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# National Australia Bank (NAB)

## FY21 result preview

### Recommendation

**Buy** (unchanged)

### Price

**\$28.40**

### Target (12 months)

**\$31.00** (unchanged)

### GICS Sector

**Banks**

### Expected Return

Capital growth	<b>9.2%</b>
Dividend yield	<b>4.2%</b>
Total expected return	<b>13.4%</b>

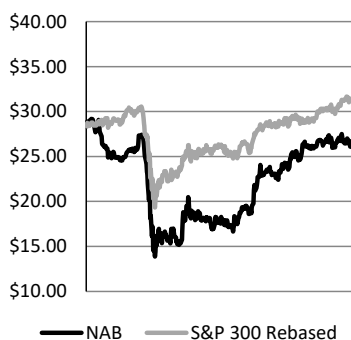
### Company Data & Ratios

Enterprise value	<b>n/m</b>
Market cap	<b>\$93,209m</b>
Issued capital	<b>3,282m</b>
Free float	<b>100%</b>
Avg. daily val. (52wk)	<b>\$171.0m</b>
12 month price range	<b>\$18.50 - \$28.88</b>

### Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	28.85	26.31	18.60
Absolute (%)	-1.56	7.94	52.69
Rel market (%)	1.26	8.18	31.37

### Absolute Price



SOURCE: IRESS

## Expecting \$6.45bn cash earnings, 60¢ final dividend

NAB will report its FY21 result on Tuesday 9 November and our forecasts include: 1) statutory earnings \$6.30bn; 2) cash earnings \$6.45bn; 3) cash EPS 195¢; 4) cash earnings ex-large notable items (i.e. excluding restructuring-related costs and customer-related remediation) \$6.52bn; 5) cash EPS ex-large notable items 197¢; 6) fully franked final dividend 60¢; 7) ROE 10.6% (10.7% ex-large notable items); 8) NIM 1.74%; 9) credit impairment charge \$0.00bn/0bp GLA; and 10) Level 2 CET1 ratio 11.7%. The performance reflected better credit impairment outcomes with ongoing momentum across home, SME and New Zealand lending. The bank still remains “optimistic about the long-term outlook for Australia and New Zealand” – still positive overall in the long run.

We don't expect too much difference between 3Q21 and 4Q21. Cash earnings before tax and credit impairment charges should be around -1% (or +1% after them), so there is only minimal change here. This is due to a slight decline in other income but steady NIM. We also expect operating expenses to be around 1% higher (previously flat) with a mix of productivity, technology and investment spend baked into the numbers – these are in line with the target expense growth of 0-2%. While credit impairment charge was a write-back of \$112m, we still think it will rise slightly and this time to around zero in FY21 (as opposed to \$44m expense previously). Finally, Level 2 CET1 ratio should be around 11.7% mainly due to the \$2.5bn buyback.

## Price target \$31.00, maintain Buy rating

There is a small change to earnings, being only 1% on the downside across the forecast horizon. On the other hand, the composite valuation has been kept the same based on improved multiples for the SOP component. As a result, NAB's price target is unaffected at \$31.00. Given a 12-month TSR of close to 15%, the bank's Buy rating has been retained.

### Earnings Forecast

Year end 30 September	2020	2021e	2022e	2023e
Statutory earnings (A\$m)	2,559	6,297	6,347	6,413
Cash earnings (A\$m)	3,710	6,452	6,387	6,453
EPS (cash) (A¢)	121	195	189	188
EPS (cash) growth (%)	-42%	62%	-3%	-1%
PER (x)	23.5	14.5	15.0	15.1
P/Book (x)	1.5	1.5	1.4	1.3
P/NTA (x)	1.6	1.6	1.5	1.4
Dividend (A¢)	60	120	130	135
Yield (%)	2.1%	4.2%	4.6%	4.7%
ROE (%)	6.5%	10.6%	9.9%	9.5%
NIM (%)	1.77%	1.74%	1.72%	1.70%
Franking (%)	100%	100%	100%	100%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# FY21 result preview

