![BELL POTTER]

28 January 2022

Analyst
TS Lim 612 8224 2810

Authorisation
Chris Savage 612 8224 2835

National Australia Bank (NAB)

1Q22 result preview

Recommendation
Buy (unchanged)
Price
$27.25
Target (12 months)
$31.00 (unchanged)

GICS Sector

Banks

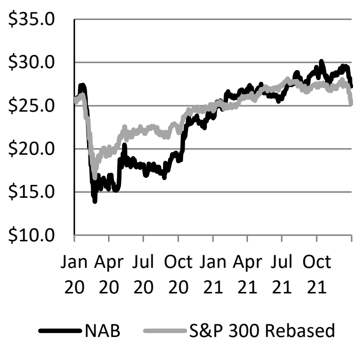
Expected Return	
Capital growth	13.8%
Dividend yield	4.6%
Total expected return	18.4%

Company Data & Ratios	
Enterprise value	n/m
Market cap	$88,767m
Issued capital	3,257m
Free float	100%
Avg. daily val. (52wk)	$175.8m
12 month price range	$22.85 - $30.30

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	28.89	28.74	24.13
Absolute (%)	-5.68	-5.18	12.93
Rel market (%)	2.26	3.06	12.64

Absolute Price



SOURCE: IRESS

Expecting $1.59bn cash earnings

Back in FY21, cash earnings and cash EPS were $6.56bn and 199¢ and there was no difference to numbers ex-large notable items (i.e. excluding restructuring-related costs and customer-related remediation). On a quarterly basis, these would be around $1.61bn cash earnings and 49¢ cash EPS respectively and would be equivalent to our forecasts of close to $1.59bn cash earnings and around 49¢ cash EPS in 1Q22 (again with no difference to ex-large notable items).

Level 2 CET1 ratio is expected to be around 12.2% after taking into account total proceeds from the Citi acquisition (~32bp) and $2.5bn buyback (~60bp). While NAB continues to manage overall Level 2 CET1 towards 10.75-11.25%, we still think this will be more at around 11.75% in the foreseeable future. Finally, we have made immaterial changes in the credit impairment charge. This is determined by better credit impairment outcomes overall including ongoing momentum across home lending, SME lending and New Zealand. The COVID-19 outlook still calls for calm but the bank remains "optimistic about the long-term outlook for Australia and New Zealand" – something that we can still agree with.

$31.00 price target and Buy rating maintained

Our forecast cash earnings are increased by 2-3%, all else being equal. These are mainly due to higher other income by as much as 8% (but mainly fee income from Corporate and Institutional Banking and M&T). On the other hand, we have also slightly increased the risk metrics to the ones now used by ANZ: 1) discount rate to 10.00% (previously 9.75%); and 2) sustainable dividend valuation yield to 4.00% (previously 3.75%). On a net basis, there would thus be little change to NAB's valuation – and the price target is still maintained at $31.00. The Buy rating is similarly maintained based on a 12-month Total Shareholder Return of over 15%.

Earnings Forecast

Year end 30 September	2021	2022e	2023e	2024e
Statutory earnings (A$m)	6,364	6,231	6,530	6,787
Cash earnings (A$m)	6,558	6,349	6,648	6,905
EPS (cash) (A¢)	199	192	198	204
EPS (cash) growth (%)	65%	-4%	3%	3%
PER (x)	13.7	14.2	13.8	13.3
P/Book (x)	1.4	1.3	1.3	1.2
P/NTA (x)	1.5	1.4	1.4	1.3
Dividend (A¢)	127	136	140	144
Yield (%)	4.6%	5.0%	5.1%	5.3%
ROE (%)	10.8%	10.0%	9.9%	9.9%
NIM (%)	1.72%	1.68%	1.66%	1.66%
Franking (%)	100%	100%	100%	100%

SOURCE: BELL POTTER SECURITIES ESTIMATES

1Q22 result preview

Expecting $1.59bn cash earnings

Comparisons are relative to 2H21 quarterly averages unless otherwise denoted in pcp terms. Back in FY21, cash earnings and cash EPS were $6.56bn and 199¢ and there was no difference to numbers ex-large notable items (i.e. excluding restructuring-related costs and customer-related remediation). On a quarterly basis, these would be around $1.61bn cash earnings and 49¢ cash EPS respectively and would be equivalent to our forecasts of close to $1.59bn cash earnings and around 49¢ cash EPS in 1Q22 (again with no difference to ex-large notable items).

