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Media Release

Aggressive strategy equals 22 percent rise in profit

(6 May 2011 – Australia) National Australia Bank (NAB) had a 22 percent rise in first-half cash profit, beating expectations despite offering lower interest rates on home and business loans than its three larger competitors.

The Melbourne-based bank had a 16 percent rise in first-half net profit to A$2.43 billion from A$2.10 billion a year earlier.

NAB had been attempting to attract more customers by offering the lower rates, and chief executive Cameron Clyne said the decision to compete more aggressively on price was gaining traction.

"I think this result is a sign that there is some momentum in this strategy," Mr Clyne told reporters.

The cheaper products had attracted higher customer volumes with market share in the personal bank rising to 13.8 percent in the half from 12.8 percent a year earlier, contributing a 36 percent jump in profit in that business unit.

That helped the unit's first-half profit jump 38 percent from a year earlier, although it only slightly from the most recent half.

NAB's market share in business banking rose to 23.8 percent from 20.8 percent and Mr Clyne said he's observing early signs of a rebound in business credit demand, with a more marked improvement expected by the end of 2011.

According to East & Partners' April 2011 Australian SME Markets report, NAB has the highest satisfaction rating of all banks for its Australian Dollar Term Loan product and has the highest rating of the Big Four for its business overdrafts facilities.

"Ideally placed to benefit from any uptick in anaemic credit demand from business, NAB is really now a cross-sell player," Paul Dowling East and Partners' Principal Analyst said.

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"Unlike the retail space where the Bank has plenty of head room for new customer acquisition, it is already the dominant player in business lending with much less opportunity to significantly lift relationship share. East's numbers, for example, have NAB with close to 40 percent of lead credit provider to Queensland business customers."

"Yet the Bank has the lowest cross-sell ratio of the Big Four domestic banks – a wonderful leverage opportunity that's less reliant on macroeconomic conditions and hence more executable", Mr Dowling added

"Broadly we still see quite a few positives in the economy," Mr Clyne said, while adding that recent natural disasters and the strong Australian dollar present some challenges.

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