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Urban Edge Properties
Form 10-Q
August 05, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-36523

URBAN EDGE PROPERTIES

(Exact name of Registrant as specified in its charter)

Maryland (Urban Edge Properties) 47-6311266
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

888 Seventh Avenue, New York, New York 10019
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number including area code: (212) 956 2556

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	Accelerated Filer	Non-Accelerated Filer	Smaller Reporting Company
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of July 29, 2016, Urban Edge Properties had 99,426,826 common shares outstanding.

EXPLANATORY NOTE

This quarterly report on Form 10-Q for the period ended June 30, 2016 of Urban Edge Properties herein includes certain information regarding Urban Edge Properties LP. Unless stated otherwise or the context otherwise requires, references to “UE” , “Urban Edge” or the “Company” mean Urban Edge Properties, a Maryland real estate investment trust (“REIT”), and references to “UELP” and the “Operating Partnership” mean Urban Edge Properties LP, a Delaware limited partnership. References to the “we,” “us” and “our” mean collectively UE, UELP and those subsidiaries consolidated by UE. UELP is the entity through which we conduct substantially all of our business and own, either directly or through subsidiaries, substantially all of our assets. UE is the sole general partner and also a limited partner of UELP. As the sole general partner of UELP, UE has exclusive control of UELP’s day-to-day management.

As of June 30, 2016, UE owned an approximate 94.0% ownership interest in UELP. The remaining approximate 6.0% interest is owned by limited partners. The limited partners of UELP are Vornado Realty L.P. (owning approximately 5.4% of the ownership interest of UELP), and members of management and our Board of Trustees. Under the limited partnership agreement of UELP, unitholders may present their common units of UELP for redemption at any time (subject to restrictions agreed upon at the time of issuance of the units that may restrict such right for a period of time). Upon presentation of a common unit for redemption, UELP must redeem the unit for cash equal to the then value of a share of UE’s common shares, as defined by the limited partnership agreement. In lieu of cash redemption by UELP, however, UE may elect to acquire any common units so tendered by issuing common shares of UE in exchange for the common units. If UE so elects, its common stock will be exchanged for common units on a one-for-one basis. This one-for-one exchange ratio is subject to specified adjustments to prevent dilution. UE generally expects that it will elect to issue its common stock in connection with each such presentation for redemption rather than having UELP pay cash. With each such exchange or redemption, UE’s percentage ownership in UELP will increase. In addition, whenever UE issues common shares other than to acquire common units of UELP, UE must contribute any net proceeds it receives to UELP and UELP must issue to UE common units of UELP with substantially similar economic interest. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT.

The Company believes it is important to understand the few differences between UE and UELP in the context of how UE and UELP operate as a consolidated company. The financial results of UELP are consolidated into the financial statements of UE. UE does not have any other significant assets, liabilities or operations, other than its investment in UELP, nor does it have employees of its own. UELP, not UE, generally executes all significant business relationships other than transactions involving the securities of UE. UELP holds substantially all of the assets of UE. UELP conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for the net proceeds from equity offerings by UE, which are contributed to the capital of UELP in exchange for common units of partnership in UELP, as applicable, UELP generates all remaining capital required by the Company’s business. These sources may include working capital, net cash provided by operating activities, borrowings under the revolving credit facility, the issuance of secured and unsecured debt and equity securities and proceeds received from the disposition of certain properties.

Shareholders’ equity, partners’ capital and noncontrolling interests are the main areas of difference between the consolidated financial statements of UE and UELP. The limited partners of UELP are accounted for as partners’ capital in UELP’s financial statements and as noncontrolling interests in UE’s financial statements. The noncontrolling interest in UELP’s financial statements include the interests of unaffiliated partners in consolidated entities. The noncontrolling interests in UE’s financial statements include the same noncontrolling interest at UELP’s level and limited partners of UELP. The differences between shareholders’ equity and partners’ capital result from differences in the equity issued at UE and UELP levels.

To help investors better understand the key differences between UE and UELP, certain information for UE and UELP in this report has been separated, as set forth below: Item 1. Financial Statements (unaudited) which includes specific disclosures for UE and UELP, and Note 10 thereto, Earnings Per Share and Unit.