## Expecting \$6.45bn cash earnings, 60¢ final dividend

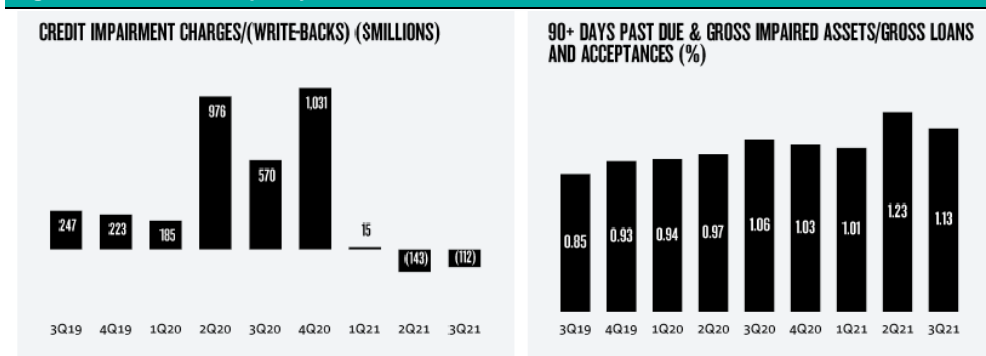
NAB will report its FY21 result on Tuesday 9 November and our forecasts are:

1. Statutory earnings \$6.30bn;
2. Statutory EPS 190¢;
3. Cash earnings \$6.45bn;
4. Cash EPS 195¢;
5. Cash earnings ex-large notable items (i.e. excluding restructuring-related costs and customer-related remediation) \$6.52bn;
6. Cash EPS ex-large notable items 197¢;
7. Fully franked final dividend 60¢ (64% final and 61% full year statutory payout);
8. Cash ROE 10.6% (10.7% ex-large notable items);
9. Group NIM 1.74% (1.73% in 2H21 vs. 1.74% in 1H21);
10. Credit impairment charge \$0.00bn/0bp GLA;
11. CIR 46% (same for ex-large notable items); and
12. Level 2 CET1 ratio 11.7%.

There is more information surrounding NAB's result (as opposed to ANZ and WBC) given the following were provided in 3Q21: 1) unaudited statutory net profit \$1.65bn; 2) unaudited cash earnings \$1.70bn; 3) cash earnings growth vs. 3Q20 +10.3%; and 4) Level 2 CET1 ratio 12.6%. Unaudited statutory net profit was around \$6.60bn annualised, broadly in line with our figure and likewise unaudited cash earnings of around \$6.80bn annualised.

The performance reflected better credit impairment outcomes (no surprises in a way but now heading back to expense but only just slowly) with ongoing momentum across home lending (roughly +2.0%), SME lending (roughly +4.0%) and New Zealand (roughly +3.0%). COVID-19 may be on the mend right now (i.e. getting back to expense) but the bank still remains "optimistic about the long-term outlook for Australia and New Zealand" – still positive overall in the long run.

Figure 1 – 3Q21 credit quality



We don't expect too much difference between 3Q21 and 4Q21. Cash earnings before tax and credit impairment charges should be around -1% (or +1% after them), so there is only minimal change here. This is due to a slight decline in other income [lower Markets & Treasury (M&T) income that more than offset higher volumes and margins, more to do with

limited trading opportunities – excluding M&T, revenue rose by 1%] but steady NIM (broadly stable and unchanged at around 1.74%; excluding higher liquidity and M&T, NIM was up “modestly” with the benefit of lower wholesale funding costs more than offset lower rates, competition in home lending and mix).

We also expect operating expenses to be around 1% higher (previously flat) with a mix of productivity, technology and investment spend baked into the numbers. These are in line with the target expense growth of 0-2%.

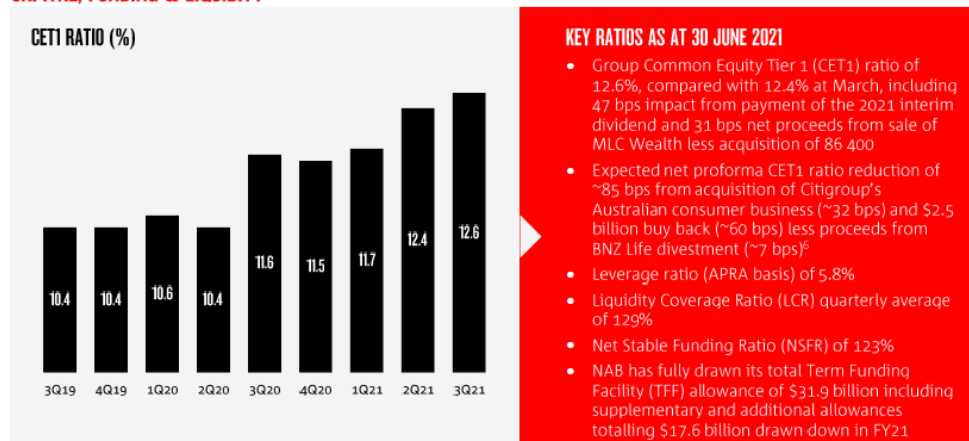
While credit impairment charge was a write-back of \$112m, we still think it will rise slightly and this time to around zero in FY21 (as opposed to \$44m expense previously). There will be minimal change to collective provisions (CP) as a % of credit RWA, perhaps slightly down by 5-10bp and with the key driver being the sale of \$1.5bn in aviation loans. As for 90+days past due and GIA as a % of gross loans, these are expected to be down mainly from improving Australian home loans plus lower impairments in business lending.

