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National Australia Bank

2020 THIRD QUARTER TRADING UPDATE

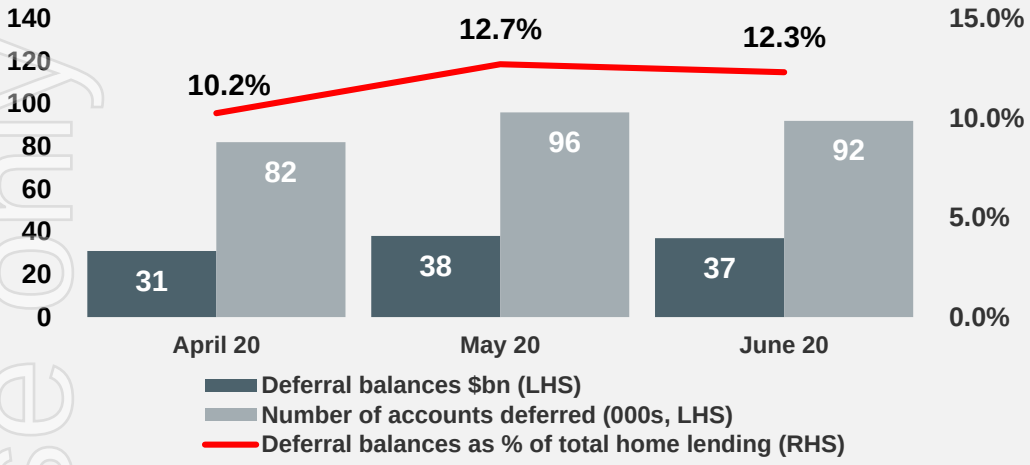
Supplementary Disclosures

14 August 2020

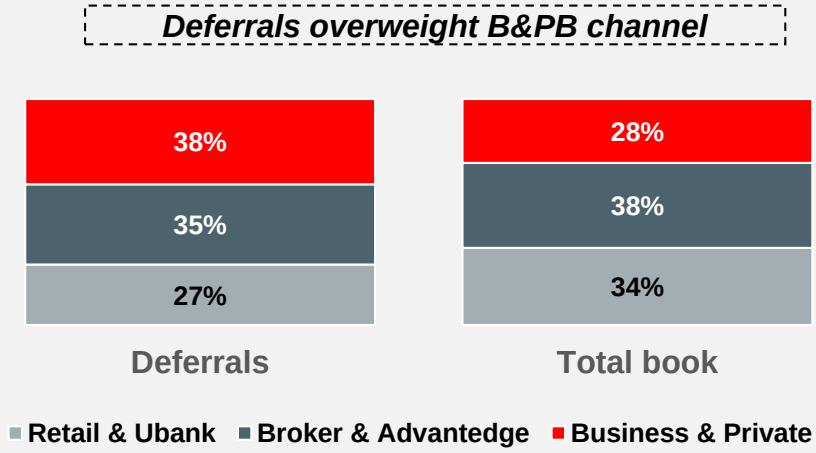
All data as at 30 June 2020 unless otherwise stated

AUSTRALIAN HOME LOAN DEFERRALS

DEFERRAL BALANCES AND ACCOUNT NUMBERS[1]



BALANCES BY CHANNEL



CUSTOMER CHARACTERISTICS (BY BALANCES)

- Compared with total book, deferral customers had lower average savings in transaction accounts and higher average use of credit cards prior to the pandemic
- ~30% of deferral customers have no redraw / offsets available
- ~70% of deferral customers are <3 months ahead on repayments[2]
- Analysis of deferral customers with NAB transaction accounts indicates ~20% with >50% decline in salaried income since the start of April[3]

$bn	>80% Dynamic LVR	>90% Dynamic LVR
Deferral balances	7.4	2.6
Of which are:		
- Less than 3 months ahead on repayments	6.0	2.1
- Not covered by LMI[4]	4.5	1.5

(1) April 20 figures excluded NAB branded Interest Only home loans.
(2) Offset balances are included in the determination of payments ahead. Includes customers with no redraw / offsets available.
(3) Based on home loan customers with a NAB transaction account and an identifiable salary deposit. Salaried income excludes identifiable JobKeeper and JobSeeker payments.
(4) Approximately 45% of >90% no LMI and 30% of >80% no LMI balances relate to Western Australia.

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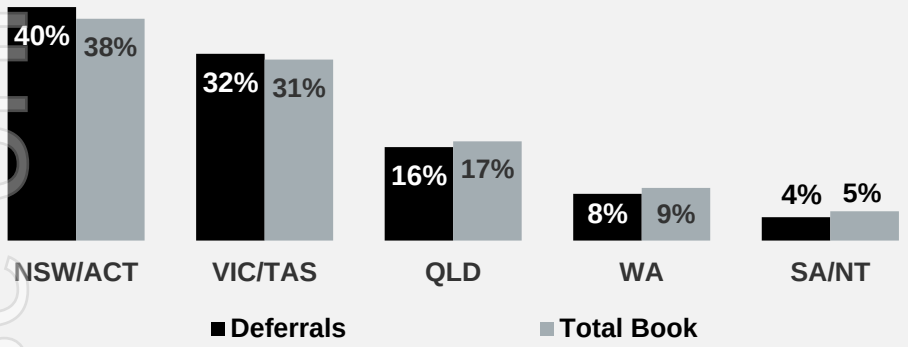
AUSTRALIAN HOME LOAN DEFERRALS

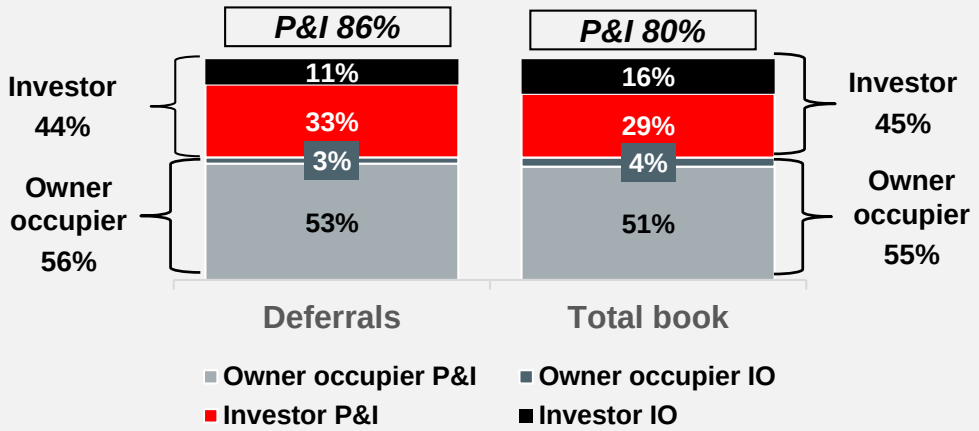
BALANCES BY STATE[1]

Deferrals broadly in line with portfolio



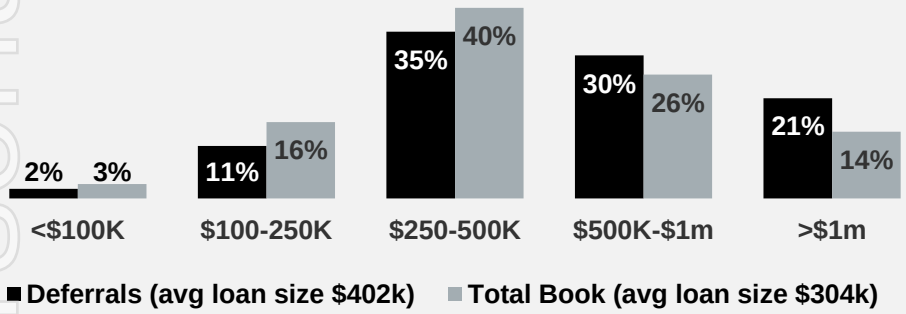
BALANCES BY REPAYMENT TYPE[2]

