

FY2024 & Q1 FY2025 Analysis

Disciplined Business Banking Strength Amid Industry Headwinds

KEY HIGHLIGHTS

- Cash earnings fell 8.1% to \$7,102 million as margin pressure outweighed volume growth
- Business Banking remains resilient with 8% lending growth, offsetting retail challenges
- Strong capital position maintained with CET1 ratio of 12.35%
- Net interest margin decreased 3 basis points to 1.71% amid competitive pressures
- Asset quality showing early stress signs with non-performing exposures rising to 1.39%
- Share currently overvalued at \$36.00 vs. target price of \$32.50
- Productivity initiatives delivered \$453 million in benefits, targeting \$400m+ in FY2025
- Increased dividend to 169 cents per share while conducting \$2.1 billion in share buybacks

TABLE OF CONTENTS

- 1. Executive Summary
- 2. Outlook
- 3. Valuations
- 4. About the Company
 - 4.1 Company Overview
 - 4.2 Profitability Model
 - 4.3 Tailwinds
 - 4.4 Headwinds
- 5. Competitive Landscape
- 6. Latest Results & Updates
 - 6.1 Performance by Segment
 - 6.2 Balance Sheet & Financial Position
 - 6.3 Strategic Priorities & Progress
- 7. Financial Forecasts
 - 7.1 Forecast Assumptions & Inflection Points

GLOSSARY OF KEY TERMS

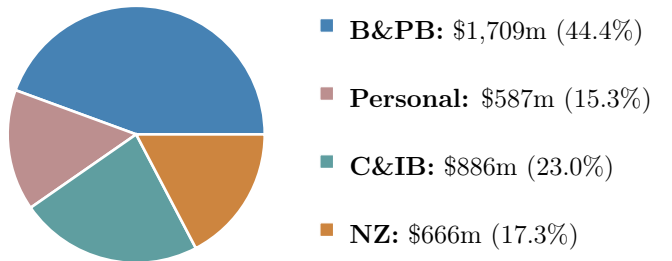
Cash Earnings	Profit after tax, excluding non-recurring items
NIM	Net Interest Margin: difference between interest earned and paid
CET1 Ratio	Common Equity Tier 1 ratio, a key measure of bank capital strength
CRWA	Credit Risk-Weighted Assets: assets adjusted for risk level
Jaws	When revenue growth exceeds expense growth (positive) or vice versa
Sub-System	Growth rate below the overall banking industry average
AT1 Capital	Additional Tier 1: hybrid capital instruments
ROE	Return on Equity: profit relative to shareholder investment

1 Executive Summary

National Australia Bank Limited demonstrated resilience in FY2024 through its robust business banking franchise, which offset retail banking pressures. NAB maintained SME sector leadership with 8% business lending growth while pursuing disciplined growth in the competitive housing market. Cash earnings reached \$7,102 million, declining 8.1% year-over-year as margin compression and higher expenses outweighed volume growth.

The bank’s business banking strength, contributing 45.9% of group cash earnings, provided partial insulation from housing market pressures. Nevertheless, Personal Banking earnings fell 19.6% due to mortgage margin compression, while Corporate and Institutional Banking and New Zealand Banking saw milder declines of 3.7% and 4.4% respectively.

1.1 Cash Earnings by Segment Distribution (2H24, \$m)



NAB maintained strong financial position with a CET1 ratio of 12.35%, supporting both dividends and \$2.1 billion in share buybacks. Asset quality showed early stress signs with non-performing exposures rising to 1.39%, though prudent provisioning continued at 1.47% of credit risk-weighted assets.

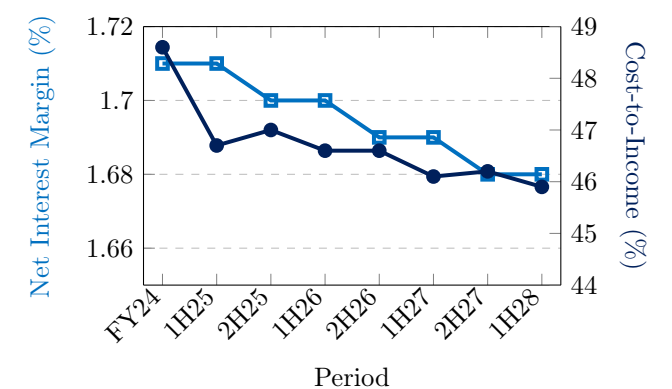
Looking ahead, NAB is positioned for gradual recovery through business banking momentum, productivity initiatives exceeding \$400 million annually, and digital transformation efficiencies. Our valuation indicates the bank is currently overvalued, though it still offers long-term investors sustainable dividends and moderate capital appreciation as profitability improves.