Level 2 CET1 ratio will now be 11.7% mainly due to the \$2.5bn buyback (to progress its CET1 ratio to 10.75-11.25%, beginning in August; ~60bp) and -85bp from the Citi acquisition (~32bp).

Just to recap, the latter refers to its Australian consumer business. Subject to regulatory approvals, this will be an asset and liability transfer with NAB paying net assets plus \$250m. Completion is expected in March 2022 and ~800 Citi employees would join NAB. \$8.9bn risk weighted assets and \$250m premium would be paid, the required equity being \$1.2bn all up (1.25x book value). The implied multiple is roughly 8x on FY21's NPAT of \$145m and will be marginally accretive to cash earnings and cash ROE. Pro forma CET1 ratio would be 11.83% (vs. target of 10.75-11.25%) but we figure 11.7% will be the norm in FY21.

Figure 2 – Capital in the right space

### CAPITAL, FUNDING & LIQUIDITY



SOURCE: COMPANY DATA

### Price target \$31.00, maintain Buy rating

There is a small change to earnings, being only 1% on the downside across the forecast horizon. On the other hand, the composite valuation has been kept the same based on improved multiples for the SOP component. As a result, NAB's price target is unaffected at \$31.00. Given a 12-month TSR of close to 15%, the bank's Buy rating has been retained.

Table 1 – Composite valuation					Table 2 – SOP valuation				
Composite Valuation	Value (\$m)	Per NAB share	Weighting	Composite value per NAB share	Sum-of-Parts (As Is)	FY22e NPAT	Pros. PE (times)	Value (\$m)	Per NAB share
DCF	93,586	\$28.52	25%	\$7.13	Business and Private Banking	2,348	13.5	31,698	\$9.66
Dividend yield (sustainable)	112,057	\$34.14	25%	\$8.54	Consumer Banking	1,537	13.5	20,754	\$6.32
ROE (sustainable)	95,203	\$29.01	25%	\$7.25	Corporate and Institutional Banking	1,500	13.5	20,247	\$6.17
Sum-of-Parts	85,844	\$26.16	25%	\$6.54	Wealth Management	0	-	-	-
Surplus capital*	2,130	\$0.65		\$0.65	NZ Banking	1,011	13.0	13,146	\$4.01
<b>Total</b>				<b>\$30.10</b>	Other including distributions	-9	0.0	0	\$0.00
* Less estimated NZ new capital requirement					<b>Total</b>	<b>6,387</b>	<b>13.4</b>	<b>85,844</b>	<b>\$26.16</b>