URBAN EDGE PROPERTIES AND URBAN EDGE PROPERTIES LP
 QUARTERLY REPORT ON FORM 10-Q
 QUARTER ENDED JUNE 30, 2016

TABLE OF CONTENTS

PART I

<u>Item 1.</u>	Financial Statements	
	Consolidated and Combined Financial Statements of Urban Edge Properties:	
	Consolidated Balance Sheets as of June 30, 2016 (unaudited) and December 31, 2015	<u>1</u>
	Consolidated and Combined Statements of Income for the Three and Six Months Ended June 30, 2016 and 2015 (unaudited)	<u>2</u>
	Consolidated Statement of Changes in Equity for the Six Months Ended June 30, 2016 (unaudited)	<u>3</u>
	Consolidated and Combined Statements of Cash Flows for the Six Months Ended June 30, 2016 and 2015 (unaudited)	<u>4</u>
	Consolidated and Combined Financial Statements of Urban Edge Properties LP:	
	Consolidated Balance Sheets as of June 30, 2016 (unaudited) and December 31, 2015	<u>5</u>
	Consolidated and Combined Statements of Income for the Three and Six Months Ended June 30, 2016 and 2015 (unaudited)	<u>6</u>
	Consolidated Statement of Changes in Equity for the Six Months Ended June 30, 2016 (unaudited)	<u>7</u>
	Consolidated and Combined Statements of Cash Flows for the Six Months Ended June 30, 2016 and 2015 (unaudited)	<u>8</u>
	Notes to Consolidated and Combined Financial Statements (unaudited)	<u>9</u>
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	<u>19</u>
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	<u>30</u>
Item 4.	Controls and Procedures	<u>31</u>

PART II

Item 1.	Legal Proceedings	<u>32</u>
Item 1A.	Risk Factors	<u>32</u>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	<u>32</u>
Item 3.	Defaults Upon Senior Securities	<u>32</u>
Item 4.	Mine Safety Disclosures	<u>32</u>
Item 5.	Other Information	<u>32</u>
Item 6.	Exhibits	<u>33</u>
	Signatures	<u>34</u>

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
 URBAN EDGE PROPERTIES
 CONSOLIDATED BALANCE SHEETS
 (Unaudited)

(In thousands, except share and per share amounts)

	June 30, 2016	December 31, 2015
ASSETS		
Real estate, at cost:		
Land	\$378,997	\$389,080
Buildings and improvements	1,587,158	1,630,539
Construction in progress	124,098	61,147
Furniture, fixtures and equipment	3,970	3,876
Total	2,094,223	2,084,642
Accumulated depreciation and amortization	(518,215)	(509,112)
Real estate, net	1,576,008	1,575,530
Cash and cash equivalents	156,672	168,983
Cash held in escrow and restricted cash	8,995	9,042
Tenant and other receivables, net of allowance for doubtful accounts of \$2,270 and \$1,926, respectively	8,317	10,364
Receivable arising from the straight-lining of rents, net of allowance for doubtful accounts of \$370 and \$148, respectively	87,925	88,778
Identified intangible assets, net of accumulated amortization of \$21,459 and \$22,090, respectively	32,586	33,953
Deferred leasing costs, net of accumulated amortization of \$13,438 and \$12,987, respectively	18,108	18,455
Deferred financing costs, net of accumulated amortization of \$242 and \$709, respectively	2,419	2,838
Prepaid expenses and other assets	8,360	10,988
Total assets	\$1,899,390	\$1,918,931
LIABILITIES AND EQUITY		
Liabilities:		
Mortgages payable, net	\$1,205,278	\$1,233,983
Identified intangible liabilities, net of accumulated amortization of \$69,013 and \$65,220, respectively	151,061	154,855
Accounts payable and accrued expenses	39,889	45,331
Other liabilities	14,898	13,308
Total liabilities	1,411,126	1,447,477
Commitments and contingencies		
Shareholders' equity:		
Common shares: \$0.01 par value; 500,000,000 shares authorized and 99,425,137 and 99,290,952 shares issued and outstanding, respectively	994	993
Additional paid-in capital	477,673	475,369
Accumulated deficit	(25,616)	(38,442)
Noncontrolling interests:		
Redeemable noncontrolling interests	34,858	33,177

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Noncontrolling interest in consolidated subsidiaries	355	357
Total equity	488,264	471,454
Total liabilities and equity	\$1,899,390	\$1,918,931

See notes to consolidated and combined financial statements (unaudited).

1

URBAN EDGE PROPERTIES
CONSOLIDATED AND COMBINED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
REVENUE				
Property rentals	\$58,683	\$57,380	\$117,612	\$114,966
Tenant expense reimbursements	19,879	20,451	42,386	44,754
Management and development fees	526	693	981	1,228
Other income	369	191	1,546	1,550
Total revenue	79,457	78,715	162,525	162,498
EXPENSES				
Depreciation and amortization	13,558	14,233	27,473	27,965
Real estate taxes	12,723	12,517	25,972	25,341
Property operating	9,840	10,985	22,699	27,508
General and administrative	7,535	6,792	14,255	19,118
Ground rent	2,483	2,565	5,021	5,079
Transaction costs	34	427	84	22,286
Provision for doubtful accounts	494	389	845	712
Total expenses	46,667	47,908	96,349	128,009
Operating income	32,790	30,807	66,176	34,489
Gain on sale of real estate	15,618	—	15,618	—
Interest income	177	51	344	62
Interest and debt expense	(12,820)	(13,241)	(26,249)	(28,410)
Income before income taxes	35,765	17,617	55,889	6,141
Income tax benefit (expense)	306	(464)	(30)	(1,005)
Net income	36,071	17,153	55,859	5,136
Less (net income) loss attributable to noncontrolling interests in:				
Operating partnership	(2,201)	(986)	(3,355)	(426)
Consolidated subsidiaries	(2)	(5)	2	(11)
Net income attributable to common shareholders	\$33,868	\$16,162	\$52,506	\$4,699
Earnings per common share - Basic:	\$0.34	\$0.16	\$0.53	\$0.05
Earnings per common share - Diluted:	\$0.34	\$0.16	\$0.53	\$0.05
Weighted average shares outstanding - Basic	99,274	99,250	99,270	99,249
Weighted average shares outstanding - Diluted	99,668	99,274	99,592	99,265

See notes to consolidated and combined financial statements (unaudited).