Level 2 CET1 ratio is expected to be around 12.2% after taking into account total proceeds from the Citi acquisition (~32bp) and $2.5bn buyback (~60bp). To recap and at the end of FY21, this was 13.0% with movements comprising: 1) cash earnings +75bp; 2) dividend net of DRP -47bp; 3) RWA movements +15bp; 4) share buyback -12bp; 5) M&A +29bp; and 6) other +3bp. M&A also includes activity on the sale of MLC Wealth and purchase of 86 400. While NAB continues to manage overall Level 2 CET1 towards 10.75-11.25%, we still think this will be more at around 11.75% in the foreseeable future.

Finally, we have made immaterial changes in the credit impairment charge. This is determined by better credit impairment outcomes overall including ongoing momentum across home lending, SME lending and New Zealand. The COVID-19 outlook still calls for calm but the bank remains "optimistic about the long-term outlook for Australia and New Zealand" – something that we can still agree with.

Figure 1 – Citi acquisition

FINANCIAL IMPLICATIONS

Financial considerations - Pro forma impact on cash profits[1]	✓ Pro forma financial impact assumes Target Business underlying earnings of ~$330 million and cash NPAT of ~$145 million for the year to June 2021[2] ✓ Key considerations for future revenue impact (post completion) – mortgage balances expected to decline over time (partly offset by customers retained through refinancing); – short term outlook for card balances to reflect ongoing COVID conditions (elevated repayment rates); – detailed integration planning and management action to mitigate potential customer loss ✓ Total pre-tax annual cost synergies of ~$130 million p.a. expected to more than offset the impact of revenue decline in the mortgage book ✓ Impact of acquisition on Group cash opex target to be confirmed at 1H22 – Target Business pro forma cash opex of ~$410 million on a pre-synergies basis. Impact on forecast group cash opex subject to finalisation of TSAs with Citigroup and more detailed integration planning
Key metrics	✓ **8x pro forma Target Business NPAT** based on upfront **equity required of $1.2 billion** ✓ **1.25x Price to book** based on pro forma capital structure under NAB ownership ✓ CET1 impact on completion of **32bps** with ~$220 million of capital (~5bps) released from achieving A-IRB status (approx. 3 years post completion) ✓ Expected to be marginally **Cash EPS and Cash ROE accretive** from completion[3] ✓ Targeting pre-tax **cost synergies of ~$130m p.a.**

1. Pro forma financial impact of Target Business based on estimated income and operating expenses for Target Business
2. Assumes credit impairment charges of ~2.7% on unsecured lending portfolio, consistent with average charges observed on NAB unsecured lending portfolio from 2008 to 2020
3. Assumes targeted completion date of 31 March 2022, subject to regulatory approvals

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National Australia Bank

SOURCE: COMPANY DATA

1Q22 operating performance is estimated as follows.

1. Cash earnings would be somehow flat at $1.59bn and this is the same for the amount ex-large notable items.
2. NIM would also be stable at 1.68% but NIE would be supported by higher banking volumes in home, SME and New Zealand lending. Excluding higher liquidity and M&T, NIM should again be up "modestly" with the benefit of lower wholesale funding costs more than offset lower rates, competition in home lending and mix. As usual, negative movements would include generally lower interest rates, competitive pressures mainly from housing lending margins and changes in customer preferences towards lower margin fixed rate home loans. On the positive side, there would be offsets from lower retail and wholesale funding costs.
3. There is now slightly higher other income mainly due to reversal in Markets & Treasury (M&T) component (that was on the decline earlier) that more than offset fees and commissions plus trading income. Net of large notable items, fees and commissions would again be positive due to higher fee income in Corporate and Institutional Banking and merchant acquiring income from increased trading volumes.
4. Expenses fell by 7.6% due to productivity savings (through simplification of operations) and this was despite higher technology and investment spend. We assume the target of negative FY22 growth and therefore negative 1Q22 expense growth still remains.
5. Credit impairment charge in 2H21 was a write-back of $89m (reflecting ongoing asset quality improvement in home and business lending, price improvements and low specific charges) but we believe there would now be an expense of around $130m or roughly 4bp in 1Q22.
6. Finally, collective provisions would also be higher although there would be no change to Economic/Forward Looking adjustments.