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

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Table 3 – Estimate changes												
National Australia Bank Y/e September 30 (\$m)	FY21e			FY22e			FY23e			FY24e		
	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
<b>Profit &amp; Loss</b>												
Net interest income	13,649	13,668	0%	13,829	13,772	0%	14,125	14,067	0%	14,428	14,368	0%
Other income	3,205	3,281	-2%	3,275	3,428	-4%	3,358	3,515	-4%	3,443	3,604	-4%
<b>Net operating income</b>	<b>16,854</b>	<b>16,949</b>	<b>-1%</b>	<b>17,104</b>	<b>17,200</b>	<b>-1%</b>	<b>17,483</b>	<b>17,582</b>	<b>-1%</b>	<b>17,871</b>	<b>17,973</b>	<b>-1%</b>
Operating expenses	-7,777	-7,672	-1%	-7,454	-7,434	0%	-7,408	-7,388	0%	-7,354	-7,333	0%
Credit impairment charge	0	-44	n/m	-660	-660	0%	-992	-992	0%	-1,091	-1,091	0%
<b>Cash earnings b4 tax/distributions</b>	<b>9,077</b>	<b>9,233</b>	<b>-2%</b>	<b>8,990</b>	<b>9,106</b>	<b>-1%</b>	<b>9,084</b>	<b>9,202</b>	<b>-1%</b>	<b>9,427</b>	<b>9,549</b>	<b>-1%</b>
Income tax expense	-2,599	-2,647	2%	-2,577	-2,612	1%	-2,605	-2,640	1%	-2,701	-2,737	1%
Distributions	-26	-26	n/m	-26	-26	n/m	-26	-26	n/m	-26	-26	n/m
<b>Cash earnings</b>	<b>6,452</b>	<b>6,561</b>	<b>-2%</b>	<b>6,387</b>	<b>6,468</b>	<b>-1%</b>	<b>6,453</b>	<b>6,536</b>	<b>-1%</b>	<b>6,700</b>	<b>6,785</b>	<b>-1%</b>
<b>Statutory earnings</b>	<b>6,297</b>	<b>6,406</b>	<b>-2%</b>	<b>6,347</b>	<b>6,428</b>	<b>-1%</b>	<b>6,413</b>	<b>6,496</b>	<b>-1%</b>	<b>6,660</b>	<b>6,745</b>	<b>-1%</b>
<b>Cash earnings ex-notable items</b>	<b>6,520</b>	<b>6,561</b>	<b>-1%</b>	<b>6,387</b>	<b>6,468</b>	<b>-1%</b>	<b>6,453</b>	<b>6,536</b>	<b>-1%</b>	<b>6,700</b>	<b>6,785</b>	<b>-1%</b>
<b>DPS (c)</b>	<b>120</b>	<b>120</b>	<b>0%</b>	<b>130</b>	<b>130</b>	<b>0%</b>	<b>135</b>	<b>135</b>	<b>0%</b>	<b>140</b>	<b>140</b>	<b>0%</b>
EPS (cash basis) (c)	195	199	-2%	189	191	-1%	188	190	-1%	194	196	-1%
- ex-notable items (c)	197	199	-1%	189	191	-1%	188	190	-1%	194	196	-1%
Cash payout ratio	61%	60%	1%	68%	68%	1%	71%	71%	1%	72%	71%	1%
- ex-notable items	61%	60%	0%	68%	68%	1%	71%	71%	1%	72%	71%	1%
ROE	10.6%	10.8%	-0.2%	9.9%	10.0%	-0.1%	9.5%	9.6%	-0.1%	9.5%	9.6%	-0.1%
NIM	1.74%	1.74%	0.00%	1.72%	1.71%	0.01%	1.70%	1.70%	0.01%	1.70%	1.69%	0.01%
CIR	46%	45%	-1%	44%	43%	0%	42%	42%	0%	41%	41%	0%
- ex-notable items	46%	45%	0%	44%	43%	0%	42%	42%	0%	41%	41%	0%
Underlying cost base	7,681	7,672	0%	7,454	7,434	0%	7,408	7,388	0%	7,354	7,333	0%
Impairment expense as % of GLA	0.00%	0.01%	0.01%	0.11%	0.11%	0.00%	0.16%	0.16%	0.00%	0.17%	0.17%	0.00%
Effective tax rate	29%	29%	0%	29%	29%	0%	29%	29%	0%	29%	29%	0%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

# National Australia Bank

## Company description

NAB is a well-diversified financial services organisation providing a comprehensive range of retail and wholesale banking products and services. The bank largely operates in Australia (under the NAB umbrella brands) and in New Zealand (under the BNZ brand) and remains a leader in SME/business banking.

## Investment strategy

NAB's turnaround and de-risking phase is complete following the demerger and IPO of CYB. The bank is now focused on the lower risk, capital efficient Australian and New Zealand retail, business and corporate banking market space. Our investment strategy is predicated upon NAB improving its NIM (through repricing and pricing discipline), maintaining tight cost management and lifting its overall ROE to levels that are closer to those of its major bank peers.

## Valuation

Our price target is broadly based on a blend of DCF, sustainable dividend yield play, sustainable ROE and fully de-risked SOP valuation weighted as follows (with a heavier weighting on DCF and sustainable dividend yield methods and as its ROE outlook normalises towards at least 10% in the medium term).