URBAN EDGE PROPERTIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)
(In thousands, except share and per share amounts)

	Common Shares		Additional Paid-In Capital	Accumulated Earnings (Deficit)	Noncontrolling Interests ("NCI")		Total Equity
	Shares	Amount			Redeemable NCI	NCI in Consolidated Subsidiaries	
Balance, December 31, 2015	99,290,952	\$ 993	\$ 475,369	\$(38,442)	\$33,177	\$ 357	\$471,454
Net income attributable to common shareholders	—	—	—	52,506	—	—	52,506
Net income (loss) attributable to noncontrolling interests	—	—	—	—	3,355	(2)	3,353
Common shares issued:							
Under Omnibus share plan	115,359	1	(1)	—	—	—	—
Under dividend reinvestment plan	6,107	—	168	(168)	—	—	—
Under employee share purchase plan	14,127	—	326	—	—	—	326
Share-based awards retained for taxes	(1,408)	—	(33)	—	—	—	(33)
Dividends on common shares (\$0.40 per share)	—	—	—	(39,589)	—	—	(39,589)
Share-based compensation expense	—	—	1,844	77	800	—	2,721
Distributions to redeemable NCI (\$0.40 per unit)	—	(4.8)	—	—	—	—	(4.8)
Total New Zealand	167	164	153	1.8	9.2		
Institutional Markets & Services	286	279	298	2.5	(2.4)		
Other (incl Group Funding & Corporate Centre)	65	(61)	(191)	large	large		
Distributions	(127)	(109)	(95)	(16.5)	(33.7)		

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Cash earnings before significant items	1,840	1,601	1,652	14.9	14.7
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* Includes Asia

^ Excludes Irish Banks

Australian Region core* growth up 14.1% on Sep 2005 half

	Mar 06 \$m	Reported Half year to Sep 05 \$m	Sep 05 HY %	Core* Change	Mar 05 HY %
Australian Banking					
Net interest income	2,299	1,958	2.3		8.1
Other operating income	1,083	1,351	1.9		8.3
Total income	3,382	3,309	2.1		8.2
Operating expenses	(1,861)	(1,875)	0.4		(13.8)
Underlying banking profit	1,521	1,434	5.4		2.0
Charge to provide for doubtful debts	(115)	(127)			
Wealth Management cash earnings	174	202	23.9		16.9
Reported Australian region cash earnings	1,192	1,099	8.5		1.0
<i>- core growth</i>				14.1	4.7

Franchise scorecard*

Number of customers

Revenue per customer

ROA

Profit/FTE

Cost/Income Ratio

Number of FTEs

Avg CRS quality

Margins (incl. acceptances)

Customer Satisfaction

* Excludes impact of AASB 139/132/4 and for Wealth Management Australia removes impact of IORE, transitional tax relief and AIFRS

Wealth Management core* underlying performance

	March 2006 \$m	Sept 2005 \$m	March 2005 \$m	Sept 2005	% Growth	Mar 2005
Gross Revenue	977	951	902	2.7		8.3
Volume Expenses	(442)	(417)	(396)	(5.9)		(11.6)
Operating Costs	(335)	(348)	(311)	3.7		(7.7)
WM Australia core underlying performance	145	117	124	23.9		16.9
IORE AIFRS Basis	29					
IORE AGAAP Basis		60	41			
Other AIFRS Adjustments		10	12			
Impact of transitional tax		15	24			
Reported WM Cash Earnings	174	202	201	(13.9)		(13.4)

* Excludes impact of IORE, transitional tax relief and AIFRS

Core* change in UK underlying profit up 4.0% on the September 2005 half

	Mar 06 £m	Reported Half year to Sep 05 £m	Sep 05 HY %	Core* Change	Mar 05 HY %
Net interest income	374	341	1.8		6.8
Other operating income	250	264	2.7		22.1
Total income	624	605	2.1		13.0
Operating expenses	(405)	(406)	(1.2)		(16.4)
Underlying profit	219	199	4.0		6.7
Charge to provide for doubtful debts	(65)	(53)			
Reported UK cash earnings	108	95	13.7		(1.8)

Franchise scorecard*

Number of customers

Revenue per customer

ROA

Profit/FTE

Cost/Income Ratio

Number of FTEs

Avg CRS quality

Margins

Customer Satisfaction

* Excludes impact of AASB 139/132/4 and Irish Banks (in March 2005 half)