2 Outlook

NAB enters FY2025 with mixed momentum amid housing margin pressures, emerging asset quality concerns, and intense competition. However, its business banking strength and strategic initiatives provide support. Cash earnings are forecast to rise 2.3% to \$7,263 million in FY2025, accelerating through FY2026-27 as efficiencies compound and credit quality stabilises. NAB’s disciplined housing lending prioritises returns, potentially enhancing margins. The strong CET1 ratio of 12.35% offers flexibility for investments and shareholder returns, trending toward 11.0-11.5%. Capital management via share buybacks and a 70-75% dividend payout should sustain attractive returns despite near-term constraints.

Business and Private Banking remains the key growth driver, projected at 5-6% annually, driven by SME leadership and growth in healthcare, agriculture, and professional services. Corporate and Institutional Banking expects 3-4% growth as improved margins offset lower trading income. Personal Banking faces challenges, forecast to grow just 1-2% due to margin pressures.

2.1 Net Interest Margin & Cost-to-Income Ratio Projection



Net interest margin, down 3 basis points to 1.71% in FY2024, faces modest further compression from competition and anticipated RBA rate cuts. Productivity initiatives targeting \$400 million in FY2025 savings aim to lower the cost-to-income ratio from 48.6% to 45.5% by FY2029.

3 Valuations

Our primary valuation of NAB utilizes a modified Dividend Discount Model (DDM), capturing the bank's dividend-centric model and unique capital structure. Supplementary valuations include Price/Earnings (P/E), Price/Book (P/B), and peer comparisons. Our primary valuation of NAB employs a modified Dividend Discount Model (DDM), reflecting the bank's dividend-centric approach and distinctive capital structure, supported by supplementary Price/Earnings (P/E), Price/Book (P/B), and peer comparisons.

Methodology	Implied Price Per Share
DCF - Base Case	\$32.50
DCF - Bull Case	\$39.75
DCF - Bear Case	\$23.50
52-Week Trading Range	\$28.50 - \$36.50
Consensus Price Target Range	\$32.00 - \$38.00
EV/EBITDA Multiple - NTM	n/a (banking)
P/E Multiple - NTM	\$33.18
P/B Multiple	\$32.00
PEG Ratio (P/E to Growth)	\$31.75
Precedent Transactions	\$31.00
Implied Valuation Range	\$30.00 - \$38.00
Current Share Price	\$36.00
Up/Downside to Base Case	-9.7%

Against current valuations, NAB is suggestively overvalued on the current share price of \$36.00, indicating potential downside of 9.7%. This valuation balances NAB's strength in business banking with industry challenges, including margin pressures, regulatory changes, and emerging asset quality issues. Revenue growth is forecasted to gradually rise from 3.0% to 4.5% over five years, driven by loan growth (4.2-5.0%) and deposit growth (4.5-5.0%). Net interest margin is expected to modestly compress from 1.71% to 1.67%, reflecting competitive pressures partially offset by improved business banking mix.

Multiple-based valuations using P/E (NTM) at \$33.18 and P/B at \$32.00 align closely with our primary DDM valuation, reinforcing confidence in the valuation range of \$30.00-\$38.00. The implied P/E of 13.7x FY2025 EPS is slightly below the broader Australian market but consistent with the banking sector, acknowledging NAB's moderate growth and industry headwinds.

Our methodology applies an 11.% cost of equity, comprising a 4.0% risk-free rate, 6.0% equity risk premium, 1.15 levered beta, and a 0.5% company-specific risk premium. Terminal value calculation uses a 4.0% perpetuity growth rate, representing Australia's nominal GDP growth adjusted for banking industry maturity and competitive constraints.