$31.00 price target and Buy rating maintained

Our forecast cash earnings are increased by 2-3%, all else being equal. These are mainly due to higher other income by as much as 8% (but mainly fee income from Corporate and Institutional Banking and M&T). On the other hand, we have also slightly increased the risk metrics to the ones now used by ANZ: 1) discount rate to 10.00% (previously 9.75%); and 2) sustainable dividend valuation yield to 4.00% (previously 3.75%). On a net basis, there would thus be little change to NAB's valuation – and the price target is still maintained at $31.00. The Buy rating is similarly maintained based on a 12-month Total Shareholder Return of over 15%.

Table 1 – Composite valuation

Composite Valuation	Value ($m)	Per NAB share	Weighting	Composite value per NAB share
DCF	87,211	$26.77	25%	$6.69
Dividend yield (sustainable)	110,347	$33.88	25%	$8.47
ROE (sustainable)	107,411	$32.97	25%	$8.24
Sum-of-Parts	94,920	$29.14	25%	$7.28
Surplus capital*	1,612	$0.49		$0.49
Total				**$31.18**

* Less estimated NZ new capital requirement

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 2 – SOP valuation

Sum-of-Parts (As Is)	FY22e NPAT	Pros. PE (times)	Value ($m)	Per NAB share
Business & Private Banking	2,584	15.5	40,057	$12.29
Personal Banking	1,602	14.0	22,430	$6.88
Corporate & Institutional Banking	1,096	15.0	16,440	$5.05
Wealth Management	0	-	-	-
NZ Banking	1,066	15.0	15,993	$4.91
Other including distributions	0	0.0	0	$0.00
Total	**6,349**	**15.0**	**94,920**	**$29.13**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 3 – Estimate changes

National Australia Bank	FY22e			FY23e			FY24e			FY25e		
Y/e September 30 ($m)	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
Profit & Loss												
Net interest income	13,894	13,984	-1%	14,253	14,286	0%	14,621	14,596	0%	14,999	14,912	1%
Other income	3,125	3,061	2%	3,345	3,153	6%	3,496	3,248	8%	3,614	3,345	8%
Net operating income	**17,019**	**17,045**	**0%**	**17,598**	**17,440**	**1%**	**18,117**	**17,844**	**2%**	**18,613**	**18,257**	**2%**
Operating expenses	-7,450	-7,480	0%	-7,436	-7,435	0%	-7,413	-7,383	0%	-7,382	-7,323	-1%
Credit impairment charge	-522	-524	0%	-688	-688	0%	-862	-859	0%	-950	-943	-1%
Cash earnings b4 tax/distributions	**9,047**	**9,042**	**0%**	**9,474**	**9,316**	**2%**	**9,841**	**9,601**	**2%**	**10,281**	**9,991**	**3%**
Income tax expense	-2,698	-2,696	0%	-2,826	-2,778	-2%	-2,936	-2,863	-2%	-3,067	-2,980	-3%
Distributions	0	0	n/m	0	0	n/m	0	0	n/m	0	0	n/m
Cash earnings	**6,349**	**6,345**	**0%**	**6,648**	**6,538**	**2%**	**6,905**	**6,738**	**2%**	**7,213**	**7,011**	**3%**
Statutory earnings	**6,231**	**6,227**	**0%**	**6,530**	**6,420**	**2%**	**6,787**	**6,620**	**3%**	**7,095**	**6,893**	**3%**
Cash earnings ex-notable items	**6,305**	**6,302**	**0%**	**6,605**	**6,494**	**2%**	**6,862**	**6,695**	**3%**	**7,170**	**6,968**	**3%**
DPS (¢)	**136**	**133**	**2%**	**140**	**135**	**4%**	**144**	**141**	**2%**	**150**	**145**	**3%**
EPS (cash basis) (¢)	192	192	0%	198	195	2%	204	200	2%	213	207	3%
- ex-notable items (¢)	191	191	0%	196	193	2%	203	199	2%	211	206	3%
Cash payout ratio	71%	69%	2%	71%	69%	1%	70%	70%	0%	70%	70%	1%
- ex-notable items	71%	69%	2%	71%	70%	2%	71%	71%	0%	71%	70%	1%
ROE	10.0%	10.0%	0.0%	9.9%	9.7%	0.2%	9.9%	9.7%	0.2%	10.0%	9.7%	0.3%
NIM	1.68%	1.68%	0.00%	1.66%	1.67%	0.00%	1.66%	1.66%	0.00%	1.66%	1.66%	0.00%
CIR	44%	44%	0%	42%	43%	0%	41%	41%	0%	40%	40%	0%
- ex-notable items	44%	44%	0%	43%	43%	0%	41%	42%	0%	40%	40%	0%
Underlying cost base	7,512	7,542	0%	7,498	7,497	0%	7,475	7,445	0%	7,444	7,385	1%
Impairment expense as % of GLA	0.08%	0.08%	0.00%	0.11%	0.11%	0.00%	0.13%	0.13%	0.00%	0.14%	0.14%	0.00%
Effective tax rate	30%	30%	0%	30%	30%	0%	30%	30%	0%	30%	30%	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 equally and as its ROE outlook normalises towards at least 10-12% in the medium term.