Core* change in New Zealand underlying profit up 7.2% on the September 2005 half

	Mar 06 NZ\$m	Reported Half year to Sep 05 NZ\$m	Sep 05 HY %	Core* Change	Mar 05 HY %
Net interest income	438	405	5.4		7.6
Other operating income	273	299	0.7		0.7
Total income	711	704	3.4		4.6
Total expenses	(415)	(412)	(0.7)		5.5
Underlying profit	296	292	7.2		21.8
Charge to provide for doubtful debts	(25)	(28)			
Reported NZ Cash earnings	183	180	1.7		11.6

Franchise scorecard*

Number of customers

Revenue per customer

ROA

Profit/FTE

Cost/Income Ratio

Number of FTEs

Avg CRS quality

Margins

Customer Satisfaction

* Excludes impact of AASB 139/132/4

Institutional Markets & Services cash earnings up 2.5% on the September 2005 half

	Mar 06 \$m	Reported Half year to Sep 05 \$m	Sep 05 HY %	Core* Change	Mar 05 HY %
Net interest income	434	244	20.9		14.3
Other operating income	294	423	3.5		(13.1)
Total income	728	667	9.9		(3.8)
Operating expenses	(366)	(372)	1.6		1.1
Underlying profit	362	295	24.4		(6.4)
B&DD write back	17	24			
Income tax expense	(93)	(40)			
Reported cash earnings	286	279	2.5		(4.0)

* Excludes impact of AASB 139/132/4

+ Annualised return based on cash earnings for the half and calculated using the Internal Model and excluding Irish Banks

^ On a product basis

Reported Total Income up 9.1%[^]

[CHART]

[CHART]

HALF YEAR RESULTS 06

[LOGO]

Asset Quality

Portfolio remains sound with write-off levels and key quality indicators stable

Total Net Write-offs to Risk-Weighted Assets

[CHART]

Half Yearly Net Write-Offs by Geography

[CHART]

Institutional/Corporate and Business Customer Rating Distribution*

* External Ratings Equivalent

[CHART]

Institutional/Corporate and Business % of well secured lending

[CHART]

Non-accrual volumes fall slight increase in 90+ delinquency rate

Gross Non-Accrual Loans

[CHART]

**90+ Delinquency and Gross 12 Month
Rolling Write Off Rates for Total Personal Lending**

[CHART]

**Proportion of 90 day past due loans to
gross loans and acceptances by Geography**

[CHART]

Provision ratio remains sound

Coverage Ratio*

[CHART]

* Impaired Assets identified per APRA definition.

Coverage ratio includes Irish Banks up to 30 September 2004

Asset quality transition to AIFRS

Drivers of provision charge under AGAAP

Expected loss over term to maturity

Loss applied to committed facility

Drivers of provision charge under AIFRS

Observable evidence of impairment

Loss applied against drawn amount

\$91 million impact on capital adequacy as AGAAP applies until 1 July 2006

Regulatory environment

Basel II

Parallel run on track; showing a decline in RWAs

On track for submissions to RBNZ in July 2006 and FSA in September 2006

Report Into Irregular Currency Options Trading

11 requirements open, of which 5 have been submitted to APRA for review

All culture requirements now closed by APRA

Aiming to lodge our application for a return to the internal model by the end of the year

SOX

SOX operating model successfully embedded in the business

Targeting SOX 404 compliance at September 2006

Disciplined Approach to Funding

[CHART]

Improving retail deposit growth

[CHART]

Diversity of wholesale funding

[CHART]

Reduced reliance upon short-term wholesale funding

Capital summary

Gaining more clarity on AIFRS impacts

Some significant issues outstanding

Capital base adequate to absorb AIFRS changes

Capital position remains strong

[CHART]

Surplus provides flexibility to cater for capital impact of AIFRS, 1 July 2006

Continued focus on improving ROE and internal capital allocation

Targets	Current Target Ranges (%)		31 Mar 06 Actual
ACE/RWA	4.75	5.25	5.77
Tier 1	7.00	7.50	8.05
Total Regulatory	10.00	10.50	10.73

AIFRS impact on regulatory capital is significant

Estimated Tier 1 Impacts (\$ bn)	Mar 06	30 September 2005 Previously reported	Comments
UK defined benefit schemes	(0.6)	(1.0)	Pension reforms
Prepaid pension asset	(0.6)	(0.6)	
WM value-in force, at acquisition	(1.5)	(1.5)	
WM historical adjustment re NAFiM	(0.2)	(0.2)	
Revenue recognition -effective yield		(0.3)	APRA change
Credit provisioning	0.2	0.2	
Hedging		0.1	
Capitalised Software	(0.6)		APRA change
Other	(0.3)	(0.3)	
Total	(3.6)	(3.6)	

Awaiting final APRA AIFRS standards position above is therefore not final

AIFRS effective for capital 1 July 2006 - transitional relief is available until 1 January 2008

Interim dividend of 83 cents, franked to 80%

[CHART]

