

Monday, 20 April 2026

ASX ANNOUNCEMENT

NAB strengthens balance sheet, announces impacts on 1H26 earnings

In light of the volatility in markets following the conflict in the Middle East, National Australia Bank (NAB) has reviewed its credit provisioning and capital settings to better reflect the risks now inherent in our business. As a result, NAB has made adjustments to settings as at 31 March 2026 including an increase in forward looking collective provisions and the expected application of a discount and partial underwrite in respect of the 1H26 dividend reinvestment plan (DRP).

NAB has also made changes to the Group's software capitalisation policy to more closely align to an environment of rapid technological change.

These actions and their impacts on earnings are detailed below.

Increase in forward looking collective provisions

NAB's 1H26 credit impairment charges are expected to be \$706 million. This includes \$300 million related to the following movements in forward looking collective provisions:

- \$152 million increase in the Economic Adjustment reflecting updates to the Base economic forecast and a 2.5% increase in the weighting to the Australian Downside economic scenario to 45%;
- \$201 million increase in Forward Looking Adjustments (FLAs) for potential stress which may emerge in sectors more likely to be impacted by fuel supply and cost issues related to the Middle East conflict¹; and
- \$53 million release in FLAs where the expected risk has either not eventuated or is now reflected in underlying provisioning.

The ratio of collective provisions to credit risk weighted assets is expected to be 1.35% at March 2026 (up from 1.31% at December 2025).

¹ New sector overlays for Agriculture, Transport & Storage and Manufacturing. Increased overlays for Construction and Commercial Real Estate

Underlying provision charges are expected to be \$406 million. This reflects Individual Assessed provision charges of \$541 million, partially offset by portfolio movements which have driven a \$135m write-back of the underlying Collective provision.

\$ million	2H25	1H26
Individually assessed charges	574	541
Underlying collective charges / (write-back)	0	(135)
Total underlying charges	574	406
Net increase / write-back of forward looking collective provisions	(89)	300
Total credit impairment charge	485	706

Capital management

Interest rate volatility and a weakening of the New Zealand Dollar (NZD) in the second quarter, together with the \$300 million net increase in forward looking collective provisions, has reduced the Group's Common Equity Tier 1 (CET1) ratio at 31 March 2026 by approximately 20 bps².

NAB's credit risk-weighted assets at 31 March 2026 were also impacted by a \$4.2 billion overlay which applied to NAB's internally rated (A-IRB) credit models to reflect updates to certain Probability of Default models. As a result of this overlay, together with other movements in risk weighted assets, there is no adjustment for the standardised floor at 31 March 2026.

Given the above impacts and the ongoing uncertainty, NAB is taking action to strengthen the capital position and balance sheet resilience. NAB expects to apply a 1.5% discount to the 1H26 DRP and partially underwrite the DRP³. The combination of these actions is expected to raise up to \$1.8 billion and contribute up to approximately 40 bps to the Group's CET1 ratio in 2H26.

NAB currently expects to report a pro forma Group CET1 ratio at 31 March 2026 of greater than 12.0% including the benefit of the discounted and partially underwritten DRP.

Change in software capitalisation policy

The following changes were made to the Group's software capitalisation policy from the period ended 31 March 2026:

- a reduction in the useful life of capitalised software assets;
- a change in the nature of assets capitalised; and
- an increase in the threshold at which software is to be capitalised from \$5 million to \$20 million to align to peer practice. This will see a higher proportion of investment spend being expensed from 2H26.

² Depreciation of the NZD has impacted both RWA and reserves and higher rates has contributed to higher IRRBB risk-weighted assets

³ The application of a discount to the 1H26 DRP and any underwrite is subject to Board approval

These changes are expected to better align the Group's accounting policies with a rapidly evolving technology environment while also introducing greater management discipline.

NAB's 1H26 results will include an accelerated amortisation charge of \$1,347 million pre-tax (\$949 million after tax). This will be reported as a Large Notable Item in 1H26. This includes assets where the accelerated amortisation charge resulted in these assets being fully written off.

There is no impact on the Group's CET1 capital ratio given capitalised software balances are already deducted from Group CET1 capital.

2H26 considerations

The changes in software capitalisation policy are expected to result in higher operating expenses in 2H26 as described below. The actual impact will be subject to the amount and nature of the spend in 2H26.

Operating expense driver	2H26 considerations
Higher proportion of investment spend expensed as a result of increase in threshold to \$20 million	Currently expect annual investment spend of approximately \$1.8 billion⁴ with investment spend typically skewed to second half. For example, in FY25, 57% of investment spend was incurred in 2H25. Approximately 50% of 2H26 investment spend is expected to be expensed. This compares to an average of 38% in FY24 and FY25.
Amortisation expense	The capitalised software balance as at 31 March 2026 will be reduced by the accelerated amortisation charge of \$1,347 million. This will result in lower amortisation charges in 2H26. The assets remaining on balance sheet as at 31 March 2026 will be subject to accelerated amortisation over a shorter average useful life, resulting in an increase in amortisation charges in 2H26. These impacts on amortisation expense are expected to broadly offset each other.

NAB confirms its previously announced guidance for FY26 cash operating expense growth to be less than 4.6%⁴. This guidance excludes the impact of Large Notable Items but includes the impact of the changes in software capitalisation policy on 2H26 operating expenses as described above.

⁴ This announcement contains forward-looking statements. Forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of NAB, which may cause actual results to differ materially from those expressed or implied in such statements. Readers are cautioned to not place undue reliance on such forward-looking statements.

Impact on earnings of NZ dollar depreciation in 1H26

Foreign currency translation from the depreciation in the NZD average exchange rate resulted in an \$81 million decline in 1H26 Net Operating Income (net of gains realised on associated hedges). This was partially offset by a benefit to Operating Expenses.

Release of 1H26 results

The matters in this announcement remain subject to finalisation of NAB's 2026 Half Year results which are scheduled to be announced on Monday 4 May 2026. This includes review by the auditors and Board approval of NAB's dividend settings.

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Approved for distribution by Board.