Deferrals overweight P&I loans



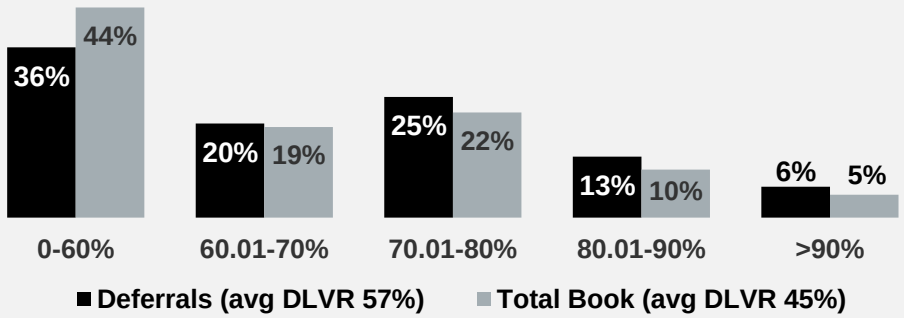
BALANCES BY LOAN SIZE[3]

Deferrals overweight larger sized loans



BALANCES BY DYNAMIC LVR

Deferrals overweight higher LVR bands



(1) Balances by state is based on security location. This differs to state based disclosures in the1H20 Investor Presentation which are based on booking office rather than security location.
(2) Total book breakdown will not agree with disclosures in 1H20 Investor Presentation which include only housing loans to households based on APRA ARF 720.1 reporting definition and exclude counterparties such as private trading corporations.
(3) Figures do not add to 100% due to rounding.

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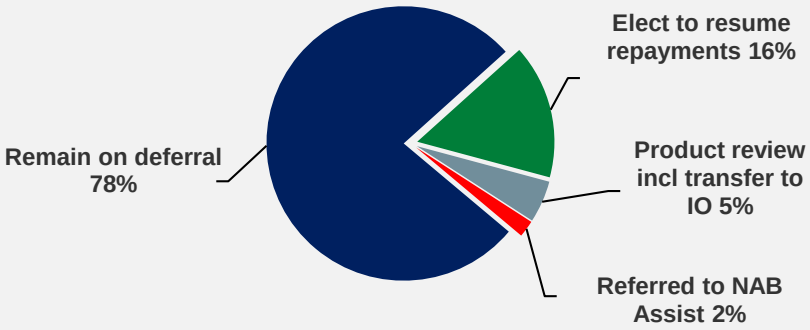
AUSTRALIAN HOME LOAN DEFERRALS - RECENT DEVELOPMENTS

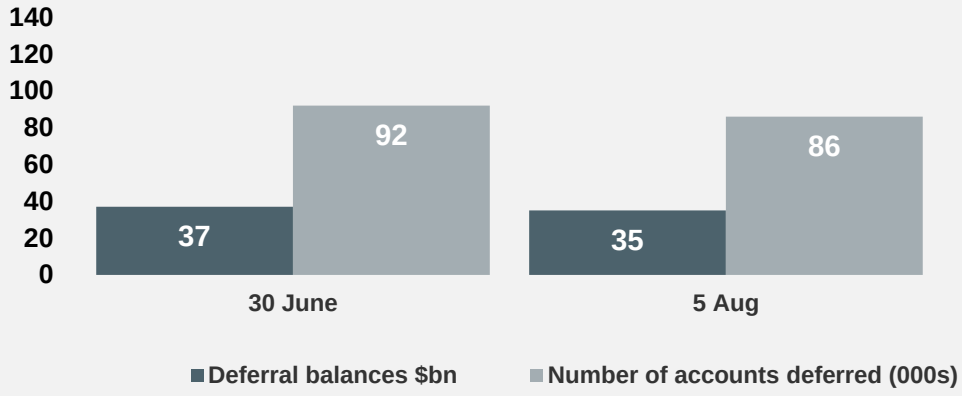
HOME LOAN DEFERRAL CHECK-INS

- Home loan check-ins commenced in early June with customers contacted by bankers and NAB Assist colleagues
- Customers initially receive an SMS to expect an upcoming check-in call, which includes an option to opt-out of the deferral at that stage
- ~24K or ~40% of customers contacted by 5 August, with activity accelerating over August
- Based on customers contacted to date 16% have elected to resume repayments
- Customers seeking a deferral extension or new deferral beyond 30 September[1] will be assessed on a case-by-case basis in accordance with a borrower assessment process to be agreed with APRA and ASIC

HOME LOAN DEFERRAL CHECK-IN OUTCOMES AT 5 AUGUST BY CUSTOMER[2]



UPDATED BALANCES AND ACCOUNT NUMBERS



- Key drivers of declining deferral balances and accounts post 30 June 2020 include:
  - ~4K accounts cancelled, including a significant amount as a result of check-ins
  - ~6K accounts expiring (where the customer elected a deferral for less than 6 months)
- At this stage, only a small increase in new deferral requests in Victoria

(1) Up to 31 March 2021.
(2) Figures do not add to 100% due to rounding.

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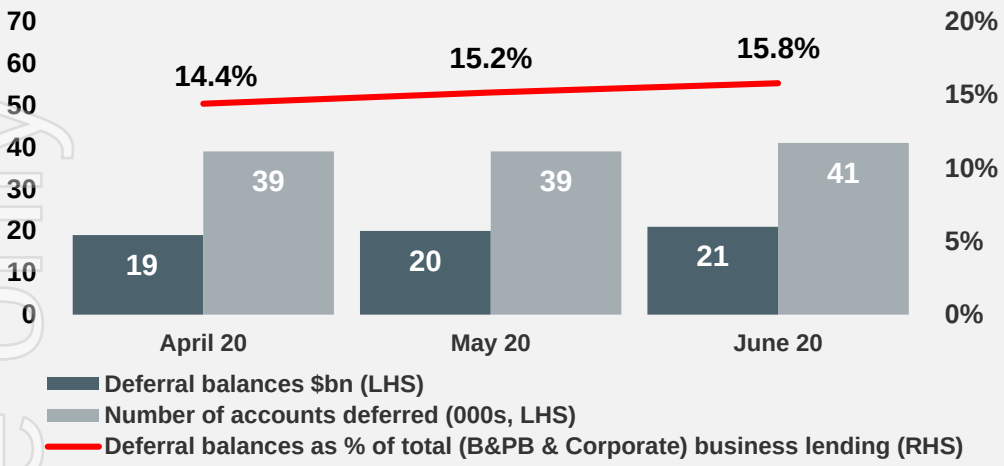
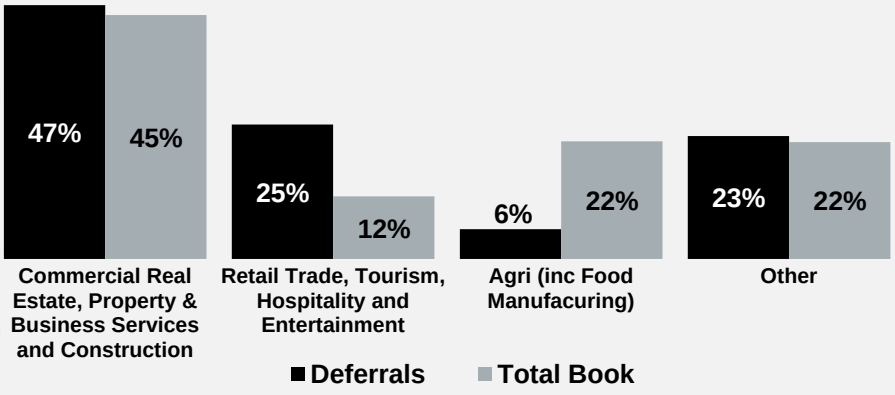
AUSTRALIAN BUSINESS LOAN (B&PB & CORPORATE) DEFERRALS[1]