3.1 Sensitivity Analysis

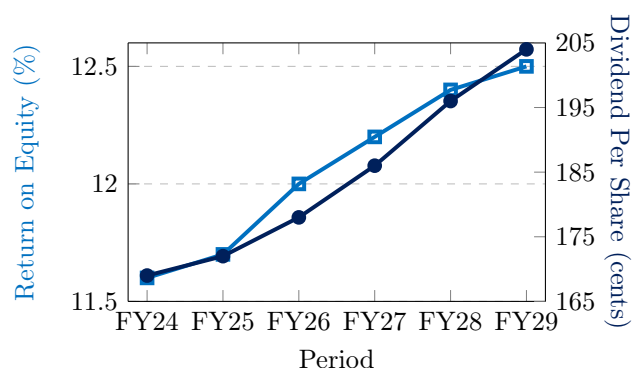
Our scenario analysis highlights significant valuation sensitivity to key variables. In the bull case (\$39.75 per share), we assume more optimistic conditions including NIM stabilization at 1.70% (versus base case compression to 1.67%), superior cost-to-income ratio improvement to 43.0% (versus 45.5% in base case), and better credit quality with impairment charges normalizing at 8 basis points of gross loans (versus 10 basis points). The bull scenario would be supported by NAB successfully executing its productivity initiatives while maintaining pricing discipline in competitive markets.

Factor	Change	Impact
Net Interest Margin	±5bps	±\$2.93
Cost-to-Income Ratio	±100bps	±\$2.60
Cost of Equity	±50bps	±\$4.88
Terminal Growth	±50bps	±\$3.90
Credit Impairment Charge	±5bps	±\$1.95

Conversely, the bear case (\$23.50 per share) reflects more severe margin compression to 1.60%, cost ratio deterioration to 50.0%, and elevated credit charges at 15 basis points of gross loans due to broader economic weakness. This significant downside risk highlights the operating leverage inherent in banking models – relatively small changes in revenue growth or cost trajectory can substantially impact profitability and valuation. Probability-weighting these scenarios (20% bull, 60% base, 20% bear) yields an expected value of \$30.15, suggesting substantial downside risk of 16.3% to the current share price.

The key valuation debate centers on NAB's ability to maintain margins in a competitive environment versus its proven strength in business banking. Bulls emphasize NAB's leading SME franchise and potential for cost efficiencies, while bears focus on housing lending competition, margin compression risk, and emerging asset quality concerns. Our base case balances these perspectives, recognizing both NAB's business banking advantages and the structural challenges facing Australian banks, resulting in a valuation that suggests the market is currently pricing NAB optimistically with limited room for execution risk.

3.2 ROE & Dividend Projection



Return on equity is projected to improve gradually from 11.6% in FY2024 to 12.5% by FY2029, driven by three key factors: operational efficiencies from productivity initiatives, progressive optimization of capital levels toward the target CET1 range of 11.0-11.5%, and increasing contribution from higher-margin business banking activities. While this ROE level remains below pre-global financial crisis levels, it represents a reasonable outcome in the context of higher regulatory capital requirements and structurally lower margins compared to historical periods.

Dividends are projected to grow from 169 cents

per share in FY2024 to 204 cents in FY2029, representing a 3.8% CAGR and reflecting NAB's balanced approach to capital management. The dividend payout ratio is expected to remain within the target range of 70-75%, supporting sustainable dividend growth while maintaining flexibility for investment in digital transformation and business growth opportunities. This dividend trajectory is complemented by our expectation of continued share buybacks averaging \$1.0-1.5 billion annually after completion of the current \$3 billion program, enhancing total shareholder returns beyond dividend yield alone.

NAB's capital management strategy balances regulatory considerations, growth requirements, and shareholder returns. The current CET1 ratio of 12.35% provides significant flexibility, exceeding both APRA's requirements and the bank's own target operating range of 11.0-11.5%. We project a gradual reduction in CET1 toward the upper end of this target over the forecast period, releasing capital to support both business growth and enhanced shareholder returns. This approach recognizes upcoming regulatory changes including APRA's revised capital framework, increased loss-absorbing capacity requirements, and changes to capital structure mandates.

4 About the Company

4.1 Company Overview

National Australia Bank Limited (ASX: NAB) is one of Australia's four major banks with over \$1 trillion in assets and approximately \$116 billion market capitalization. Founded in 1858, NAB operates primarily in Australia and New Zealand through four principal business segments. Business and Private Banking represents NAB's largest segment, serving small and medium enterprises and specialized industries. Personal Banking delivers retail banking services to individual customers. Corporate and Institutional Banking provides services for large corporate, institutional, and government clients. The New Zealand Banking segment operates through the Bank of New Zealand subsidiary to serve the New Zealand market.

4.2 Profitability Model

NAB generates revenue and profits through several key channels that together form its business model.