Table 4 – Composite valuation

Composite Valuation	Value ($m)	Per NAB share	Weighting	Composite value per NAB share
DCF	87,211	$26.77	25%	$6.69
Dividend yield (sustainable)	110,347	$33.88	25%	$8.47
ROE (sustainable)	107,411	$32.97	25%	$8.24
Sum-of-Parts	94,920	$29.14	25%	$7.28
Surplus capital*	1,612	$0.49		$0.49
Total				**$31.18**

* Less estimated NZ new capital requirement

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 5 – SOP valuation

Sum-of-Parts (As Is)	FY22e NPAT	Pros. PE (times)	Value ($m)	Per NAB share
Business & Private Banking	2,584	15.5	40,057	$12.29
Personal Banking	1,602	14.0	22,430	$6.88
Corporate & Institutional Banking	1,096	15.0	16,440	$5.05
Wealth Management	0	-	-	-
NZ Banking	1,066	15.0	15,993	$4.91
Other including distributions	0	0.0	0	$0.00
Total	**6,349**	**15.0**	**94,920**	**$29.13**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

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	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sensitivities									
Group NIM +10bp									
- NPAT upside (cash basis)	9.1%	9.0%	8.9%	8.8%	8.6%	8.4%	8.2%	8.1%	7.9%
- Price target upside	$2.83	$2.80	$2.77	$2.72	$2.66	$2.61	$2.56	$2.50	$2.45
Group Loans +1%									
- 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
Australian loans +1%									
- 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	$0.13	$0.13	$0.13	$0.12	$0.12	$0.12	$0.12	$0.12	$0.12
NZ loans +1%									
- NPAT upside (cash basis)	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%
- Price target upside	$0.05	$0.05	$0.05	$0.05	$0.05	$0.05	$0.05	$0.05	$0.05
Other income +1%									
- NPAT upside (cash basis)	0.3%	0.4%	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%
- Price target upside	$0.11	$0.11	$0.11	$0.11	$0.11	$0.11	$0.10	$0.10	$0.10
BDD +1%									
- NPAT upside (cash basis)	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
- Price target upside	-$0.02	-$0.02	-$0.03	-$0.03	-$0.03	-$0.03	-$0.03	-$0.03	-$0.03
Costs +1%									
- NPAT upside (cash basis)	-0.8%	-0.8%	-0.8%	-0.7%	-0.7%	-0.6%	-0.6%	-0.6%	-0.5%
- Price target upside	-$0.25	-$0.24	-$0.23	-$0.22	-$0.21	-$0.20	-$0.19	-$0.18	-$0.17

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

National Australia Bank
as at 28 January 2022

Recommendation	Buy
Price	$27.25
Target (12 months)	$31.00

Table 7 – Financial summary

National Australia Bank		Share Price (A$)	27.25
As at	28-Jan-22	Market Cap (A$M)	88,767