Disposals announced during first half

Business	Announced	Price
MLC Life Hong Kong / Indonesia	21 Feb 06	A\$575m
BNZ Investment Management	30 Nov 05	Not disclosed
UK Discretionary Investment Management*	16 Jan 06	A\$13m
Custom Fleet^	5 May 06	A\$550m

* Price quoted is based on estimate of PCS clients agreeing to transfer to Tilney Investment Management

^ Subject to regulatory approval

Mar 2006 HY profit stream \$56m

ACE Capital released \$950m

Tier 1 Capital released \$780m

Key Takeouts

Revenue momentum maintained

Cost contained within guidance on track

Asset quality maintained

Implemented a comprehensive term funding program

Reshaping business portfolio, and redeployment of capital

Issues to contend with:

earnings impact of businesses sold

some slowing of credit growth

impact of Basel II roll out

reduced earnings from IMS balance sheet

cost of funding initiative

Systems and infrastructure development

Agenda

Introduction

John Stewart

Group Results & Outlook

Michael Ullmer

Company Update

John Stewart

Questions and Answers

Low underlying Australian region cost growth creating room for investments

Region 1H06 operating costs

[CHART]

Source: Internal

Revenue drivers moving in right direction

Excellent growth in business

NAB volume growth

YoY percentage change

[CHART]

Note: Source and Time periods

~ NAB(RBA Financial System Aggregates definitions) 2006 data based on 30/9/05-31/3/06 annualised

^ NAB(APRA Monthly Banking Statistics definitions) 31/3/04-30/9/04 annualised; 30/9/05-31/3/06 annualised

* DEXX&R: 2006 data based on 30/9/05 31/12/05 annualised

** Plan for Life: 2006 data based on 30/9/05 31/12/05 annualised

Market share gains

Change in market share, Mar 05 Mar 06

Basis points

		Market rank*	NAB volume (\$ b)
Business lending (inc bills)^	150	1	86.3#
Total lending	51	2	213.1
Retail/household deposits	19	3	37.4
Business deposits	14	1	51.5
Individual risk	11	1	0.5
Housing lending (inc securitisation)	2	2	104.6
Retail funds (exc cash mgt)	1	2	52.3
Credit cards	-120	4	4.2

* NAB/APRA Monthly Banking Statistics (Mar 06 data). Ranking among the authorised banks

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NAB/APRA Monthly Banking Statistics (Mar 06 data). Plan for Life Retail Funds exc Cash Mgt data and DEXX&R data as at Dec 2005, market share movement from Mar 2005 to Dec 2005. Note that Plan For Life and DEXX&R data is available on a quarterly basis only

^ APRA definition of Bills excludes Bank Held Bills

Includes Institutional Markets and Services

Limited margin impact

[CHART]

Australian bank net interest margin

Net Interest Margin (incl. acceptances)

Source: Internal

Non-retail asset quality remaining high

	Sep 04	Sep 05	Mar 06
Customer rating system*	6.0	5.9	5.8
Proportion of loans secured	76.5%	76.2%	74.1%

* CRS: 1=lowest risk; 16=highest risk

Source: Internal excludes housing and personal loans

Significant improvement in customer satisfaction

MFI customer satisfaction, March 2006

Percentage

	% of each institutions MFI Customers who are satisfied*	Monthly change (Feb 06 Mar 06)	Quarter change (Dec 05 Mar 06)	Half year change (Sep 05 Mar 06)	Annual change (Mar 05 Mar 06)
Major bank 1	78	-0.5	0.4	1.1	1.7
NAB	72	1.5	2.5	4.5	3.6
Major bank 2	72	-0.5	-2.0	0.2	-0.3
Major bank 4	65	-0.4	0.2	0.4	-0.9
Average of 4 major banks	70	-0.2	0.1	1.1	0.4
Total market[^]	75	-0.1	0.1	0.5	0.2

* Satisfaction is based on customers who answered very or fairly satisfied, for customers aged 14+(rounded figures).

[^] Total Market includes Banks, Building Societies and Credit Unions

All time periods relate to a 6 month average.

Source: Customer Satisfaction Roy Morgan Research

Australian Region

NAB Wins Australian Bank of the Year

Bank of the Year

[GRAPHIC]

Wealth Management - strongly positioned

Product	Current Australian Market Share		Current Share of New Business	
	Market Share (%)	Rank	Market Share (%)	Rank
Retail (exCMT)	12.9	2	9.3	3
MasterFunds	16	1	11	2
Corporate Super	20	1	15	2
Total Individual	15	1	12	2

Source:

Retail (ex CMT)Plan for Life QDF Report Dec 2005

Masterfunds (Marketer View): Plan for Life Market Share & Dynamics Dec 2005

Corporate Super: Plan for Life Market & Dynamics Dec 2005

Total Individual Insurance: DEXX&R Life Analysis Dec 2005

New Zealand

Consistent strategy in a highly competitive market

[GRAPHIC]