DEFERRAL BALANCES AND ACCOUNT NUMBERS



BALANCES BY KEY FOCUS INDUSTRIES[4]

Deferrals overweight Property & Retail Trade, Tourism, Hospitality, Entertainment



CUSTOMER CHARACTERISTICS (BY BALANCES)

- Corporate loans represent ~10% of total deferral balances and ~20% of total book
- Compared with total book, on average deferral customers had higher risk characteristics at the commencement of the pandemic including higher limit utilisation and dishonour rates
- 47% of deferral customers are receiving JobKeeper payments[2], of which 31% are in Property & Property-Related and Consumer Facing Key Focus Industries[3]
- 28% of deferral balances relate to Victoria including 23% which relate to the Melbourne stage 4 restriction zone
- Business deferral customers also have ~$6bn home loan deferrals with NAB

Key Focus Industries $bn	Property & property related[3]	Consumer facing[3]
Deferral balances	9.5	5.0
Of which are:		
- Not fully secured	1.8	1.8
- Capital city CBD based	2.2	0.7
- Melbourne based	2.5	1.0

(1) Refers to customers eligible to receive a business loan deferral - excludes Institutional customers. B&PB refers to Business & Private Banking.
(2) Based on business customers with a NAB current account. JobKeeper payments identified as ATO payments in multiples of $1,500 in May and June 2020. Criteria for receipt of JobKeeper includes estimated revenue declines of 30% or more for businesses with annual turnover $1 billion or less, and estimated revenue declines 50% or more for businesses with annual turnover of >$1 billion.
(3) Property & property related includes Commercial Real Estate, Property & Business Services ie Real Estate Agents, Construction. Consumer Facing includes Retail Trade, Tourism, Hospitality, Entertainment.
(4) Figures do not add to 100% due to rounding.

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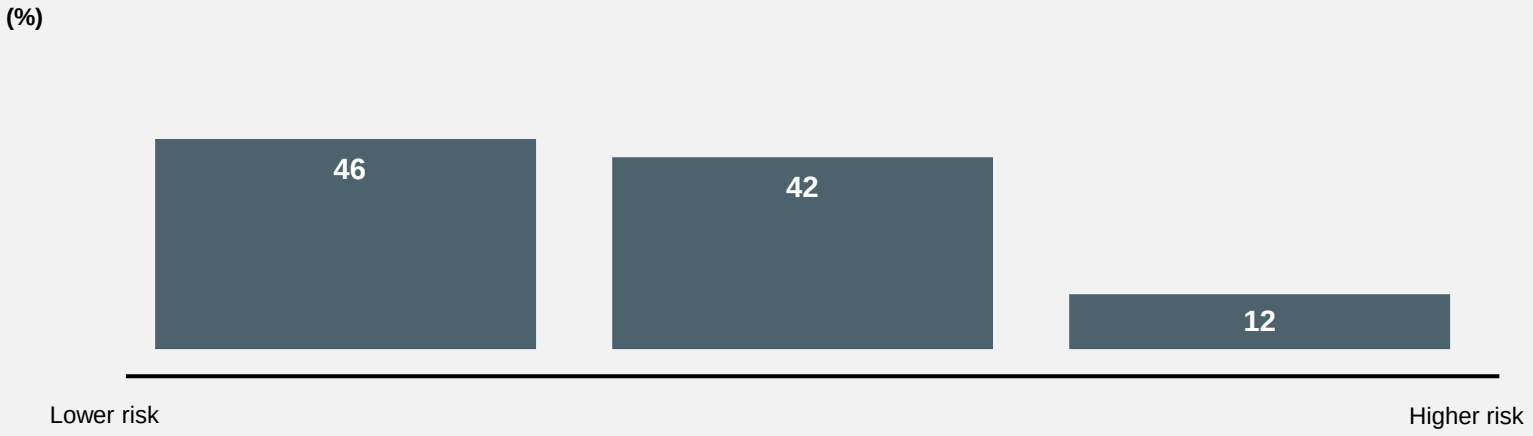
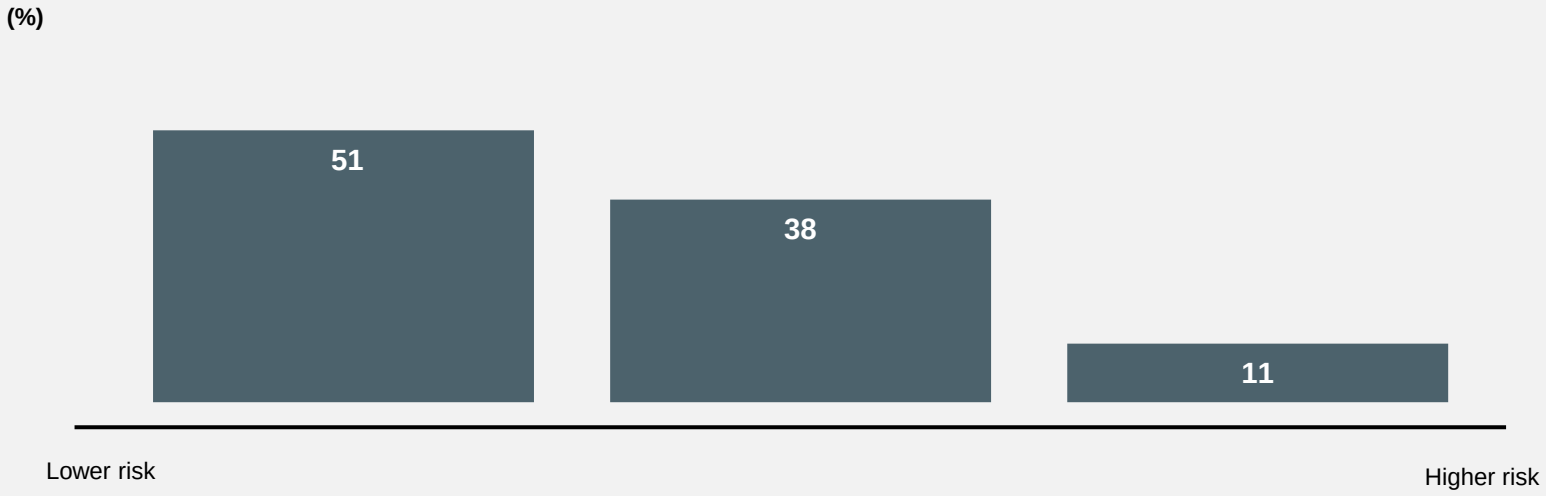
AUSTRALIAN BUSINESS LOAN (B&PB & CORPORATE) DEFERRALS[1]

RISK CATEGORISATION BY CUSTOMER[2,3]



RISK CATEGORISATION BY EXPOSURE AT DEFAULT[2,3]



(1) Refers to customers eligible to receive a business loan deferral - excludes Institutional customers. B&PB refers to Business & Private Banking.
(2) Data as at 30 June 2020.
(3) Categorisation is based on NAB's internal methodology, which considers items viewed as material drivers of risk profiles including industry sectors, turnover, payment behaviour and customer risk scores.