PROFIT AND LOSS

Y/e September 30 ($m)	2020	2021	2022e	2023e	2024e
Net interest income	13,920	13,797	13,894	14,253	14,621
Other banking income	3,270	3,009	3,125	3,345	3,496
Total banking income	**17,190**	**16,806**	**17,019**	**17,598**	**18,117**
Funds management income	0	0	0	0	0
Insurance income	0	0	0	0	0
Net operating income	**17,190**	**16,806**	**17,019**	**17,598**	**18,117**
Operating expenses	-9,007	-7,817	-7,450	-7,436	-7,413
Credit impairment charge	-2,762	217	-522	-688	-862
Cash earnings b4 tax/distributions	**5,421**	**9,206**	**9,047**	**9,474**	**9,841**
Income tax expense	-1,672	-2,635	-2,698	-2,826	-2,936
Outside equity interests	0	0	0	0	0
Investment experience	0	0	0	0	0
Distributions	-39	-13	0	0	0
Cash earnings	**3,710**	**6,558**	**6,349**	**6,648**	**6,905**
Large notable items, discontinued operations and other adjustments	-1,151	-194	-118	-118	-118
Statutory earnings	**2,559**	**6,364**	**6,231**	**6,530**	**6,787**

CASHFLOW

Y/e September 30 ($m)	2020	2021	2022e	2023e	2024e
NPAT (cash basis)	3,710	6,558	6,349	6,648	6,905
Increase in loans	7,300	-32,448	-16,142	-16,680	-17,372
Increase in other assets	-18,320	-39,767	-19,269	-20,842	-22,542
Capital expenditure	-1,257	-440	-85	-88	-90
Investing cashflow	**-12,277**	**-72,655**	**-35,496**	**-37,610**	**-40,004**
Increase in deposits & borrowings	29,922	30,556	12,953	13,433	13,917
Increase in other liabilities	-16,170	27,361	18,190	21,798	23,588
Ordinary equity raised	5,160	72	0	0	0
Other	-1,414	-5,448	-1,996	-4,270	-4,407
Financing cashflow	**17,498**	**52,541**	**29,148**	**30,962**	**33,099**
Net change in cash	8,931	-13,556	0	0	0
Cash at end of period	**64,388**	**50,832**	**50,832**	**50,832**	**50,832**

BALANCE SHEET

Y/e September 30 ($m)	2020	2021	2022e	2023e	2024e
Cash and liquid assets	64,388	50,832	50,832	50,832	50,832
Divisional gross loans	585,416	619,666	637,177	655,197	673,723
Provisions	-6,376	-5,379	-5,907	-6,406	-6,719
Other gross loans / inter div.	15,012	12,213	11,372	10,531	9,691
Other IEA	196,247	236,142	255,411	276,253	298,795
Intangibles	3,809	4,113	4,113	4,113	4,113
PP&E	2,374	2,814	2,899	2,987	3,077
Insurance assets	0	0	0	0	0
Other assets	5,695	5,567	5,567	5,567	5,567
Total assets	**866,565**	**925,968**	**961,464**	**999,074**	**1,039,078**
Divisional deposits	330,573	361,129	374,082	387,515	401,433
Other borrowings	461,419	490,100	508,290	530,089	553,677
Other liabilities	13,280	11,960	11,960	11,960	11,960
Total liabilities	**805,272**	**863,189**	**894,332**	**929,564**	**967,070**
Ordinary share capital	43,531	43,247	45,690	46,164	46,653
Other equity instruments	1,945	0	0	0	0
Reserves	99	550	550	550	550
Retained profits	15,717	18,982	20,892	22,796	24,806
Minority interests	1	0	0	0	0
Total shareholders' equity	**61,293**	**62,779**	**67,132**	**69,510**	**72,009**
Total sh. equity & liabs.	**866,565**	**925,968**	**961,464**	**999,074**	**1,039,078**
WANOS - statutory (m)	**3,068**	**3,290**	**3,305**	**3,366**	**3,378**
WANOS - cash (m)	**3,068**	**3,290**	**3,305**	**3,366**	**3,378**

PROFITABILITY RATIOS

Y/e September 30	2020	2021	2022e	2023e	2024e
Return on assets	0.4%	0.7%	0.7%	0.7%	0.7%
Return on equity	**6.5%**	**10.8%**	**10.0%**	**9.9%**	**9.9%**
Leverage ratio	6.5%	6.6%	6.7%	6.6%	6.6%
Net interest margin	**1.77%**	**1.72%**	**1.68%**	**1.66%**	**1.66%**
CIR	52%	47%	44%	42%	41%
Cost / average assets	1.00%	0.87%	0.79%	0.76%	0.73%
Growth in net operating income	-1%	-2%	1%	3%	3%
Growth in operating expenses	11%	-13%	-5%	0%	0%
Jaws	**-12%**	**11%**	**6%**	**4%**	**3%**
Effective tax rate	31%	29%	30%	30%	30%