Net interest income serves as the primary revenue source, representing the difference between interest received on \$415+ billion in loans (predominantly residential mortgages) and interest paid on deposits. This is complemented by fee and commission income generated from lending fees, investment management services, and transaction charges. Additional revenue streams include trading activities and treasury operations that contribute to the bank's overall profitability.

NAB's strategic differentiation through its focus on higher-margin SME banking provides a competitive advantage and improved profitability compared to peers more reliant on commoditized retail banking. The bank has implemented a comprehensive cost management strategy, executing a productivity program that delivered \$453 million in benefits in FY2024. Under CEO Andrew Irvine's leadership, NAB has implemented a strategy focused on customer-centricity, simplification, and faster execution to drive sustained profitability growth.

4.3 Tailwinds

Business Banking Leadership: NAB has established itself as Australia's premier business bank, particularly in SME, delivering 8.2% business lending growth and stable cash earnings of \$3,257 million in FY2024 despite margin pressure. Specialized expertise in Agriculture, Health, and Professional Services has created defensible competitive advantages with higher returns and stronger customer relationships. This segment benefits from relationship-driven banking, higher switching costs, and greater pricing power than residential mortgages, providing partial insulation from industry-wide margin pressure.

Productivity Program: NAB delivered \$453 million in productivity benefits in FY2024 with additional savings exceeding \$400 million targeted for FY2025. This cost management approach, focused on simplification and digital transformation, limited operating expense growth to 4.5% despite inflation and ongoing investments. NAB is positioned to achieve positive jaws (revenue growth exceeding expense growth) from FY2026, supporting improved profitability and gradual ROE enhancement.

Strong Capital Position: NAB maintains a robust capital position with a CET1 ratio of 12.35%, up 13 basis points from FY2023 and well above its 11.0-11.5% target range. This strength enables both balance sheet growth and shareholder returns, with maintained dividends (169 cents per share) and \$2.1 billion in share buybacks during FY2024. The strong capital base also buffers against potential asset quality deterioration while balancing regulatory requirements with shareholder return objectives.

Digital Transformation: NAB's digital transformation has increased digital onboarding from 62% to 72% over four years with significant operational efficiency improvements. These initiatives enhance customer experience and cost efficiency across retail and business segments, focusing on streamlined lending processes, improved mobile banking, and advanced data analytics. This positions NAB to compete effectively with both traditional banks and digital challengers while evolving its operating model to maintain profitability amid margin compression.

4.4 Headwinds

Margin Compression: NAB experienced a 3 basis point decline in net interest margin to 1.71% in FY2024, with more severe compression in Business and Private Banking (-21bps) and Personal Banking (-18bps). This reflects intense housing lending competition, deposit mix shifts toward higher-cost products, and broader industry dynamics. Expected RBA rate cuts in 2025 will likely further reduce endowment income benefits. Managing this requires ongoing business mix optimization, disciplined pricing, and operational efficiencies to offset profitability impacts.

Asset Quality Deterioration: Non-performing exposures rose 26 basis points to 1.39% of gross loans during FY2024, evident in both rising mortgage arrears and business lending. While collective provisions remain at 1.47% of credit risk-weighted assets, individually assessed provisions increased 40.3% year-on-year, indicating deepening stress. This reflects elevated interest rates and cost-of-living pressures on borrowers, though partially moderated by low unemployment. Further weakening would require additional provisioning, directly impacting profitability.

Competitive Housing Market: Australia's housing lending market faces intense competition with compressed margins and aggressive pricing. NAB prioritized returns over volume, with housing lending growth of 3% ("sub-system") balancing profitability and market presence. This discipline contributed to a 19.6% decline in Personal Banking earnings to \$1,174 million. Competitive dynamics appear structural rather than cyclical, reflecting technological disruption, excess liquidity, and product commoditization. Management must maintain discipline while preventing excessive market share erosion.

Regulatory Evolution: NAB faces an evolving regulatory landscape affecting capital requirements through 2028, including APRA's revised APS 117 Capital Adequacy (effective October 2025), increased loss-absorbing capacity requirements, and RBNZ capital review changes. APRA's proposed replacement of 1.5% AT1 capital with alternative structures from January 2027 could reduce ROE by 20-50 basis points. Despite NAB's strong current position (CET1 12.35%), these changes will likely constrain capital deployment flexibility and impact returns.