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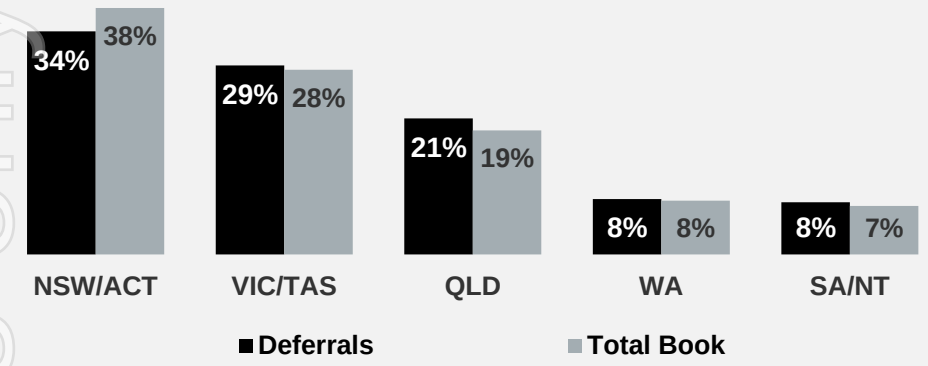
AUSTRALIAN BUSINESS LOAN (B&PB & CORPORATE) DEFERRALS[1]

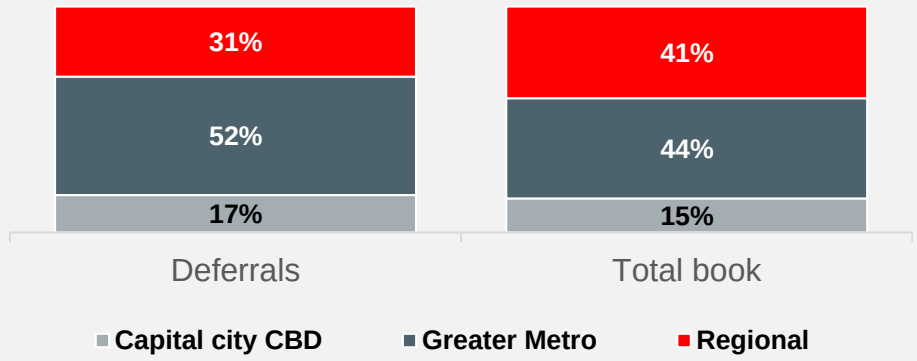
BALANCES BY STATE[2]

Deferrals overweight Qld, VIC & SA/NT



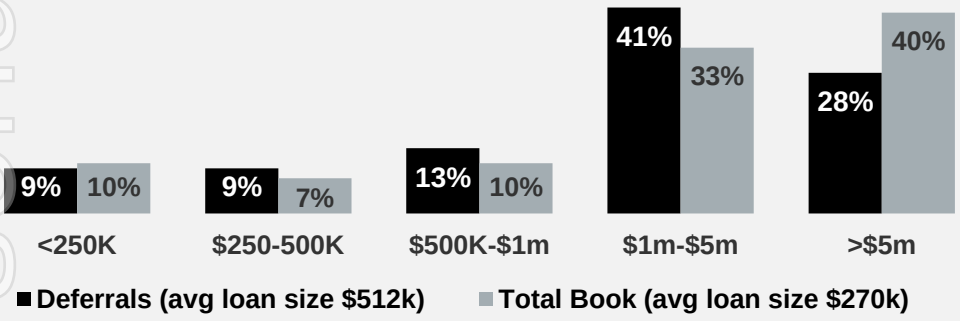
BALANCES BY TYPE OF LOCATION[2]

Deferrals overweight CBD & Metro



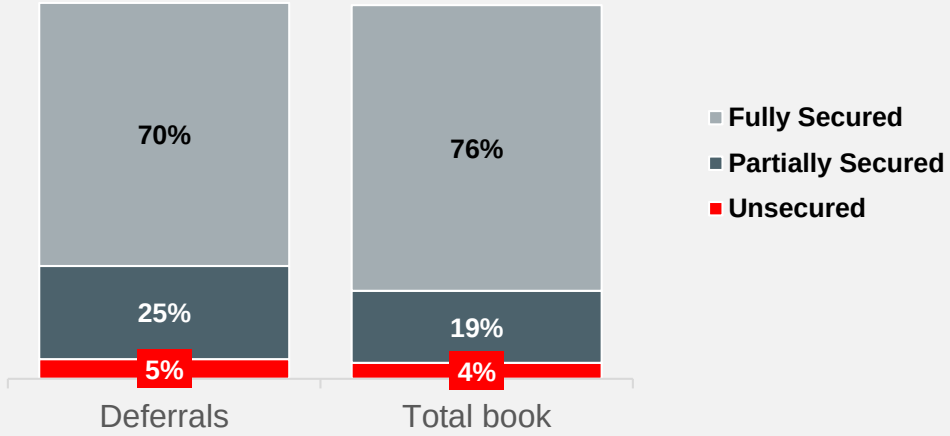
BALANCES BY LOAN SIZE

Deferrals overweight loans $250k - $5m



BALANCES BY SECURITY PROFILE[3]

Unsecured deferrals broadly in line with portfolio



(1) Refers to customers eligible to receive a business loan deferral – excludes Institutional customers. B&PB refers to Business & Private Banking.
(2) Balances by State & Type of Location are based on location of security or customer address where no security location exists. Greater Metro is greater capital city metropolitan areas excluding CBDs. Regional is all non greater capital city metropolitan areas.
(3) Fully Secured is where the loan amount is less than 100% of the bank extended value of security; Partially Secured is where the loan amount is greater than 100% of the bank extended value of security; Unsecured is where no security is held and/or no value held against the security and negative pledge arrangements are normally in place. Bank extended value is calculated as a discount to market value based on the nature of the underlying security. Figures do not add to 100% due to rounding.

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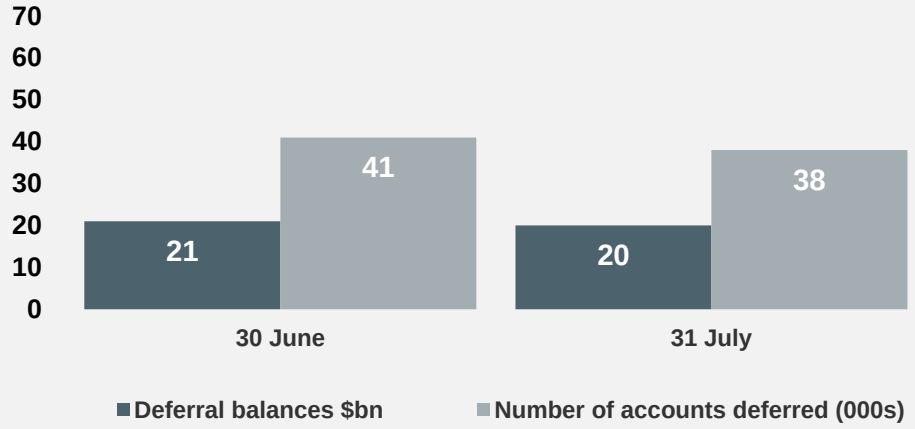
AUSTRALIAN BUSINESS LOAN DEFERRALS - RECENT DEVELOPMENTS

BUSINESS LOAN DEFERRAL CHECK-INS

- Business lending deferrals more nuanced than home loan deferrals given differing nature of product, including some shorter duration facilities and deferral periods
- As good practice:
  - Business bankers are in regular contact with deferral customers including conversations to discuss options at the end of deferral and the ability to recommence repayments
  - From late July business bankers, with support from NAB Assist for some small business customers, have commenced a more structured program to check-in with deferral customers
- Customers have a number of options at deferral expiry:
  - extend loan term up to 6 months, with deferred amount added to the balance
  - retain loan term and resume payments at either an increased level to cover deferred amount, or at the existing level and payout the deferred amount upfront
  - restructuring facilities may be an option on commercial terms
- Customers seeking a deferral extension or new deferral beyond 30 September[1] will be assessed on a case-by-case basis in accordance with a borrower assessment process to be agreed with APRA and ASIC

UPDATED BALANCES AND ACCOUNT NUMBERS



- Small reduction in balances and accounts since 30 June reflecting:
  - Large number of deferrals remain ongoing with majority expiring in September/October
  - Short duration deferrals which expired have been largely replaced with new deferrals
  - Limited cancellation activity
  - Coordinated check-in process commenced late July
- Too early to see impact of Melbourne stage 4 restrictions

(1) Up to 31 March 2021.