ASSET QUALITY

Y/e September 30	2020	2021	2022e	2023e	2024e
Credit impairment charge / GLA	**0.47%**	**-0.04%**	**0.08%**	**0.11%**	**0.13%**
Credit impairment charge / RWA	0.65%	-0.05%	0.11%	0.14%	0.16%
Total provisions ($m)	**6,376**	**5,379**	**5,907**	**6,406**	**6,719**
Total provisions / RWA	1.50%	1.29%	1.27%	1.27%	1.28%
IAP / GIA	45%	53%	53%	53%	53%
IBL / IEA	100%	99%	98%	98%	98%
Total provisions / GLA	**1.09%**	**0.87%**	**0.93%**	**0.98%**	**1.00%**

VALUATION DATA

Y/e September 30	2020	2021	2022e	2023e	2024e
Cash earnings ($m)	3,710	6,558	6,349	6,648	6,905
EPS (statutory basis) (cps)	82	193	189	194	201
- Growth	-51%	135%	-2%	3%	4%
EPS (cash basis) (cps)	121	199	192	198	204
- Growth	-42%	65%	-4%	3%	3%
P / E ratio (times)	22.5	13.7	14.2	13.8	13.3
P / Book ratio (times)	1.4	1.4	1.3	1.3	1.2
P / NTA ratio (times)	1.5	1.5	1.4	1.4	1.3
Net DPS (cps)	60	127	136	140	144
Yield	2.2%	4.6%	5.0%	5.1%	5.3%
Franking	100%	100%	100%	100%	100%
Payout (cash basis)	49%	63%	71%	71%	70%

CAPITAL ADEQUACY

Y/e September 30	2020	2021	2022e	2023e	2024e
Risk weighted assets ($m)	425,147	417,163	465,337	503,784	525,152
Average risk weight	53%	48%	51%	53%	53%
Tier 1 ratio	**13.2%**	**14.6%**	**13.7%**	**13.1%**	**13.1%**
CET1 capital ratio	**11.5%**	**13.0%**	**12.2%**	**11.8%**	**11.8%**
Total capital ratio	16.6%	18.9%	17.5%	16.7%	16.5%
Equity ratio	7.1%	6.8%	7.0%	7.0%	6.9%

DIVISIONAL

Y/e September 30 ($m)	2020	2021	2022e	2023e	2024e
Business/Private/Consumer Banking					
Net interest income	9,417	9,301	9,508	9,746	9,990
Other operating income	1,392	1,360	1,396	1,550	1,633
Net operating income	**10,809**	**10,661**	**10,904**	**11,297**	**11,622**
Operating expenses	-4,633	-4,744	-4,713	-4,701	-4,684
Credit impairment charge	-578	-14	-192	-329	-473
Cash earnings b4 tax/distributions	**5,598**	**5,903**	**6,000**	**6,267**	**6,466**
Income tax expense	-1,684	-1,773	-1,813	-1,894	-1,954
Cash earnings	**3,914**	**4,130**	**4,186**	**4,373**	**4,512**
Home loans	290,910	300,464	307,976	315,675	323,567
Other loans	116,891	123,990	127,090	130,267	133,524
Deposits	270,016	295,641	305,988	316,698	327,782
Corporate & Institutional Banking					
Net interest income	2,075	1,918	1,945	2,027	2,111
Other operating income	1,382	1,304	1,235	1,287	1,341
Net operating income	**3,457**	**3,222**	**3,180**	**3,314**	**3,452**
Operating expenses	-1,388	-1,369	-1,379	-1,383	-1,384
Credit impairment charge	-170	-186	-235	-245	-255
Cash earnings b4 tax/distributions	**1,899**	**1,667**	**1,566**	**1,686**	**1,813**
Income tax expense	-483	-460	-470	-506	-544
Cash earnings	**1,416**	**1,207**	**1,096**	**1,180**	**1,269**
Loans	96,039	104,478	109,581	114,875	120,364
Other IEA	182,561	148,122	153,694	159,451	165,401
Wealth Management					
Wealth management income	0	0	0	0	0
Insurance income	0	0	0	0	0
Net operating income	**0**	**0**	**0**	**0**	**0**
Wealth management expense	0	0	0	0	0
Other expenses	0	0	0	0	0
Cash earnings b4 tax/distributions	**0**	**0**	**0**	**0**	**0**
Income tax expense	0	0	0	0	0
Investment experience	0	0	0	0	0
Cash earnings	**0**	**0**	**0**	**0**	**0**
FUMA	0	0	0	0	0
NZ Banking					
Net interest income	1,872	2,017	1,943	1,982	2,022
Other operating income	520	505	493	507	522
Net operating income	**2,392**	**2,522**	**2,437**	**2,490**	**2,544**
Operating expenses	-894	-933	-920	-914	-907
Credit impairment charge	-140	12	-36	-55	-74
Cash earnings b4 tax/distributions	**1,358**	**1,601**	**1,481**	**1,521**	**1,562**
Income tax expense	-381	-447	-415	-426	-438
Outside equity interests	0	0	0	0	0
Investment experience	0	0	0	0	0
Cash earnings	**977**	**1,154**	**1,066**	**1,095**	**1,125**
Loans	81,576	90,734	92,530	94,380	96,268
Deposits	60,557	65,488	68,094	70,817	73,650