Table 4 – Composite valuation					Table 5 – SOP valuation				
Composite Valuation	Value (\$m)	Per NAB share	Weighting	Composite value per NAB share	Sum-of-Parts (As Is)	FY22e NPAT	Pros. PE (times)	Value (\$m)	Per NAB share
DCF	93,586	\$28.52	25%	\$7.13	Business and Private Banking	2,348	13.5	31,698	\$9.66
Dividend yield (sustainable)	112,057	\$34.14	25%	\$8.54	Consumer Banking	1,537	13.5	20,754	\$6.32
ROE (sustainable)	95,203	\$29.01	25%	\$7.25	Corporate and Institutional Banking	1,500	13.5	20,247	\$6.17
Sum-of-Parts	85,844	\$26.16	25%	\$6.54	Wealth Management	0	-	-	-
Surplus capital*	2,130	\$0.65		\$0.65	NZ Banking	1,011	13.0	13,146	\$4.01
<b>Total</b>				<b>\$30.10</b>	Other including distributions	-9	0.0	0	\$0.00
					<b>Total</b>	<b>6,387</b>	<b>13.4</b>	<b>85,844</b>	<b>\$26.16</b>

\* Less estimated NZ new capital requirement

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

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## SWOT analysis

### Strengths

1. Agribusiness and SME / commercial banking capabilities;
2. Highest proportion of investment grade exposures in the sector;
3. Lowest exposure to mining and energy;
4. High quality mortgage loan book;
5. Well diversified geographically;
6. Management execution; and
7. Cost and growth discipline, and ROE focus.

**Weaknesses**

1. NIM still soft in business lending; and
2. Market share loss in SME and business banking segments.

**Opportunities**

1. Further domestic banking and wealth management opportunities based on securing alternate distribution strategies;
2. Upside risk to planned cost savings following \$1.5bn investment spend; and
3. Driving the Personal and Business Banking cost ratio to below 35%.

**Threats**

1. Slippage in planned productivity increases;
2. Royal Commission and other political uncertainties;
3. Macroeconomic factors, e.g. unemployment and slowing credit growth;
4. Changes in regulatory environment, especially higher liquidity/capital/funding constraints under proposed global regulatory reforms, and the potential capping of funds management and advice fees that would crimp wealth management earnings growth; and
5. Increased competition specifically from the majors and disruptors on the domestic front in retail and wholesale banking and wealth management.

**Sensitivities****Table 6 – Sensitivities**

Y/e September 30	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
<b>Sensitivities</b>									
<b>Group NIM +10bp</b>									
- NPAT upside (cash basis)	8.5%	8.8%	9.0%	8.9%	8.7%	8.5%	8.3%	8.2%	8.0%
- Price target upside	\$2.64	\$2.73	\$2.79	\$2.75	\$2.70	\$2.64	\$2.59	\$2.53	\$2.48
<b>Group Loans +1%</b>									
- NPAT upside (cash basis)	0.7%	0.7%	0.7%	0.7%	0.7%	0.6%	0.6%	0.6%	0.6%
- Price target upside	\$0.21	\$0.21	\$0.21	\$0.20	\$0.20	\$0.20	\$0.20	\$0.19	\$0.19
<b>Australian loans +1%</b>									
- NPAT upside (cash basis)	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
- Price target upside	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11
<b>NZ loans +1%</b>									
- NPAT upside (cash basis)	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%
- Price target upside	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.04	\$0.04	\$0.04	\$0.04
<b>Other income +1%</b>									
- NPAT upside (cash basis)	0.3%	0.4%	0.4%	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%
- Price target upside	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.10	\$0.10
<b>BDD +1%</b>									
- NPAT upside (cash basis)	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
- Price target upside	\$0.00	-\$0.02	-\$0.03	-\$0.04	-\$0.04	-\$0.04	-\$0.03	-\$0.03	-\$0.03
<b>Costs +1%</b>									
- NPAT upside (cash basis)	-0.8%	-0.8%	-0.8%	-0.8%	-0.7%	-0.7%	-0.7%	-0.6%	-0.6%
- Price target upside	-\$0.26	-\$0.25	-\$0.25	-\$0.24	-\$0.23	-\$0.21	-\$0.20	-\$0.19	-\$0.18