4.5 Competitive Landscape

Competitor	Competitive Positioning
Commonwealth	Superior retail banking franchise, technology leadership, highest NIM among peers (2.10%), strongest customer satisfaction. Higher relative valuation. Less exposure to business banking.
ANZ	Strong institutional banking capabilities, Asian presence, completed Suncorp acquisition expanding retail scale. Integration challenges with Suncorp, historical underperformance in mortgage processing.
Westpac	Substantial retail banking scale, extensive branch network, improved operational efficiency. Slower growth, legacy technology challenges, historical compliance issues.
Macquarie	Strong digital capabilities, growing retail presence, nimble operations, specialized expertise. Smaller scale, limited physical distribution, focused product range.

The Australian banking landscape is dominated by the "Big Four" banks (Commonwealth Bank, NAB, ANZ, Westpac), collectively controlling about 80% of banking assets, though facing increasing competition from digital challengers and non-bank lenders.

Commonwealth Bank is NAB's strongest competitor, with better retail banking capabilities, higher interest margins, and greater tech investment capacity. CBA's advantages include the largest deposit base, superior digital platforms, and highest customer satisfaction, delivering the highest return on equity (14.1% in 1H25). However, CBA is relatively weaker in business banking where NAB leads.

ANZ has strengthened by acquiring Suncorp Bank, expanding its retail scale and Queensland presence. This enhances ANZ's ability to compete in both retail and business segments, potentially challenging NAB's core business banking franchise. ANZ also maintains strong institutional banking and Asia-Pacific capabilities.

Westpac has refocused on its core Australian banking business after compliance issues and technology challenges, emphasizing simplification over aggressive growth.

Digital challenger Macquarie is becoming increasingly significant despite smaller scale. Its technological capabilities, customer experience focus, and agile operations have enabled it to gain mortgage market share while expanding business banking offerings.

5 Latest Results & Updates

National Australia Bank's FY2024 results reflect a challenging environment with revenue pressure and rising costs. Cash earnings fell 8.1% to \$7,102 million, with margin compression (NIM down 3 basis points to 1.71%) due to competitive home lending and higher deposit costs. Operating expenses rose 4.5% from technology investments, compliance needs, and higher personnel costs. This was partially offset by balance sheet growth (loans up 4.2%, deposits up 4.3%) and lower credit impairment charges (down 9.2% to \$741 million).

Key Metrics	FY2024	FY2023	Chg%
Net interest income (\$m)	16,757	16,807	-0.3
Other income (\$m)	3,889	3,841	+1.2
Net operating income (\$m)	20,646	20,648	0.0
Operating expenses (\$m)	10,026	9,382	+6.9
Credit impairment charge (\$m)	741	816	-9.2
Cash earnings (\$m)	7,102	7,731	-8.1
Earnings per share (cash)	224.6c	236.4c	-5.0
Dividend per share	169c	167c	+1.2
Return on equity (cash)	11.6%	12.9%	-130bps
Net interest margin	1.71%	1.74%	-3bps
Cost to income ratio (cash)	46.6%	45.4%	+120bps
CET1 ratio	12.35%	12.22%	+13bps

Business segment performance varied widely. Business and Private Banking remained stable at \$3,257 million with 8% business lending growth and higher fees despite margin pressure. Personal Banking earnings dropped sharply (-19.6% to \$1,174 million) due to competitive home lending pressures. Corporate and Institutional Banking and New Zealand Banking showed modest declines (-3.7% and -4.4% respectively).

Asset quality deteriorated with non-performing exposures rising 26 basis points to 1.39% of gross loans, though collective provisions remained at 1.47% of credit risk-weighted assets, reflecting higher interest rates and cost-of-living pressures.

NAB maintained a strong capital position with CET1 ratio at 12.35%, continuing its \$2.1 billion share buy-back while slightly increasing dividends to 169 cents per share. The bank delivered \$453 million in productivity benefits and targets over \$400 million more in FY2025.

Q1 FY2025 showed stable performance with modest growth in deposits (2%), housing lending (1%), and business lending (2%), suggesting a stabilizing trajectory despite ongoing competitive pressures.

5.1 Performance by Segment

Business and Private Banking (B&PB) remains NAB's earnings cornerstone (45.9% of group cash earnings) with flat year-on-year performance at \$3,257 million. Revenue grew 0.9% on strong volume increases in business lending (+8.2%) and deposits (+7.0%), reinforcing NAB's SME market leadership. NIM contracted 21 basis points to 3.06% due to competitive pressures. Positive factors included higher FX income and lower credit impairment charges (-7.3%), offset by a 3.8% rise in operating expenses.