Consistent execution of strategy

Profitable market share focus

Delivery of quality result

**Better
Value**

**Better
Service**

**Better
Innovation**

**Better
Attitude**

Institutional Markets & Services

Strong demand and speedy execution is delivering results

[GRAPHIC]

Stabilised and building the business

Increased earnings on lower capital base

Strong sales performance and favourable trading conditions

Accelerated execution of new business initiatives

Broader product range for new capital pools

Driving efficiency

United Kingdom
2002 Strategy Themes

2004

CB YB
NB NIB

One efficient business

Integration of systems

Convergence of processes

**United Kingdom
Strategy for Differentiation**

2004

CB YB

NB NIB

Do what we do, but do it better

One efficient GB business

Do what we do, but do it better

Differentiated GB business

Playing a different game

Over the last six months

Completed branch rationalisation

Roll out of IFS

Expanded third party

Migrated to Danske platform

Corporate Centre

Emphasis on clear accountability for decisions and outcomes

Corporate Centre to focus on:

Value creation

Target/ expectation setting and sign off of proposed strategies

Performance monitoring

Validation and oversight required to provide assurance required for financial and risk governance

Capital and balance sheet management

Merger and acquisitions

Economic environment

Gathering momentum in our key markets

Global economy continues to expand despite higher oil prices

Economic activity strengthening both domestically and globally, New Zealand to remain subdued

Credit growth to moderate in Australia and New Zealand. UK to stabilise at current levels

**NAB Group Planning & Development Approach
Strategic & Operational Planning**

	Group Strategies	Objectives	Focus of Group Planning & Development
STRATEGIC & OPERATIONAL PLANNING	1 Increasing performance of current businesses	Ensure current businesses are positioned to deliver against realistic performance targets	Develop a common and robust approach to strategic & operational planning across all operations
PORTFOLIO MANAGEMENT	2 Effectively managing the portfolio	Set the strategic direction by agreeing the connected logic across the portfolio moving forward Make portfolio moves to: Address known concerns with the portfolio; Create sustainable competitive advantage by proactively targeting opportunities; or Block key strategic threats	Agree portfolio priorities for the Group
GROUP DEVELOPMENT	3 Fostering Innovation	Identifying and effectively delivering new growth opportunities	Create an environment for innovation

Businesses stabilised
Good momentum in all businesses

[CHART]

44

NAB Group Planning & Development Approach

Portfolio Management

	Group Strategies	Objectives	Focus of Group Planning & Development
STRATEGIC & OPERATIONAL PLANNING	1 Increasing performance of current businesses	Ensure current businesses are positioned to deliver against realistic performance targets	Develop a common and robust approach to strategic & operational planning across all operations
PORTFOLIO MANAGEMENT	2 Effectively managing the portfolio	<p>Set the strategic direction by agreeing the connected logic across the portfolio moving forward</p> <p>Make portfolio moves to: Address known concerns with the portfolio; Create sustainable competitive advantage by proactively targeting opportunities; or Block key strategic threats</p>	Agree portfolio priorities for the Group
GROUP DEVELOPMENT	3 Fostering Innovation	Identifying and effectively delivering new growth opportunities	Create an environment for innovation

NAB Group Planning & Development Approach

Group Development

	Group Strategies	Objectives	Focus of Group Planning & Development
STRATEGIC & OPERATIONAL PLANNING	1 Increasing performance of current businesses	Ensure current businesses are positioned to deliver against realistic performance targets	Develop a common and robust approach to strategic & operational planning across all operations
PORTFOLIO MANAGEMENT	2 Effectively managing the portfolio	Set the strategic direction by agreeing the connected logic across the portfolio moving forward Make portfolio moves to: Address known concerns with the portfolio; Create sustainable competitive advantage by proactively targeting opportunities; or Block key strategic threats	Agree portfolio priorities for the Group
GROUP DEVELOPMENT	3 Fostering Innovation	Identifying and effectively delivering new growth opportunities	Create an environment for innovation

NAB Group Planning & Development Approach
Change in focus

	Group Strategies	Objectives	Focus of Group Planning & Development
STRATEGIC & OPERATIONAL PLANNING	1 Increasing performance of current businesses	Ensure current businesses are positioned to deliver against realistic performance targets	Develop a common and robust approach to strategic & operational planning across all operations
PORTFOLIO MANAGEMENT	2 Effectively managing the portfolio	Set the strategic direction by agreeing the connected logic across the portfolio moving forward Make portfolio moves to: Address known concerns with the portfolio; Create sustainable competitive advantage by proactively targeting opportunities; or Block key strategic threats	Agree portfolio priorities for the Group
GROUP DEVELOPMENT	3 Fostering Innovation	Identifying and effectively delivering new growth opportunities	Create an environment for innovation

Top 100 senior executives focus shifting from fixing to performance to development

Summary

Good progress in rebuilding the businesses;

Considerable value creation potential;

But further work still to do;

Importantly, we have done what we said we would do, and

Will continue to do

Agenda

Introduction	John Stewart
Group Results & Outlook	Michael Ullmer
Company Update	John Stewart