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 7 – Financial summary

National Australia Bank		Share Price (A\$)					28.40									
As at		12-Oct-21					Market Cap (A\$m)					93,209				
<b>PROFIT AND LOSS</b>												<b>VALUATION DATA</b>				
Y/e September 30 (\$m)	2019	2020	2021e	2022e	2023e	Y/e September 30	2019	2020	2021e	2022e	2023e					
Net interest income	13,614	13,920	13,649	13,829	14,125	Cash earnings (\$m)	5,853	3,710	6,452	6,387	6,453					
Other banking income	3,820	3,270	3,205	3,275	3,358	EPS (statutory basis) (cps)	169	82	190	187	186					
<b>Total banking income</b>	<b>17,434</b>	<b>17,190</b>	<b>16,854</b>	<b>17,104</b>	<b>17,483</b>	- Growth	-16%	-51%	131%	-1%	-1%					
Funds management income	0	0	0	0	0	EPS (cash basis) (cps)	209	121	195	189	188					
Insurance income	0	0	0	0	0	- Growth	-1%	-42%	62%	-3%	-1%					
<b>Net operating income</b>	<b>17,434</b>	<b>17,190</b>	<b>16,854</b>	<b>17,104</b>	<b>17,483</b>	P / E ratio (times)	13.6	23.5	14.5	15.0	15.1					
Operating expenses	-8,140	-9,007	-7,777	-7,454	-7,408	P / Book ratio (times)	1.7	1.5	1.5	1.4	1.3					
Credit impairment charge	-919	-2,762	0	-660	-992	P / NTA ratio (times)	1.9	1.6	1.6	1.5	1.4					
<b>Cash earnings b4 tax/distributions</b>	<b>8,375</b>	<b>5,421</b>	<b>9,077</b>	<b>8,990</b>	<b>9,084</b>	Net DPS (cps)	166	60	120	130	135					
Income tax expense	-2,439	-1,672	-2,599	-2,577	-2,605	Yield	5.8%	2.1%	4.2%	4.6%	4.7%					
Outside equity interests	0	0	0	0	0	Franking	100%	100%	100%	100%	100%					
Investment experience	0	0	0	0	0	Payout (cash basis)	79%	49%	61%	68%	71%					
Distributions	-83	-39	-26	-26	-26	<b>CAPITAL ADEQUACY</b>										
<b>Cash earnings</b>	<b>5,853</b>	<b>3,710</b>	<b>6,452</b>	<b>6,387</b>	<b>6,453</b>	Y/e September 30	2019	2020	2021e	2022e	2023e					
Large notable items, discontinued operations and other adjustments	-1,055	-1,151	-155	-40	-40	Risk weighted assets (\$m)	415,771	425,147	457,024	474,175	492,303					
<b>Statutory earnings</b>	<b>4,798</b>	<b>2,559</b>	<b>6,297</b>	<b>6,347</b>	<b>6,413</b>	Average risk weight	53%	53%	55%	55%	55%					
<b>CASHFLOW</b>						Tier 1 ratio	12.4%	13.2%	13.2%	13.7%	13.7%					
Y/e September 30 (\$m)	2019	2020	2021e	2022e	2023e	CET1 capital ratio	10.4%	11.5%	11.7%	12.2%	12.3%					
NPAT (cash basis)	5,853	3,710	6,452	6,387	6,453	Total capital ratio	14.7%	16.6%	16.8%	17.1%	17.0%					
Increase in loans	-19,578	7,300	-6,800	-13,525	-13,669	Equity ratio	6.6%	7.1%	7.2%	7.4%	7.4%					
Increase in other assets	-16,060	-18,320	-20,359	-17,631	-19,070	<b>DIVISIONAL</b>										
Capital expenditure	82	-1,257	75	-69	-72	Y/e September 30 (\$m)	2019	2020	2021e	2022e	2023e					
<b>Investing cashflow</b>	<b>-35,556</b>	<b>-12,277</b>	<b>-27,084</b>	<b>-31,225</b>	<b>-32,810</b>	<b>Business/Private/Consumer Banking</b>										
Increase in deposits & borrowings	-6,018	29,922	23,623	11,249	11,612	Net interest income	9,470	9,417	9,194	9,363	9,550					
Increase in other liabilities	43,740	-16,170	-10,239	15,377	18,851	Other operating income	1,580	1,392	1,341	1,297	1,328					