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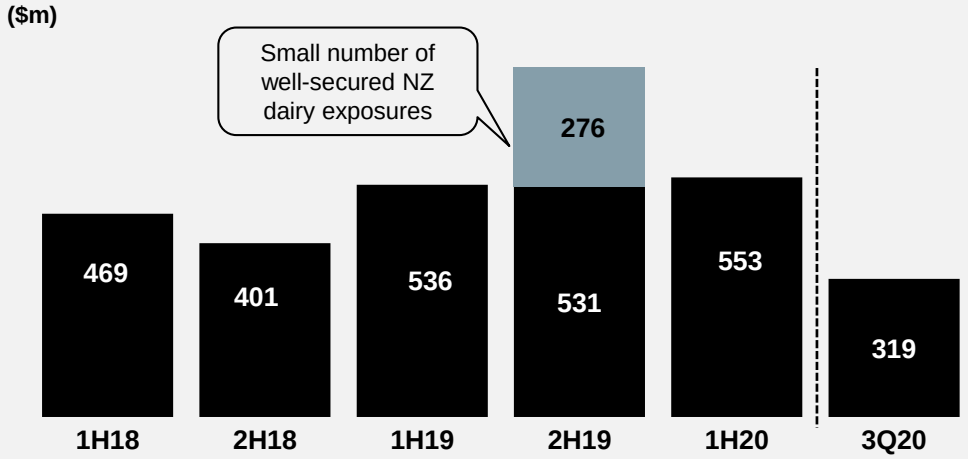
EARLY SIGNS OF MODEST ASSET QUALITY DETERIORATION

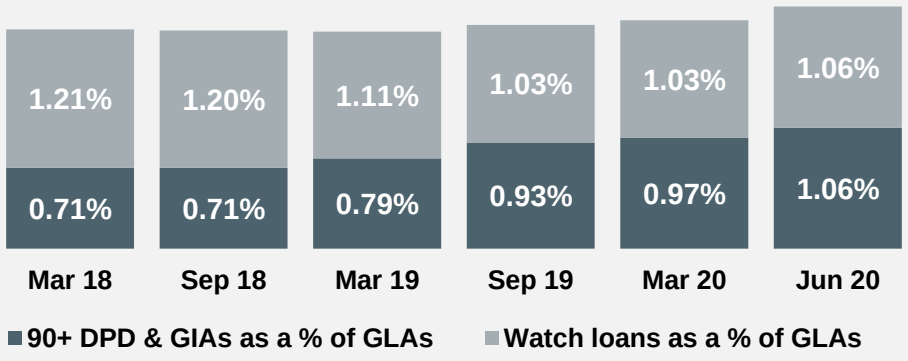
KEY CONSIDERATIONS

- Deferral customers arrears profile frozen from date of deferral
- New impaired assets run-rating higher over 3Q20 versus recent history
- 90+ DPD & GIA ratio uplift largely reflects increased delinquencies in Australian home loan portfolio where customers not part of deferrals
- Referral to Watch generally triggered by banker annual reviews through the year or as a result of customers experiencing cashflow pressures
- Accelerating inflows to Watch in 3Q20, including material portion relating to industries heavily impacted by COVID-19 lockdowns
- Detailed review of provisions ongoing, further update with FY20 results

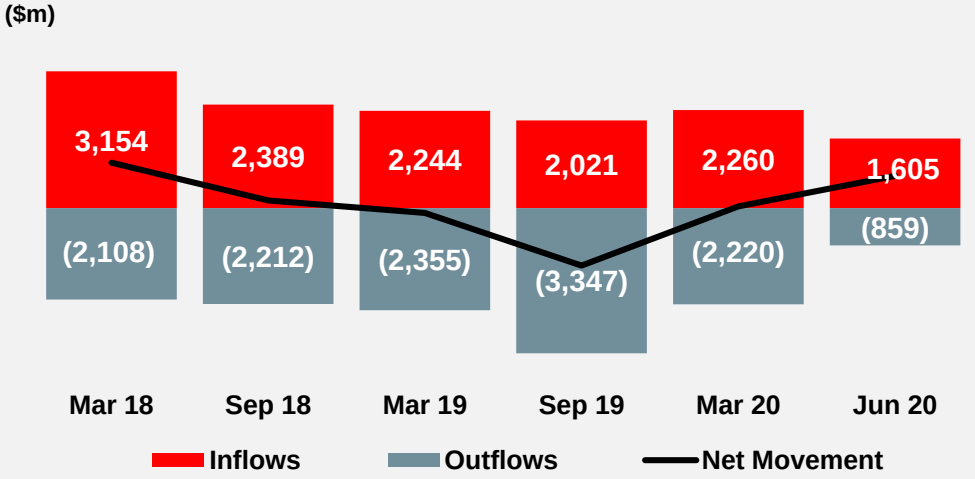
NEW IMPAIRED ASSETS



90+ DPD, GIAs & WATCH LOANS[1] AS A % OF GLAs



WATCH LOANS PORTFOLIO – INFLOWS/OUTFLOWS[2,3]



(1) Data based on total aggregated exposures based on legal commitments (including undrawn commitments and off balance sheet derivatives etc).
(2) Based on total aggregate exposures, i.e. includes undrawn commitments and off balance sheet derivatives etc. and excludes small business up to $2m.
(3) Outflows includes: Repatriations, refinancing, asset sales, debt sales, insolvencies / liquidations – net of write-offs. Inflows include both exposures which have been newly categorised to watch during the period and exposures which have upgraded from default status during the period.

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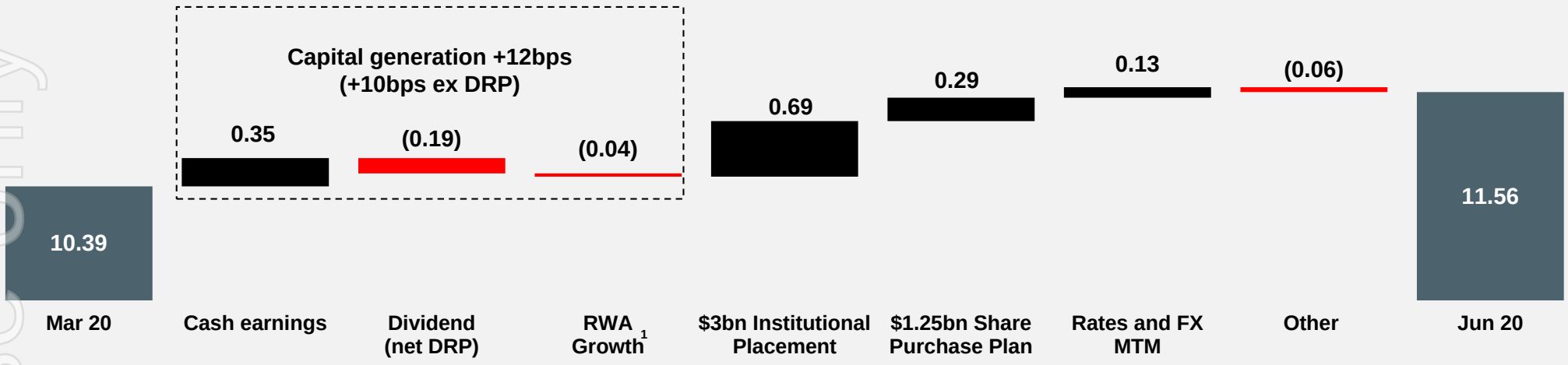
STRONG CAPITAL POSITION