Questions and Answers

Appendix

Group Performance

Divisional Performance

Capital

Other Matters

Economic Outlook

**HALF YEAR
RESULTS**

06

[LOGO]

Group Performance

Core* income growth

Net Interest Income - \$m

[CHART]

Other Operating Income[^] - \$m

[CHART]

* Excluding AIFRS

[^] Excluding net life Insurance income, revaluation losses on Excaps and significant items

Net interest margin up 17 bps on the September 2005 half

	Sep 05	NIM Change	Other	Mar 06	AIEA	% of Group		Impact on Group NIM
	HY NIM			AIFRS	HY NIM	Mar 06 HY \$Bn	Sep 05 HY	
Australian Banking	2.46%	(11bps)	2bps	2.37%	194.5	49%	54%	6bps
UK Banking	3.73%	27bps	(36bps)	3.64%	48.3	13%	13%	(2bps)
New Zealand Banking	2.48%	5bps	1bps	2.54%	31.5	9%	9%	(1bp)
Institutional Markets & Services	0.37%	19bps	8bps	0.64%	135.6	41%	37%	9bps
Other	(0.46)%	(14bps)	(20bps)	(0.80)%	(45.8)	(12)%	(13)%	5bps
Group Impact	2.14%			2.31%	364.1	100%	100%	17bps

Australian banking movement has been calculated based on adjusting for bills in the current period

Volume growth across the Group

Australian Banking
(quarterly average)

[CHART]

UK Banking*
(quarterly average)

[CHART]

NZ Banking
(quarterly average)

[CHART]

* Excludes Irish Banks

Expenses* across the group declined 3.9% during the half

[CHART]

* Expenses are on cash earnings basis and include \$54 million ongoing costs of the UK defined benefit plans and exclude \$5 million impairment of goodwill

+ Includes productivity as well as restructuring benefits

**HALF YEAR
RESULTS**

06

[LOGO]

Divisional Performance AIFRS Impacts

Impact of AIFRS* on Australian Banking Result

Net Interest Income

[CHART]

Other Operating Income

[CHART]

Other Operating Expenses

[CHART]

* AASB 139 and 132 impacts only

Impact of AIFRS* on Total UK^ Result

Net Interest Income

[CHART]

Other Operating Income

[CHART]

Other Operating Expenses

[CHART]

* AASB 139 and 132 impacts only

^ Ongoing operations

Impact of AIFRS* on Total NZ Result

Net Interest Income

[CHART]

Other Operating Income

[CHART]

* AASB 139 and 132 impacts only

Impact of AIFRS* on Institutional Markets & Services Result

Net Interest Income

[CHART]

Other Operating Income

[CHART]

* AASB 139 and 132 impacts only

HALF YEAR RESULTS 06

[LOGO]

Divisional Performance Margins

Australian banking net interest margin down 9bps on the September 2005 half

[CHART]

Acceptances reclassification impact calculated by restating prior period

62

Australian banking net interest margin down 13bps on the March 2005 half

[CHART]

UK banking net interest margin down 9bps on the September 2005 half

[CHART]

UK banking* net interest margin down 21bps on the March 2005 half

[CHART]

* Ongoing operations, excludes Irish Banks.

New Zealand banking net interest margin up 6bps on the September 2005 half

[CHART]

New Zealand banking net interest margin down 13bps on the March 2005 half

[CHART]

HALF YEAR RESULTS 06

[LOGO]

Divisional Performance Other Information

Australian Banking: market share

Market share	Mar 06	Sep 05	Mar 05	Sep 04	Mar 04	Rank at Mar 06*
Business Lending (incl Bills [^]) ⁺	24.4%	24.3%	22.9%	21.6%	22.0%	#1
Housing (incl Securitisation)	16.6%	16.7%	16.6%	16.5%	17.0%	#2
Credit Cards	15.1%	15.4%	16.3%	16.7%	17.8%	#4
Other Personal Lending	24.7%	25.7%	25.9%	25.8%	26.2%	#1
Business Deposits	26.8%	26.5%	26.6%	27.7%	27.7%	#1
Household Deposits	13.5%	13.3%	13.3%	13.4%	13.6%	#3

+ Includes Institutional Markets & Services

[^] Excludes Bank Held Bills

* Ranking among authorised banks

Source: APRA Monthly Banking Statistics / National (March 2006)

Wealth Management Australia market share

Masterfund market share plus flows

[CHART]

Insurance - Retail Risk Market Share

[CHART]

Source: Plan for Life Australian Retail & Wholesale Investments Market Share & Dynamics Report as at 31 December 2005 DEXX&R Life Analysis Reports as at 31 December 2005

Wealth Management Australia inflows and attrition

Share of annual inflows

[CHART]

Attrition rate

[CHART]

Source: Plan for Life Australian Retail & Wholesale Investments Market Share & Dynamics Report as at 31 December 2005

Australian Housing metrics

Low Doc Loans

\$1.7bn outstanding

LVR capped at 60% (without LMI)

Inner City Apartments

\$2.4bn outstanding

90 days past due improving

Origination source - Flows

	Mar 05	Sep 05	Mar 06
Proprietary	72%	70%	72%
Introducer	10%	12%	12%
Broker	18%	18%	16%

Housing Segmentation - Australia

Majority of growth attributable to owner occupied housing.