Business and Private Banking	FY2024	FY2023	Chg%
Cash earnings (\$m)	3,257	3,258	0.0
Net interest income (\$m)	7,268	7,232	+0.5
Other operating income (\$m)	1,031	989	+4.2
Operating expenses (\$m)	3,111	2,996	+3.8
Credit impairment charge (\$m)	523	564	-7.3
Net interest margin	3.06%	3.27%	-21bps
Business lending	\$155.0bn	\$143.3bn	+8.2
Housing lending	\$105.2bn	\$100.3bn	+4.9
Customer deposits	\$221.3bn	\$206.8bn	+7.0
Personal Banking	FY2024	FY2023	Chg%
Cash earnings (\$m)	1,174	1,461	-19.6
Net interest income (\$m)	3,953	4,367	-9.5
Other operating income (\$m)	626	554	+13.0
Operating expenses (\$m)	2,618	2,561	+2.2
Net interest margin	1.75%	1.93%	-18bps
Housing lending	\$243.0bn	\$239.5bn	+1.5
Customer deposits	\$163.3bn	\$150.6bn	+8.4

Personal Banking faced significant headwinds with cash earnings falling 19.6% to \$1,174 million. Key challenges included mortgage margin pressure (NIM -18bp to 1.75%) and subdued housing lending growth (+1.5%, below system). Management attributed this to a "disciplined approach" prioritizing "sustainable returns." Despite 13.0% growth in other operating income and 8.4% deposit growth, overall revenue declined 6.9% while expenses increased 2.2%.

Corporate and Institutional Banking (C&IB) showed resilience with a modest 3.7% earnings decline to \$1,772 million (24.9% of group). Business lending grew 6.4% with improved margins (NIM +13bp to 1.05%), counterbalanced by a 15.0% drop in other operating income from lower Markets activity and asset servicing run-off. Credit quality remained strong with a \$7 million impairment write-back. Customer deposits fell 4.1%, partly reflecting asset servicing contraction.

New Zealand Banking reported a 4.6% decline in cash earnings to NZ\$1,444 million (A\$1,333 million). Revenue remained stable as volume growth in lending (housing +4.2%, business +4.6%) and deposits (+4.8%) offset margin compression (NIM -5bp to 2.35%).

5.2 Balance Sheet & Financial Position

Balance Sheet (\$m)	FY2024	FY2023	Chg%
Total assets	1,080,248	1,059,083	+2.0
Gross loans and acceptances	738,206	708,471	+4.2
Customer deposits	612,796	587,384	+4.3
Total liabilities	1,018,035	997,580	+2.1
Total equity	62,213	61,503	+1.2
Risk-weighted assets	413.9bn	435.0bn	-4.9
CET1 ratio	12.35%	12.22%	+13bps
Non-performing loans/GLAs	1.39%	1.13%	+26bps
Gross impaired assets/GLAs	0.20%	0.18%	+2bps
Collective provision/CRWA	1.47%	1.47%	0bps
Cash Flow (\$m)	FY2024	FY2023	Chg%
Net cash from operating activities	(35,781)	(26,699)	-34.0
Net cash from investing activities	4,691	(4,210)	n/a
Net cash from financing activities	9,916	6,976	+42.1
Net decrease in cash equivalents	(21,174)	(23,933)	+11.5
Interest received	58,715	47,338	+24.0
Interest paid	(40,575)	(28,548)	+42.1
Share buy-back	(2,077)	(904)	+129.8

NAB maintained a strong balance sheet in FY2024 with total assets rising 2.0% to \$1,080 billion. Gross loans grew 4.2% to \$738 billion, reflecting expansion across both business and housing segments. Customer deposits increased 4.3% to \$613 billion, providing stable funding for loan growth.

The CET1 ratio improved to 12.35% (+13bp), above NAB's 11.0-11.5% target range, supported by organic capital generation and a 4.9% reduction in risk-weighted assets to \$414 billion. This strong position enabled dividend maintenance while increasing share buybacks to \$2.1 billion (+129.8%).

Asset quality showed deterioration with non-performing exposures rising 26bp to 1.39% of gross loans, reflecting higher interest rates and cost-of-living pressures. NAB maintained collective provisions at 1.47% of credit risk-weighted assets, while individually assessed provisions increased 40.3%, indicating stress in specific exposures.

Cash flow metrics showed net operating outflows of \$35.8 billion due to lending growth, partially offset by \$4.7 billion inflow from investing activities. Financing activities generated \$9.9 billion (+42.1%) from higher term funding and share buybacks.