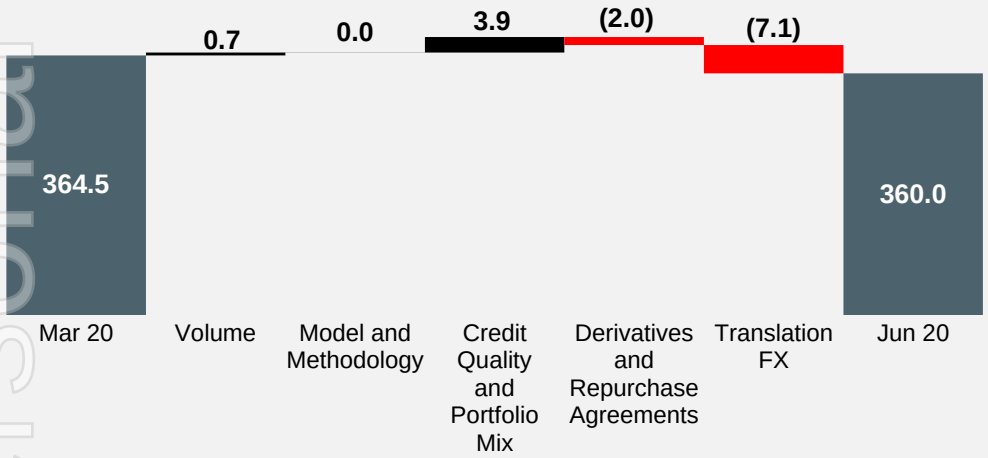
GROUP BASEL III COMMON EQUITY TIER 1 CAPITAL RATIO

(%)



CREDIT RWA

($bn)



CAPITAL CONSIDERATIONS

- Strong CET1 position of 11.56%, well placed to absorb materially higher RWAs in an economic downturn while continuing to lend and support customers
- 21bps CET1 benefit in 3Q20 from FX and MTM on high quality liquids (reflected in cash earnings, reserves & CRWA impacts including derivatives) vs 21bp drag in 1H20
- Increase in June CRWA from credit quality & portfolio mix mostly relates to the re-rating of non-retail exposures
- Subdued volume growth environment
- Implementation of APRA's 'unquestionably strong' CET1 benchmark of 10.5% delayed until 1 Jan 2023

(1) Excludes FX translation.

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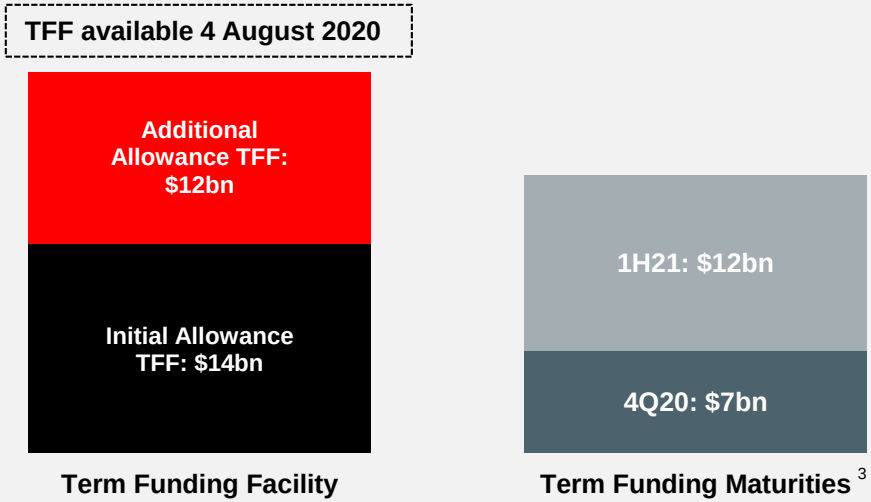
FUNDING & LIQUIDITY PROFILE

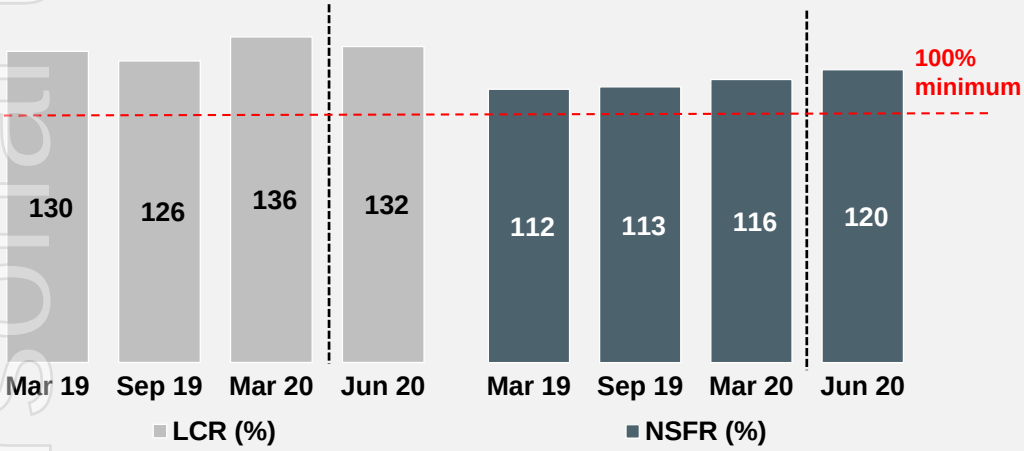
KEY MESSAGES

- Liquidity metrics and liquid asset holdings remain elevated reflecting higher system liquidity and subdued lending growth
- Strong deposit inflows continued over 3Q20, in line with system trends
- Term Funding Facility (TFF) of $26bn[1], with $14bn Initial Allowance available to be drawn down until 30 September 2020
- TFF to be utilised to support lending growth and refinancing of wholesale funding maturities; NAB draw downs commenced in 4Q20

TERM FUNDING FACILITY



LCR[2]



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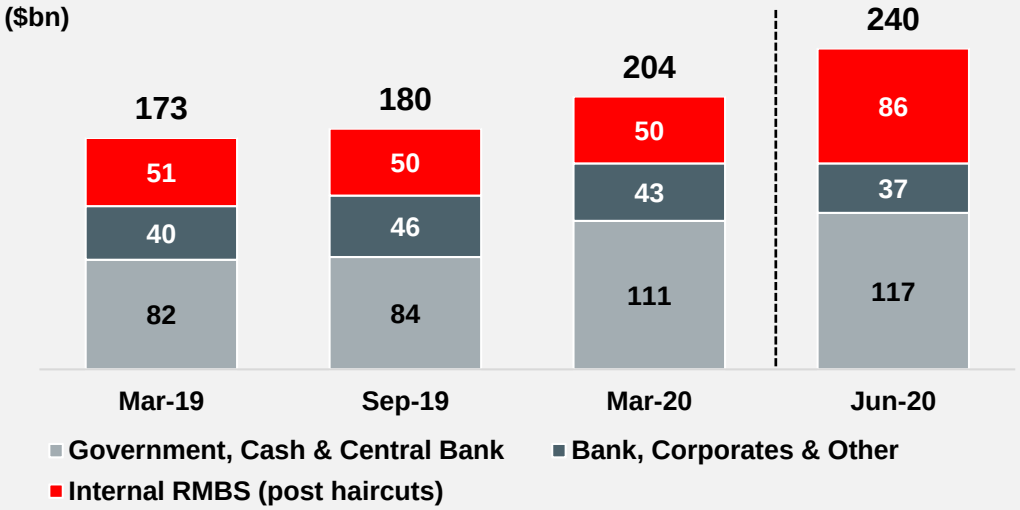
LIQUID ASSET PORTFOLIO



(1) TFF as at 4 August 2020.
(2) Quarterly average.
(3) Spot FX as at 30 June 2020 and excludes Additional Tier 1 and BNZ maturities.

