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ASX Announcement

NAB announces items impacting 2H20 results and change in Wealth reporting

National Australia Bank Ltd (NAB) today announced that second half 2020 (2H20) earnings will be reduced by the following key items:

- a net increase in provisions for customer-related remediation matters of $380 million before tax ($266 million after tax), of which:
  - $245 million before tax ($172 million after tax) is for Wealth-related matters (now included in Discontinued Operations); and
  - $135 million before tax ($94 million after tax) is for Banking-related matters (included in Cash earnings);
- a net increase in payroll remediation provisions of $128 million before tax ($90 million after tax); and
- an impairment of property-related assets of $134 million before tax ($94 million after tax).

The above provisions and impairment are expected to reduce the Group's Common Equity Tier 1 capital (CET1) ratio by approximately 15 basis points.

Appendix 1 provides further disclosure of the expected impact of these items on 2H20 earnings.

NAB today also announced a change in Wealth reporting:

As a result of the agreed sale of 100% of MLC Wealth to IOOF Holdings Limited (IOOF) announced on 31 August, all earnings associated with MLC Wealth will transfer to Discontinued Operations from 2H20. The completion of the sale remains subject to certain conditions, including regulatory approvals. Appendix 2 provides restated historical financial information reflecting this change, combined with the impact of the sale on 2H20 earnings and capital.

Further detail will be provided when NAB releases its 2020 Full Year results on 5 November 2020. This will include the outcome of a review of expected credit losses and associated impacts on provisions.

The matters in this announcement remain subject to finalisation of NAB's 2020 Full Year results, including review by the auditors and final Board approvals.

Customer-related remediation

NAB's 2H20 earnings are expected to include charges of $380 million before tax ($266 million after tax) for customer-related remediation.

Approximately 65% of the expected 2H20 earnings charges are for Wealth-related matters (now included in Discontinued Operations following the agreed sale of MLC Wealth to IOOF) and 35% for Banking-related matters (included in Cash earnings).

Earnings impact of Customer-related remediation	**$ million (before tax)**	**$ million (after tax)**
Continuing operations (cash earnings)	(135)	(94)
Discontinued operations	(245)	(172)
Total provisions impacting 2H20 results	**(380)**	**(266)**

The 2H20 Banking-related charges of $135 million before tax ($94 million after tax) mainly reflect additional costs associated with executing the remediation programs for both existing and new matters.

The net increase in 2H20 Wealth-related provisions primarily relates to existing matters, with the key drivers including:

- Non-compliant advice provided to Wealth customers. Provisions have been increased mainly to cover higher expected costs associated with executing the program;
- Adviser service fees charged by NAB Financial Planning (salaried advisers). With the near completion of this remediation program, provisions have been increased primarily to reflect higher assumed interest costs based on experience to-date. The assumed refund rate remains unchanged at 40%, which now equates to 66% after interest costs, increased from 56% after interest costs as at 31 March 2020. There has also been an increase in expected costs associated with executing and closing this program;
- Other matters. A general increase in provisions across a range of items including a higher allowance for ongoing liabilities associated with the existing Wealth remediation program part of which NAB retains responsibility for following the agreed sale of MLC Wealth to IOOF; and
- A reassessment of customer-related remediation provisions associated with MLC Life resulting in a release.

Until all customer payments have been completed, the final cost of customer-related remediation matters remains uncertain.

Payroll remediation

In December 2019 NAB announced an investigation into payments to both current and former Australian colleagues. The review has identified a range of potential payroll under and over payments issues. NAB will be remediating under payments dating back to 1 October 2012, expected to result in new provisions of $128 million before tax in 2H20, comprising expected compensation costs of $110 million and costs to execute the remediation program of $18 million.

Earnings impact of Payroll remediation	$ million (before tax)	$ million (after tax)
Continuing operations (cash earnings)	(108)	(76)
Discontinued operations	(20)	(14)
Total provisions impacting 2H20 results	**(128)**	**(90)**

Impairment of property-related assets

NAB's 2H20 earnings are expected to include charges of $134 million before tax ($94 million after tax) for impairment of property-related assets. This primarily relates to plans to consolidate NAB's Melbourne office space with more colleagues expected to adopt a flexible and hybrid approach to working over the longer term. This is expected to include a mix of working remotely and in offices for the purposes of collaboration, planning and creating the right culture.