Ordinary equity raised	147	5,160	72	0	0	<b>Net operating income</b>	<b>11,050</b>	<b>10,809</b>	<b>10,535</b>	<b>10,660</b>	<b>10,879</b>					
Other	-2,897	-1,414	-4,381	-1,788	-4,105	Operating expenses	-4,567	-4,633	-4,710	-4,681	-4,648					
<b>Financing cashflow</b>	<b>34,972</b>	<b>17,498</b>	<b>9,075</b>	<b>24,838</b>	<b>26,357</b>	Credit impairment charge	-650	-578	-70	-416	-595					
Net change in cash	5,269	8,931	-11,557	0	0	<b>Cash earnings b4 tax/distributions</b>	<b>5,833</b>	<b>5,598</b>	<b>5,754</b>	<b>5,564</b>	<b>5,636</b>					
<b>Cash at end of period</b>	<b>55,457</b>	<b>64,388</b>	<b>52,831</b>	<b>52,831</b>	<b>52,831</b>	Income tax expense	-1,756	-1,684	-1,735	-1,678	-1,700					
<b>BALANCE SHEET</b>						<b>Cash earnings</b>	<b>4,077</b>	<b>3,914</b>	<b>4,019</b>	<b>3,885</b>	<b>3,936</b>					
Y/e September 30 (\$m)	2019	2020	2021e	2022e	2023e	Home loans	296,776	290,910	293,214	299,078	305,060					
Cash and liquid assets	55,457	64,388	52,831	52,831	52,831	Other loans	118,288	116,891	118,233	120,598	123,010					
Divisional gross loans	593,753	585,416	592,333	606,657	621,316	Deposits	243,605	270,016	291,852	300,608	309,626					
Provisions	-4,142	-6,376	-5,500	-5,459	-5,608	<b>Corporate and Institutional Banking</b>										
Other gross loans / inter div.	11,741	15,012	14,020	13,179	12,338	Net interest income	1,827	2,075	1,940	1,991	2,063					
Other IEA	180,962	196,247	216,067	233,698	252,768	Other operating income	1,539	1,382	1,416	1,461	1,514					
Intangibles	5,576	3,809	3,776	3,776	3,776	<b>Net operating income</b>	<b>3,366</b>	<b>3,457</b>	<b>3,356</b>	<b>3,453</b>	<b>3,577</b>					
PP&E	1,117	2,374	2,299	2,368	2,440	Operating expenses	-1,281	-1,388	-1,356	-1,344	-1,336					
Insurance assets	0	0	0	0	0	Credit impairment charge	-70	-170	58	-110	-228					
Other assets	2,660	5,695	6,234	6,234	6,234	<b>Cash earnings b4 tax/distributions</b>	<b>2,015</b>	<b>1,899</b>	<b>2,059</b>	<b>1,998</b>	<b>2,014</b>					
<b>Total assets</b>	<b>847,124</b>	<b>866,565</b>	<b>882,059</b>	<b>913,285</b>	<b>946,095</b>	Income tax expense	-507	-483	-514	-499	-502					
Divisional deposits	300,651	330,573	354,196	365,445	377,057	<b>Cash earnings</b>	<b>1,508</b>	<b>1,416</b>	<b>1,545</b>	<b>1,500</b>	<b>1,511</b>					
Other borrowings	477,553	461,419	451,437	466,814	485,665	Loans	97,804	96,039	98,550	102,998	107,585					
Other liabilities	13,316	13,280	13,023	13,023	13,023	Other IEA	160,996	182,561	168,856	174,091	179,467					
<b>Total liabilities</b>	<b>791,520</b>	<b>805,272</b>	<b>818,656</b>	<b>845,282</b>	<b>875,745</b>	<b>Wealth Management</b>										
Ordinary share capital	36,762	43,531	44,409	46,825	47,277	Net interest income	0	0	0	0	0					
Other equity instruments	1,945	1,945	0	0	0	Insurance income	0	0	0	0	0					
Reserves	306	99	91	91	91	<b>Net operating income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>					
Retained profits	16,583	15,717	18,902	21,085	22,981	Wealth management expense	0	0	0	0	0					
Minority interests	8	1	1	1	1	Other expenses	0	0	0	0	0					