EX-LARGE NOTABLE ITEMS

Y/e September 30 ($m)	2020	2021	2022e	2023e	2024e
Cash earnings	3,710	6,558	6,349	6,648	6,905
Add back:					
- Customer remediation income loss	90	0	0	0	0
- Customer remed'n costs, ASIC, etc.	932	0	-43	-43	-43
- Restructuring costs	0	0	0	0	0
Cash earnings ex-large notable items	**4,732**	**6,558**	**6,305**	**6,605**	**6,862**
Cash EPS ex-large notable items	**154**	**199**	**191**	**196**	**203**
- Growth	**-32%**	**29%**	**-4%**	**3%**	**4%**
Operating expenses (underlying)	**7,679**	**7,817**	**7,512**	**7,498**	**7,475**
Payout (cash basis)	**39%**	**63%**	**71%**	**71%**	**71%**
Return on equity (underlying)	**8.3%**	**10.8%**	**9.9%**	**9.9%**	**9.9%**
CIR (underlying)	**45%**	**47%**	**44%**	**43%**	**41%**

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.

Research Team

Staff Member	Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
Analyst			
TS Lim	Banks	612 8224 2810	tslim
John Hester	Healthcare	612 8224 2871	jhester
Anubhav Saxena	Healthcare	612 8224 2846	asaxena
Marcus Barnard	Industrials	618 9326 7673	mbarnard
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
James Filius	Industrials	613 9235 1612	jfilius
Sam Haddad	Industrials	612 8224 2819	shaddad
Olivia Hagglund	Industrials	612 8224 2813	ohagglund
Hamish Murray	Industrials	613 9235 1813	hmurray
Jonathan Snape	Industrials	613 9235 1601	jsnape
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Joseph House	Resources	613 9235 1625	jhouse
Regan Burrows	Resources	618 9326 7677	rburrows
Brad Watson	Resources	618 9326 7672	bwatson
Associate			
Michael Ardrey	Associate Analyst	613 9256 8782	mardrey
Daniel Laing	Associate Analyst	612 8224 2886	dlaing

Bell Potter Securities Limited
ACN 25 006 390 7721
Level 29, 101 Collins Street
Melbourne, Victoria, 3000
Telephone +61 3 9256 8700
www.bellpotter.com.au

Bell Potter Securities (HK) Limited
Room 1701, 17/F
Posperity Tower, 39 Queens Road
Central, Hong Kong, 0000
Telephone +852 3750 8400

Bell Potter Securities (US) LLC
Floor 39
444 Madison Avenue, New York
NY 10022, U.S.A
Telephone +1 917 819 1410

Bell Potter Securities (UK) Limited
16 Berkeley Street
London, England
W1J 8DZ, United Kingdom
Telephone +44 7734 2929

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

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