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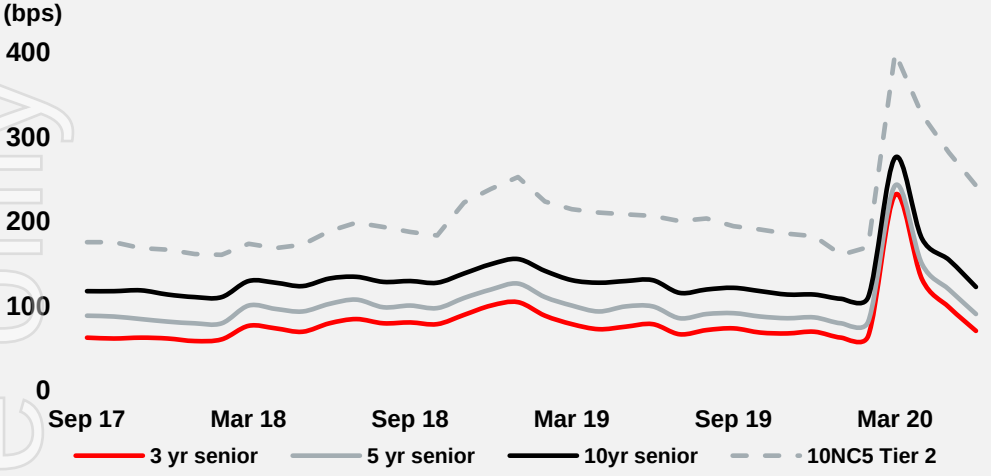
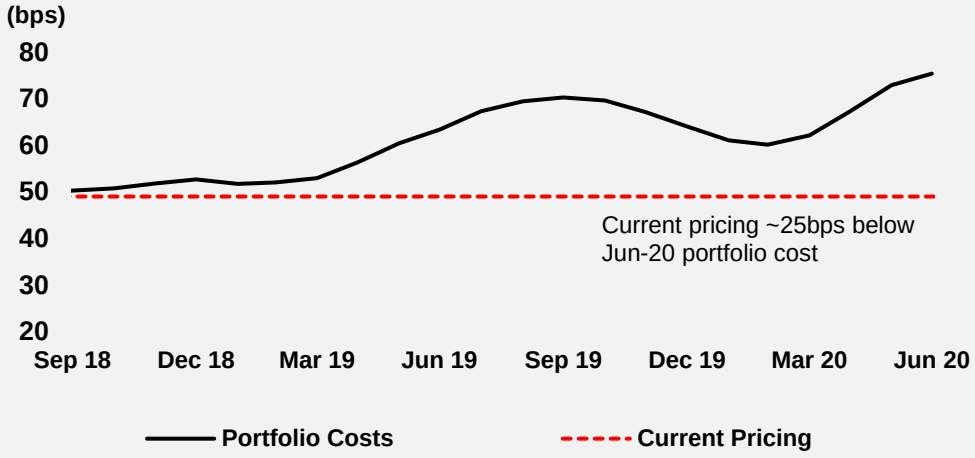
FUNDING COSTS LOWER SINCE MARCH

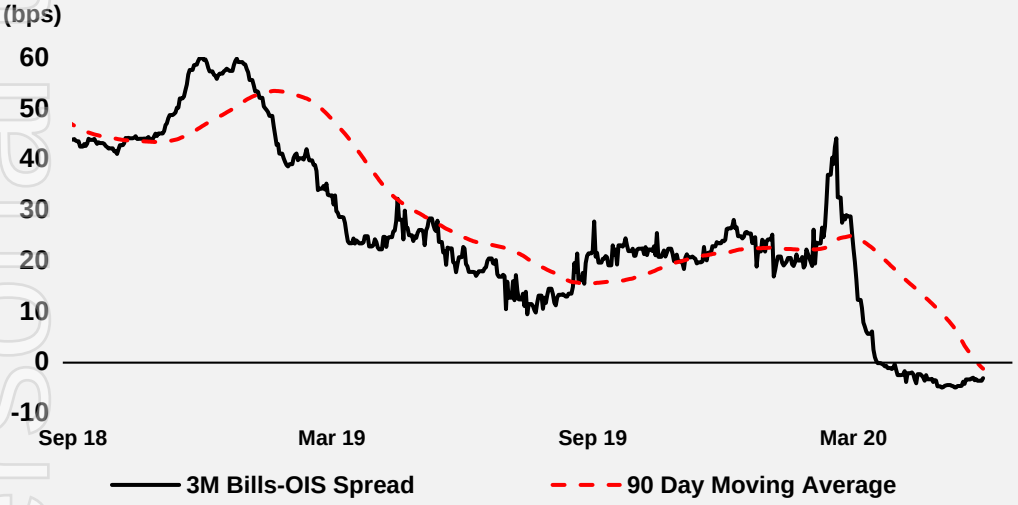
INDICATIVE TERM WHOLESALE FUNDING ISSUANCE COSTS[1]



TERM DEPOSIT PORTFOLIO COSTS[2]



DOMESTIC SHORT TERM WHOLESALE FUNDING COSTS[3]



KEY NIM CONSIDERATIONS

- Continue to expect low rate environment in Australia and NZ to reduce Group NIM by ~5bps in 2H20 (net of repricing[4]) compared with 1H20, including replicating portfolio
- Competitive pressures remain a headwind for Group NIM in 2H20
- Improvement in funding costs since 31 March 2020 provide a modest tailwind to Group NIM outlook

(1) Indicative Major Bank Wholesale Tier 2 Subordinated and Senior Unsecured Funding rates over 3m BBSW using a blend of multi-currency inputs (3 years, 5 years, 10-year non-call 5-year and 10 years).
(2) Management data. Term deposit portfolio cost over relevant market reference rate. Australia only.
(3) Spread between 3 month AUD Bank Bills and Overnight Index Swaps (OIS). Source: Bloomberg.
(4) Repricing relates to 1H20 initiatives.

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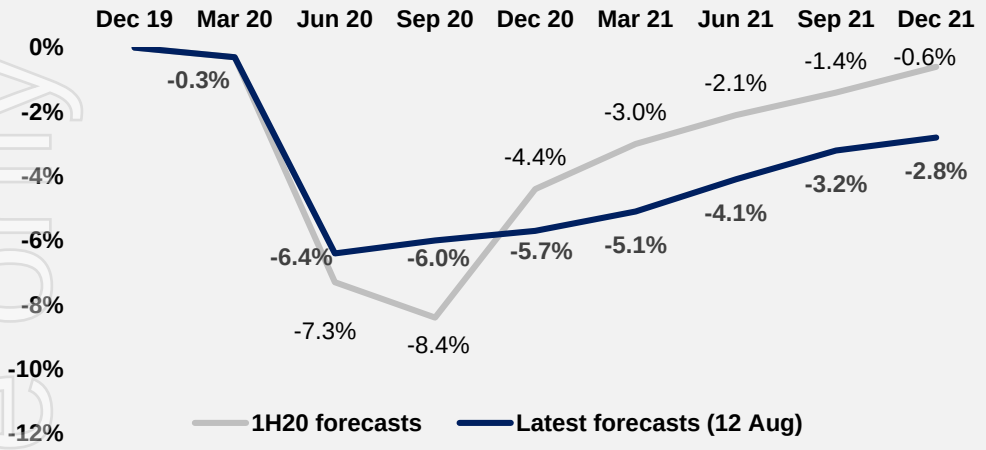
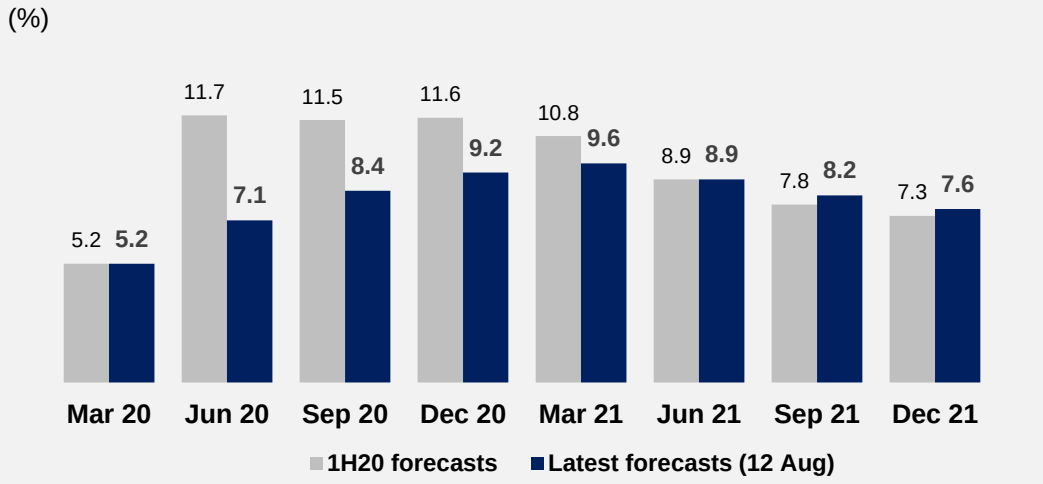
ECONOMIC OUTLOOK REMAINS UNCERTAIN

