strengthens on lower bad and doubtful debts and higher revenue**Key Points

- Unaudited cash earnings¹ were stronger at approximately \$1.45 billion, around 4% above the quarterly average of the September 2012 half year². On a statutory basis, unaudited net profit attributable to the owners of the Company for the December quarter was approximately \$1.26 billion. The main difference between statutory and cash earnings was mark-to-market losses on fair value and hedge ineffectiveness.
- On a cash earnings basis:
 - Revenue increased by 3% reflecting strength in Wholesale Banking and an expanded customer margin³;
 - Expenses increased by approximately 4% over the period reflecting continued investment in the Australian business combined with Enterprise Bargaining Agreement related wage increases and lower performance based remuneration in the second half of 2012. FTEs declined by around 500 over the quarter, largely a result of the UK restructure.
 - The charge for bad and doubtful debts (B&DDs) for the quarter was \$554 million, down \$63 million or 10% reflecting lower charges across most business units partially offset by a seasonal increase in Personal Banking;
- For the financial year to date, the Group has raised approximately \$8.6 billion of term wholesale funding (including approximately \$2.2 billion of secured funding). This excludes \$6 billion of pre-funding for the 2013 financial year raised in the prior period. For the financial year to date, the weighted average term to maturity of the funds raised was 5.1 years. The Stable Funding Index (SFI) remains 86%.
- The Group Core Tier 1 ratio (on a Basel II basis) was 8.39% compared to 8.29% as at 30 September 2012. The Group's estimated Common Equity Tier 1 (CET1) ratio (on a Basel III basis) was 7.69%, lower than the position at 30 September 2012 due to the treatment of the final 2012 dividend declaration.

Executive Commentary

"NAB delivered a stronger result for the quarter reflecting the underlying strength of our core Australian business and improved earnings in the UK", National Australia Bank Group CEO, Cameron Clyne said today.

"This is a pleasing result, especially given operating conditions remain challenging both in Australia and the UK, notwithstanding recent improvements in financial markets.

"In this environment cost management continues to be a key priority but we remain mindful of the need to balance this objective against the importance of continued investment. On this front, our technology transformation project continues to make good progress. A further update will

1 Refer to note on cash earnings on page 3 of this document.

2 The quarterly average of the September 2012 half year results excluding the top-up to the Economic Cycle Adjustment (\$250m pre tax) is used for comparison purposes unless otherwise stated.

3 Customer margin comprises the following components of net interest margin: lending margin, deposits, funding and liquidity costs and liability mix. It excludes lending mix and other components of net interest margin.

be provided on Wednesday 13th March 2013 on NAB's progress with this transformation and a refresh of the Group's medium term strategic priorities, focusing on the role of technology in the business and the implications of changed economic and social conditions.

"Progress against priorities outlined in our April 2012 UK Banking Strategic Review has also been pleasing. During this quarter we transferred the UK Commercial Real Estate (CRE) portfolio from Clydesdale Bank PLC to National Australia Bank Ltd, with the portfolio reducing by a further £0.3bn. Restructuring in the core UK Banking business is proceeding well with lower costs, an improved funding mix and closure of all 38 targeted Financial Solutions Centres," he said.

Business Commentary

Business Banking cash earnings were higher in the quarter, benefiting from improved customer margins and a lower charge for B&DD relative to the prior period. Asset quality remained largely stable. Lending balances were slightly lower over the quarter.

While Personal Banking results were lower due to seasonally higher B&DD charges, pre-provision profits were up strongly over the period. Costs remain well managed and revenue growth benefited from margin expansion and continued above-system volume growth.

Wholesale Banking cash earnings increased in the quarter with solid performance in the customer businesses, mainly Market Sales. The risk businesses continued to perform well although Treasury income was lower reflecting the strong performance in the second half of 2012.

NAB Wealth cash earnings before IoRE⁴ were lower in the quarter as disability insurance claims increased and lapse experience remained high. This was partially offset by stronger earnings from the Investments business. Funds under management were higher due to improved investment returns and stronger net flows from corporate super.

NZ Banking cash earnings were higher in the quarter with revenues benefiting from good volume growth and higher fee income. Asset quality was stable with B&DDs and key asset quality indicators both consistent with the prior half.

UK Banking cash earnings improved in the quarter relative to the ex-UK CRE proforma result, largely due to lower B&DDs. Operating expenses were also lower. Lending volumes were broadly stable with mortgage growth offsetting lower business lending.

B&DDs in the UK CRE run-off portfolio were lower in the quarter as the rate of deterioration in asset quality indicators moderated. The portfolio continued to reduce over the period, from gross loans and acceptances of £5.6bn at transfer on 5 October 2012 to £5.3bn or £4.8bn net of provisions.

Great Western Bank earnings were stable over the quarter with the business remaining fully deposit funded and with a continuation of sound asset quality.

Group Asset Quality

Group asset quality was broadly stable. The ratio of Group 90+ days past due and gross impaired assets to gross loans and acceptances was 1.74% at 31 December 2012 compared to 1.78% at 30 September 2012.

The ratio of collective provision to credit risk weighted assets was 1.08% at 31 December 2012, up from 1.05% at 30 September 2012. The ratio of specific provision to impaired assets was 34.8% at 31 December 2012 as compared to 30.3% at 30 September 2012.

⁴ Investment earnings on shareholders' retained profits and capital in the life business

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Disclaimer

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Note on Cash Earnings

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 similar business portfolios. 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 and is not presented in accordance with Australian Accounting Standards nor audited or reviewed in accordance with Australian Auditing Standards. 'Cash earnings' is calculated by excluding some items which are included within the statutory net profit attributable to owners of the Company. A definition of cash earnings is set out on page 146 of the 2012 Full Year Results Announcement. A discussion of non-cash earnings items is included on page 22 and a full reconciliation of the cash earnings to statutory net profit attributable to owners of the Company for the September 2012 full year is included on page 137 of the 2012 Full Year Results Announcement. Section 5 of the 2012 Full Year Results includes the Consolidated Income Statement of the Group, including net profit. The Group's audited financial statements, prepared in accordance with the *Corporations Act 2001* (Cth) and Australian Accounting Standards are included in the 2012 Annual Financial Report released on 19 November 2012.