Earnings impact of Impairment of property-related assets	$ million (before tax)	$ million (after tax)
Continuing operations (cash earnings)	(134)	(94)
Total charges impacting 2H20 results	**(134)**	**(94)**

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The release of this announcement was authorised by the Board of Directors.

Appendix 1

2H20 Earnings Impacts

Details of the expected 2H20 earnings impacts outlined in this announcement are provided in the following table. All items highlighted below will be identified as 'large notable items' and excluded from analysis of Cash earnings, consistent with prior periods.

2H20 earnings impact of customer-related and payroll remediation, and impairment of property-related assets

$m	Customer-related remediation	Payroll remediation	Impairment of property-related assets	Total impact
Net interest income	(27)			(27)
Other operating income	(22)			(22)
Net operating income	**(49)**			**(49)**
Operating expenses	(86)	(108)	(134)	(328)
Cash earnings before tax	**(135)**	**(108)**	**(134)**	**(377)**
Income tax expense	41	32	40	113
Cash earnings	**(94)**	**(76)**	**(94)**	**(264)**
Non cash earnings after tax				
Net profit from continuing operations	**(94)**	**(76)**	**(94)**	**(264)**
Discontinued operations after tax	(172)	(14)		(186)
Net profit attributable to owners of NAB	**(266)**	**(90)**	**(94)**	**(450)**

Appendix 2

Impact of MLC Wealth sale and change in Wealth reporting

On 31 August 2020, NAB announced an agreement to sell 100% of MLC Wealth to IOOF for a purchase price of $1,440 million. As a result, all earnings associated with MLC Wealth will transfer from Continuing to Discontinued Operations, with historical financials restated to reflect this change.

The Wealth earnings items transferring to Discontinued Operations are:

- MLC Wealth divisional earnings previously included as Continuing Operations cash earnings;
- Large notable items relating to MLC Wealth, previously included as Continuing Operations cash earnings in the Corporate Functions & Other division;
- Other MLC Wealth related expenses previously included as Continuing Operations cash earnings in the Corporate Functions & Other division;
- MLC Wealth divestment separation costs previously included as Continuing Operations non cash earnings in the Corporate Functions & Other division;
- MLC Wealth related fair value and hedge ineffectiveness previously included as Continuing Operations non cash earnings; and
- MLC Wealth related amortisation and impairment of acquired intangible assets previously included as Continuing Operations non cash earnings.

The impacts of this restatement on historic Continuing Operations earnings are outlined in the following table.

$m	1H20	FY19
Net interest income		
Other operating income	(384)	(853)
Net operating income	**(384)**	**(853)**
Operating expenses	326	629
Cash earnings before tax	**(58)**	**(224)**
Income tax expense	16	61
MLC Wealth divisional cash earnings	**(42)**	**(163)**
Other Wealth related expenses post tax	46	7
Wealth related large notable items post tax	276	912
Continuing cash earnings after tax	**280**	**756**
Non cash earnings items after tax:		
- Fair value and hedge ineffectiveness	17	(1)
- Amortisation and impairment of acquired intangible assets	(1)	11
- MLC Wealth separation costs	37	52
Net profit from Continuing operations	**333**	**818**
Net profit / (loss) after tax from Discontinued operations	(333)	(818)
Net profit attributable to owners of NAB	**0**	**0**

The agreed sale will result in NAB's 2H20 Discontinued Operations earnings being impacted by a $200 million post tax provision for estimated transaction and separation costs and a $199 million post tax reduction in the carrying value of this business. This is consistent with the previously announced expected post tax loss on sale of approximately $400 million including estimated separation costs.[1]

[1] Based on carrying value of MLC of $1,862 million as at 30 June 2020. The final loss on sale will be determined at completion and will be impacted by separation and transaction costs, net assets at completion and other accounting adjustments.

The provision for MLC Wealth estimated transaction and separation costs of $200 million after tax is expected to reduce the Group's CET1 ratio by approximately 7 basis points. The $199 million reduction in the carrying value of MLC Wealth has no impact on Group capital given this investment is already fully deducted from Group CET1 capital.