Housing portfolio segmentation for Australia September 2005

[CHART]

Housing portfolio segmentation for Australia March 2006

[CHART]

Note: Introduction of new datamart enables split between owner and investor inner city to be more accurately identified

HALF YEAR RESULTS 06

[LOGO]

Capital

Core capital movement

Movement in ACE ratio

[CHART]

75

HALF YEAR RESULTS 06

[LOGO]

Other Matters

Taxation

	Potential Amount in Dispute	Status	Amount Provided	
ExCaps capital raising	A\$552 million(1)	In dispute	\$	Nil
NZ structured finance transactions	NZ\$548 million(2)	In dispute	\$	Nil
MLC reinsurance transaction	A\$54 million(3)	Under review	\$	Nil

ExCaps remains in dispute \$12 million tax effect on interest not claimed in half year results.

NZ structured finance transactions remain in dispute underlying transactions all terminated in 2005.

MLC reinsurance transaction - Group currently preparing response to ATO position paper. Group believes that based on work to date the position adopted is correct under tax law. Amended assessments have not been issued.

(1) Includes primary tax, penalties and interest (net of tax)

(2) Includes primary tax and interest (net of tax); any penalties have not been determined at this time

(3) Includes primary tax only; any interest and penalties have not been determined at this time.

HALF YEAR RESULTS 06

[LOGO]

Economic Outlook

The following slides contain forward looking statements. Refer to disclaimer on page 82

Global economy strong and only marginally weaker in 2006

Global Forecasts - Annual Growth %

[CHART]

Global growth strong

Growth underpinned by US, China and India

Inflationary concerns remain

Upward bias on rate rises

European growth to remain sluggish

Economic outlook

Economic outlook differs across key markets: But overall reasonable

GDP picking up in Australia and the UK in 2006, but slower in New Zealand,

In 2006 we expect GDP growth of 3 ¼ % in Australia, 2 ¼ % in UK, but only 1 ¼ % in New Zealand. In 2007 GDP, in both Australia and the UK, is expected to marginally strengthen but little improvement is expected in New Zealand.

Overall credit growth in 2006 across our key markets much the same as in 2005 (around 13 %) but the mix somewhat changed with business credit stronger than personal and household credit. Moderately slower credit growth in 2007 (to around 10 ½ %) - mainly due to moderately weaker demand in Australia (and especially business).

Underlying inflation expected to move higher in Australia and to remain high in New Zealand for some time. UK outlook little changed. Rates expected to begin to fall in late 2006 in New Zealand (given weak economic outlook) but to remain unchanged in the UK.

In Australia, rates likely to be on hold following RBA's recent moves - but risks clearly still up. Outcomes very data dependent and will need to reflect no acceleration in wages and the eventuation of an expected slowing in domestic demand over 2006/07 (following the re-acceleration in early 2006).

Macro risks to outlook estimates

Geo politics - Both political, oil & trade tensions overhang the outlook.

New Zealand s Economic Outlook is hard to read with significant volatility in the currency and rate expectations. That could well continue.

In Australia, New Zealand and UK household leverage high household gearing, leaves some consumers vulnerable to higher interest rates and or an unexpected loss of jobs. For Australia (and to a lesser extent the UK) the risks probably relate more to higher than expected interest rates. For New Zealand the risks revolve more about delays to rate cuts in an environment of still overvalued house prices and below trend growth.

Commodity prices are very high and providing a significant boost to Australian incomes and equity markets. Our forecasts involve only moderate further upside in 2006 followed by a moderate correction in 2007. Extreme movements in either direction could considerably complicate policy responses and economic outcomes in Australia.

Oil prices have remained stubbornly high. Those effects have to some extent been masked by wealth effects: including equity markets (Australia) and house prices (NZ and the USA). Further hikes in oil could bring about powerful global headwinds to growth especially if wealth effects wain faster than expected

Bird flu Likely to be contained, albeit watch for human pandemic.

Disclaimer

This document is a presentation of general background information about the Group's activities current at the date of the presentation, 11 May, 2006. It is information in a summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice, when deciding if an investment is appropriate.

This announcement contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934 and the US Private Securities Litigation Reform Act of 1995. The words anticipate, believe, expect, project, estimate, likely, intend, should, could, may, target, plan and other similar expressions are intended to identify forward-looking statements. 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, that 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. For further information relating to the identification of forward-looking statements and important factors that could cause actual results to differ materially from those projected in such statements, see Presentation of Information - Forward-Looking Statements and Risk Factors in the Group's Annual Report on Form 20-F filed with the US Securities & Exchange Commission.