<b>Total shareholders' equity</b>	<b>55,604</b>	<b>61,293</b>	<b>63,403</b>	<b>68,002</b>	<b>70,350</b>	<b>Cash earnings b4 tax/distributions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>					
<b>Total sh. equity &amp; liabs.</b>	<b>847,124</b>	<b>866,565</b>	<b>882,059</b>	<b>913,285</b>	<b>946,095</b>	Income tax expense	0	0	0	0	0					
<b>WANOS - statutory (m)</b>	<b>2,797</b>	<b>3,068</b>	<b>3,301</b>	<b>3,376</b>	<b>3,430</b>	Investment experience	0	0	0	0	0					
<b>WANOS - cash (m)</b>	<b>2,797</b>	<b>3,068</b>	<b>3,301</b>	<b>3,376</b>	<b>3,430</b>	<b>Cash earnings</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>					
<b>PROFITABILITY RATIOS</b>						FUMA	0	0	0	0	0					
Y/e September 30	2019	2020	2021e	2022e	2023e	<b>NZ Banking</b>										
Return on assets	0.7%	0.4%	0.7%	0.7%	0.7%	Net interest income	1,828	1,872	1,891	1,851	1,888					
<b>Return on equity</b>	<b>11.4%</b>	<b>6.5%</b>	<b>10.6%</b>	<b>9.9%</b>	<b>9.5%</b>	Other operating income	571	520	515	516	515					
Leverage ratio	6.1%	6.5%	6.9%	7.1%	7.1%	<b>Net operating income</b>	<b>2,399</b>	<b>2,392</b>	<b>2,405</b>	<b>2,367</b>	<b>2,403</b>					
<b>Net interest margin</b>	<b>1.78%</b>	<b>1.77%</b>	<b>1.74%</b>	<b>1.72%</b>	<b>1.70%</b>	Operating expenses	-911	-894	-919	-928	-924					
CIR	47%	52%	46%	44%	42%	Credit impairment charge	-103	-140	19	-34	-69					
Cost / average assets	0.97%	1.00%	0.89%	0.82%	0.79%	<b>Cash earnings b4 tax/distributions</b>	<b>1,385</b>	<b>1,358</b>	<b>1,505</b>	<b>1,404</b>	<b>1,410</b>					
Growth in net operating income	-3%	-1%	-2%	1%	2%	Income tax expense	-388	-381	-420	-393	-395					
Growth in operating expenses	n/m	11%	-14%	-4%	-1%	Outside equity interests	0	0	0	0	0					
<b>Jaws</b>	<b>n/m</b>	<b>-12%</b>	<b>12%</b>	<b>6%</b>	<b>3%</b>	Investment experience	0	0	0	0	0					
Effective tax rate	29%	31%	29%	29%	29%	<b>Cash earnings</b>	<b>997</b>	<b>977</b>	<b>1,085</b>	<b>1,011</b>	<b>1,015</b>					
<b>ASSET QUALITY</b>						Loans	80,885	81,576	82,336	83,983	85,662					
Y/e September 30	2019	2020	2021e	2022e	2023e	Deposits	57,046	60,557	62,344	64,837	67,431					
<b>Credit impairment charge / GLA</b>	<b>0.15%</b>	<b>0.47%</b>	<b>0.00%</b>	<b>0.11%</b>	<b>0.16%</b>	<b>EX-LARGE NOTABLE ITEMS</b>										
Credit impairment charge / RWA	0.22%	0.65%	0.00%	0.14%	0.20%	Y/e September 30 (\$m)	2019	2020	2021e	2022e	2023e					
<b>Total provisions (\$m)</b>	<b>4,142</b>	<b>6,376</b>	<b>5,500</b>	<b>5,459</b>	<b>5,608</b>	Cash earnings	5,853	3,710	6,452	6,387	6,453					
Total provisions / RWA	1.00%	1.50%	1.20%	1.15%	1.14%	Add back:										
IAP / GIA	40%	45%	21%	18%	19%	- Customer remediation income loss	106	90	0	0	0					
IBL / IEA	99%	100%	99%	98%	98%	- Customer remed'n costs, ASIC, etc.	430	932	67	0	0					
<b>Total provisions / GLA</b>	<b>0.70%</b>	<b>1.09%</b>	<b>0.93%</b>	<b>0.90%</b>	<b>0.90%</b>	- Restructuring costs	0	0	0	0	0					

SOURCE: BELL POTTER SECURITIES ESTIMATES



**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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T S Lim, authoring analyst, holds a long position in NAB.

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