Liquidity remained strong with both Liquidity Coverage Ratio and Net Stable Funding Ratio at 117%, positioning NAB well for potential market volatility while supporting continued growth.

5.3 Strategic Priorities & Progress

Priority	Status and Significance
Business Banking Leadership	Strong: 8% business lending growth, maintained market leadership in SME. Critical for differentiation and margin defense.
Productivity & Simplification	Strong: \$453m benefits achieved in FY24, targeting \$400m+ in FY25. Essential offset to margin pressure and cost inflation.
Housing Lending Discipline	Moderate: Sub-system growth at 3%, balanced approach prioritizing returns over volume. Preserves margin but impacts market share.
Digital Transformation	Progressing: Digital onboarding up from 62% to 72%, improved customer experience. Long-term efficiency driver.
Customer Advocacy	Mixed: Strategic NPS improved across segments from FY20 base, but not yet achieved top ranking across all segments.
Capital Optimization	Strong: CET1 12.35%, \$2.1bn buyback, 169c dividend. Balances shareholder returns with regulatory requirements.

NAB is executing diverse strategic initiatives to enhance its competitive position while navigating industry challenges. The company's priorities balance growth, efficiency, and risk management.

Business Banking Leadership remains NAB's most distinctive advantage, demonstrated by 8.2% growth in Business and Private Banking lending and maintained SME market leadership. The bank leverages specialized expertise in Agriculture, Health, and Professional Services to create defensible advantages. This focus provides partial insulation from housing lending margin pressure, though the segment still experienced 21 basis point margin compression in FY2024. Management's focus on relationship banking and sector specialization aims to strengthen this advantage while supporting higher-margin growth.

Productivity initiatives delivered \$453 million in benefits during FY2024, offsetting inflationary pressures. NAB targets additional savings exceeding \$400 million in FY2025 through streamlining processes, enhancing digital capabilities, and optimizing branches. These efforts are crucial for achieving positive operating leverage, with management guiding to FY2025 expense growth below 4.5%. The long-term goal is reducing the cost-to-income ratio to approximately 45.5% by FY2029, supporting improved profitability despite margin challenges.

6 Financial Forecasts

NAB FIVE-YEAR FINANCIAL FORECAST						
Key Metrics (\$m)	FY24A	FY25E	FY26E	FY27E	FY28E	FY29E
Income Statement						
Net Interest Income	16,757	17,331	17,940	18,655	19,312	19,890
Growth (%)	-0.3	+3.4	+3.5	+4.0	+3.5	+3.0
Other Income	3,889	3,975	4,092	4,240	4,388	4,520
Growth (%)	+1.2	+2.2	+2.9	+3.6	+3.5	+3.0
Net Operating Income	20,646	21,306	22,032	22,895	23,700	24,410
Growth (%)	-0.01	+3.2	+3.4	+3.9	+3.5	+3.0
Operating Expenses	10,026	10,427	10,677	10,997	11,327	11,667
Growth (%)	+6.9	+4.0	+2.4	+3.0	+3.0	+3.0
Cost-to-Income Ratio (%)	48.6	49.0	48.5	48.0	47.8	47.8
Credit Impairment Charge	741	785	765	745	725	705
Charge Rate (bps of GLAs)	10.0	10.3	9.7	9.0	8.4	7.9
Cash Earnings	7,102	7,263	7,588	7,998	8,351	8,637
Growth (%)	-8.1	+2.3	+4.5	+5.4	+4.4	+3.4
EPS (¢)	224.6	237.3	252.9	269.9	284.2	296.0
Growth (%)	-5.0	+5.7	+6.6	+6.7	+5.3	+4.2
Segment Cash Earnings						
Business & Private Banking	3,257	3,420	3,610	3,808	3,998	4,148
Growth (%)	0.0	+5.0	+5.6	+5.5	+5.0	+3.8
Personal Banking	1,174	1,198	1,246	1,302	1,367	1,422
Growth (%)	-19.6	+2.0	+4.0	+4.5	+5.0	+4.0
Corporate & Institutional	1,772	1,825	1,916	2,012	2,093	2,156
Growth (%)	-3.7	+3.0	+5.0	+5.0	+4.0	+3.0
New Zealand Banking	1,333	1,370	1,411	1,468	1,527	1,573
Growth (%)	-4.4	+2.8	+3.0	+4.0	+4.0	+3.0
Corporate Functions	(434)	(550)	(595)	(592)	(634)	(662)
Balance Sheet & Metrics						
Gross Loans & Acceptances (\$bn)	738.2	766.0	798.9	837.0	880.5	925.2
Growth (%)	+4.2	+3.8	+4.3	+4.8	+5.2	+5.1
Customer Deposits (\$bn)	612.8	640.3	672.0	707.5	743.7	782.5
Growth (%)	+4.3	+4.5	+4.9	+5.3	+5.1	+5.2
Loan-to-Deposit Ratio (%)	120.5	119.6	118.9	118.3	118.4	118.2
Net Interest Margin (%)	1.71	1.70	1.69	1.68	1.67	1.66
CET1 Ratio (%)	12.35	12.00	11.70	11.40	11.30	11.30
ROE (%)	11.6	11.8	12.1	12.3	12.5	12.5
Shareholder Returns						
Dividend per share (¢)	169	172	178	186	196	204
Growth (%)	-6.6	+1.8	+3.5	+4.5	+5.4	+4.1
Payout Ratio (%)	73.7	73.5	73.0	72.5	72.5	72.5
Dividend Yield (%)*	4.7	4.8	4.9	5.2	5.4	5.7

