

National Australia Bank (NAB AU)

FUNDAMENTAL VIEW ¹

As of 28 Mar 2025

- NAB is a leader in business banking, and has improved product and capability in mortgages and personal lending. It retreated from its overseas and insurance operations between 2014-17, to focus on its core business and consumer banking franchises in Australia and New Zealand.
- Andrew Irvine, who previously ran Business & Private Banking for a few years, took over as the new CEO in Apr-24.
- Capital is strong, and liquidity comfortable; its 90+ DPD mortgage ratio has been steadily worsening but provisions are strong.

RISKS & CATALYSTS

As of 28 Mar 2025

- Being the leading business bank in Australia, NAB is exposed to the health of Australia's middle market companies. High interest rates have started affected business lending asset quality, and NAB's mortgage book 90+ DPD (1.08% at Sep-24) is the worst amongst the majors. However, FY24 collective provisions / credit RWAs were strong at 1.47%.
- Competition has intensified in the business banking segment, particularly from CBA; as the largest player NAB has more to lose.
- NAB and CBA took mortgage market share from Westpac and ANZ when the latter two had operational issues processing mortgage applications during COVID-19; we expect it to maintain its market share.

CREDIT QUALITY SCORE (CQS) ²

As of 07 May 2025

CURRENT CQS

63

CQS OUTLOOK ³

NEGATIVE

STABLE

POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR) ⁴ VS CQS



KEY METRICS

As of 28 Mar 2025

AUD MN	Y20	Y21	Y22	Y23	Y24
Return on Equity	6.4%	10.6%	11.7%	12.9%	11.6%
Total Revenues Margin	2.0%	1.9%	1.8%	2.0%	1.9%
Cost/Income	44.7%	46.5%	45.2%	43.7%	46.6%
APRA CET1 Ratio	11.5%	13.0%	11.5%	12.2%	12.4%
International CET1 Ratio	15.8%	18.0%	16.9%	17.8%	18.1%
APRA Leverage Ratio	5.8%	5.8%	5.1%	5.2%	5.1%
Impairment Charge/Avg Loans	0.5%	(0.0%)	0.0%	0.1%	0.1%
Gross Impaired Loans/Gross Loans	0.3%	0.2%	0.2%	0.2%	0.2%
Liquidity Coverage Ratio	139%	122%	131%	140%	137%
Net Stable Funding Ratio	127%	123%	119%	116%	117%

BUSINESS DESCRIPTION

As of 28 Mar 2025

- NAB's business banking unit has for long been strong in the Australian middle market. Institutional banking and markets are important but the group's push into global capital markets activities led to losses on higher risk positions during the 2008 crisis and a winding back of some of its wholesale markets business.
- Following the sale of Great Western Bank and the UK spin-off of Clydesdale and Yorkshire Banks in 2016, NAB is focused on its core business in Australia and New Zealand where it owns Bank of New Zealand.
- It sold to Nippon Life 80% of its insurance business in 2015 (this was de-consolidated in FY2016) followed by the remaining 20% in Dec-24, and its asset and wealth management unit, MLC Wealth, in Aug-20.
- In Australia, NAB has a market share of ~21% of business lending and ~14% for housing loans. Its area of strength is middle-market commercial lending where it has a 27% market share of SME lending, and credit cards, where it has a ~27% marketshare as a result of acquiring Citi's Australian retail business in 2022.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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