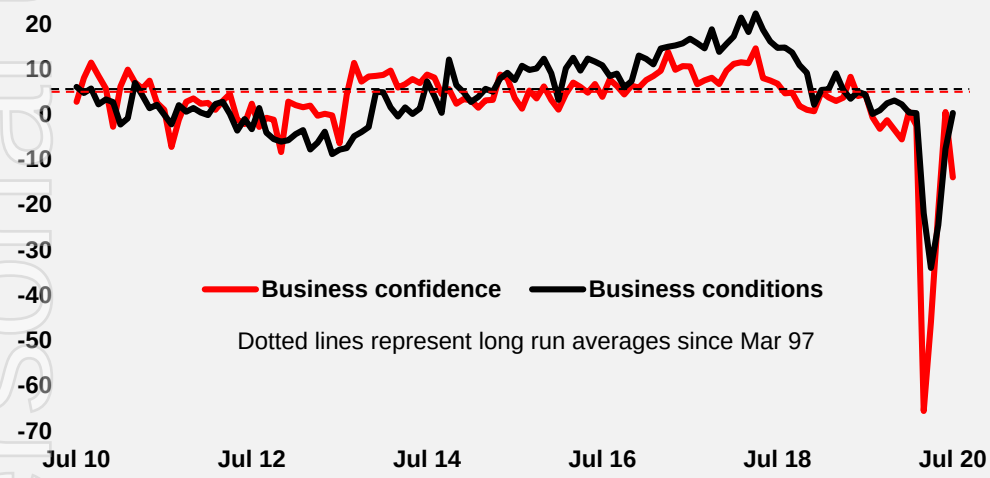
GDP BACK TO 'PRE COVID-19' LEVELS IN LATE 2022[1]



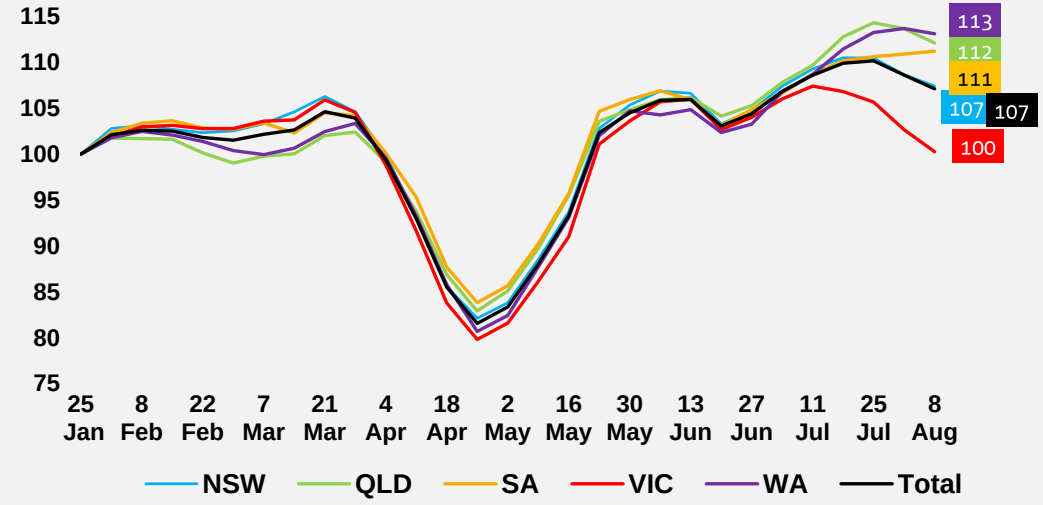
UNEMPLOYMENT TO PEAK IN MARCH 2021[2]



NAB BUSINESS CONDITIONS AND CONFIDENCE[3]



CONSUMER SPEND DATA BY STATE[4]



(1) Chart shows forecast GDP levels indexed to actual Dec-19 GDP. Forecasts are from NAB Economics
(2) Source: NAB Economics – Jun-20 onwards represents forecasts
(3) Source: NAB Monthly Business Survey – July 2020 results
(4) Represents consumer spend data for the 4 week moving average ending 8 Aug 2020 indexed to 25 Jan 2020 (100).

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AUSTRALIA AND NZ KEY ECONOMIC INDICATORS

AUSTRALIAN ECONOMIC INDICATORS (%)[1]

	CY17	CY18	CY19	CY20(f)	CY21(f)
GDP growth[2]	2.2	2.7	1.8	-3.8	0.8
Unemployment[3]	5.4	5.0	5.2	9.2	7.6
Core Inflation[4]	1.9	1.8	1.4	1.1	1.1
Cash rate[3]	1.50	1.50	0.75	0.25	0.25

NZ ECONOMIC INDICATORS (%)[1]

	CY17	CY18	CY19	CY20(f)	CY21(f)
GDP growth[2]	3.1	3.2	2.3	-7.8	3.0
Unemployment[3]	4.5	4.3	4.1	8.3	8.6
Inflation[4]	1.6	1.9	1.9	0.9	0.8
Cash rate (OCR)[3]	1.75	1.75	1.0	0.25	0.25

AUSTRALIAN SYSTEM GROWTH (%)[5]

	FY17	FY18	FY19	FY20(f)	FY21(f)
Housing	6.6	5.3	3.0	3.1	0.3
Personal	-0.9	-1.4	-4.4	-10.2	-1.5
Business	4.2	4.4	3.3	3.7	1.8
Total lending	5.3	4.6	2.6	2.4	0.7
System deposits	6.9	2.1	3.8	9.2	0.7

NZ SYSTEM GROWTH (%)[5]

	FY17	FY18	FY19	FY20(f)	FY21(f)
Housing	6.6	6.0	6.5	5.5	1.3
Personal	7.8	4.7	0.1	-9.5	2.0
Business	4.8	4.1	4.8	0.5	-4.0
Total lending	5.8	5.2	5.6	3.0	-0.7
Household retail deposits	7.7	6.9	5.1	7.2	2.8

(1) Sources: ABS, Econdata DX, RBA, RBNZ, Stats NZ, NAB
(2) Average of the 4 quarters to December on average of the 4 quarters of previous year. For Australia the corresponding year-on-year growth is -5.7% in CY20 and 3.1% in CY21.
(3) As at December quarter
(4) CPI, December quarter on December quarter of previous year. For Australia, average of of trimmed-mean and weighted-median indices
(5) Source: RBA, RBNZ, NAB. Bank fiscal year-ended (September)

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This announcement has been authorised for release by Gary Lennon, Group Chief Financial Officer

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