*Based on share price of \$36.00 as of reporting date

6.1 Forecast Assumptions & Inflection Points

Our financial forecasts reflect NAB's transformation journey through a challenging banking environment, with gradual improvement driven by business banking strength and ongoing productivity initiatives. We identify several key inflection points and assumptions that shape the five-year outlook:

1. **FY25 Earnings Stabilization:** After the 8.1% decline in FY24, cash earnings are projected to return to modest growth with a 2.3% increase in FY25 as volume growth and productivity benefits partially offset continued margin pressure and higher operating expenses. We assume the RBA cash rate begins to decline gradually from mid-2025, which will temporarily pressure margins but support loan growth.
2. **Accelerating Growth FY26-27:** The pace of earnings growth is forecast to improve to 4.5% in FY26 and 5.4% in FY27 as productivity initiatives deliver operating leverage, credit quality stabilizes, and business banking momentum continues to offset retail banking challenges. This assumes successful execution of NAB's \$400m+ annual productivity program and a stabilization of the housing market with modest price growth.
3. **Segment Contribution Divergence:** Business and Private Banking is projected to grow at 5-6% annually, increasing its contribution to group profits, while Personal Banking faces continued headwinds with more modest growth of 2-3% as competitive pressures persist in housing lending. We assume NAB maintains its 1 market share position in SME lending while accepting below-system growth in mortgages to protect margins.
4. **Progressive Margin Compression:** Net interest margin is forecast to experience modest but persistent compression from 1.71% in FY24 to 1.66% by FY29 as competitive pressures continue and RBA rate cuts from 2025 gradually reduce endowment income benefits. This assumes competition in deposit markets eases somewhat but remains elevated compared to historical norms.
5. **Capital Optimization:** The CET1 ratio is expected to gradually decline from 12.35% in FY24 to 11.30% by FY28 as excess capital is deployed for business growth and shareholder returns, while remaining comfortably within regulatory requirements and the bank's target operating range of 11.0-11.5%. This assumes no major regulatory changes to capital requirements during the forecast period.
6. **Return on Equity Improvement:** ROE is projected to recover gradually from 11.6% in FY24 to 12.5% by FY28, driven by the combination of earnings growth, controlled expense growth, and optimization of capital levels. While modest compared to historical standards, this improvement demonstrates NAB's ability to enhance returns despite structural industry challenges.
7. **Sustainable Dividend Growth:** Dividends are projected to increase from 169 cents per share in FY24 to 204 cents by FY29, representing a 3.8% CAGR and reflecting NAB's balanced approach to capital management. The dividend payout ratio is expected to remain within the target range of 70-75%, maintaining a sustainable balance between shareholder returns and capital reinvestment. We assume share buybacks continue but at a more moderate pace than the \$2.1bn in FY24.

Key Macroeconomic Assumptions:

- GDP growth stabilizing around 2.5-3.0% annually from FY26 onwards
- Unemployment rate remaining below 4.5% throughout the forecast period
- Property price growth moderating to 3-4% annually after FY25
- RBA cash rate declining to 3.25% by end of FY26 and stabilizing thereafter
- Business credit growth maintaining 5-6% annual growth, outpacing housing credit growth