



# ACQUISITION OF CITIGROUP'S AUSTRALIAN CONSUMER BUSINESS

## INVESTOR PRESENTATION

9 August 2021

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# ACQUISITION OF CITIGROUP'S AUSTRALIAN CONSUMER BUSINESS

- NAB has agreed to acquire the assets and liabilities of Citigroup's Australian consumer business (the Target Business)
- Supports NAB's strategic ambition to build a leading personal bank with a simpler, more digital customer experience
- The business to be acquired is aligned to our core personal banking proposition with 1.4m customers, \$7.9bn of home loans, \$4.3bn of unsecured lending receivables and \$9.0bn of deposits
- Total purchase consideration to be based on net assets at completion plus a premium of \$250m
  - Equity required for NAB of \$1.2bn based on incremental RWA<sup>1</sup> and premium
  - Estimated CET1 impact of 32bps on completion. Proforma CET1 as at 31 March 2021 of 11.83%<sup>2</sup> remains above our target CET1 of 10.75% - 11.25%
  - Estimated \$220m capital to be released (~5bps) upon achieving A-IRB status (approx. 3 years post completion)
- Estimated pre-tax acquisition and integration costs of \$375m, with the majority to be incurred in FY22 and FY23
- Attractive valuation
  - Target Business underlying earnings of ~\$330m and cash NPAT of ~\$145m for the year to June 2021<sup>3</sup>
  - Represents 8x pro forma NPAT of the Target Business
  - Expected to be marginally Cash EPS and Cash ROE accretive from completion
  - Targeting pre-tax cost synergies of ~\$130m p.a. within 3 years
- Subject to regulatory approvals, including APRA, ACCC and Treasurer, targeting completion by March 2022

1. Estimated RWA impact of \$8.9 billion includes CRWA based on loan balances as at 30 June 2021

2. Based on the pro forma CET1 of 12.15% provided with the announcement of the \$2.5 billion on-market buy-back on 30 July 2021 less the impact of the Proposed Acquisition (-0.32%)

3. Pro forma financial impact of Target Business based on estimated income and operating expenses for Target Business. Assumes credit impairment charges of ~2.7% on unsecured lending portfolio, consistent with average charges observed on NAB unsecured lending portfolio from 2008 to 2020

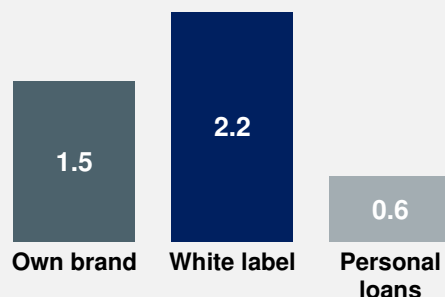
# OVERVIEW OF CITIGROUP'S AUSTRALIAN CONSUMER BUSINESS TO BE ACQUIRED

*A comprehensive set of consumer products targeting quality affluent customers*

## UNSECURED LENDING

- ✓ Leading white label provider to blue chip corporate clients in the airline, retail and financial sectors
- ✓ Strong digitally enabled capability
- ✓ CRWA of \$4.4 billion<sup>1</sup>
- ✓ ~1.0 million customers with a tilt to premium

Net balances by product<sup>2</sup> (\$bn)

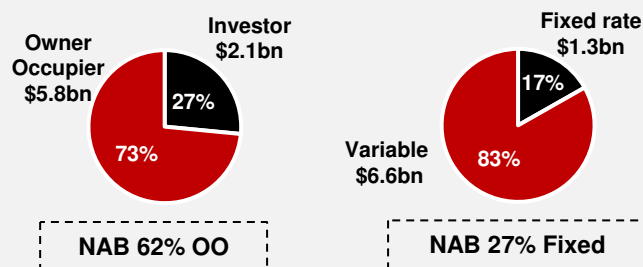


Accounts (000's)	244	848	68
Net Credit Losses (% of Avg. Receivables)	1.9%	1.5%	2.6%

## MORTGAGES

- ✓ Total balances \$7.9 billion (net of provisions)
- ✓ CRWA of \$2.9 billion<sup>1</sup>
- ✓ Low risk portfolio
- ✓ Weighted-average LVR of 60%<sup>3</sup>
- ✓ Largely mass-affluent customer base

Home loan book composition<sup>3</sup> (%)

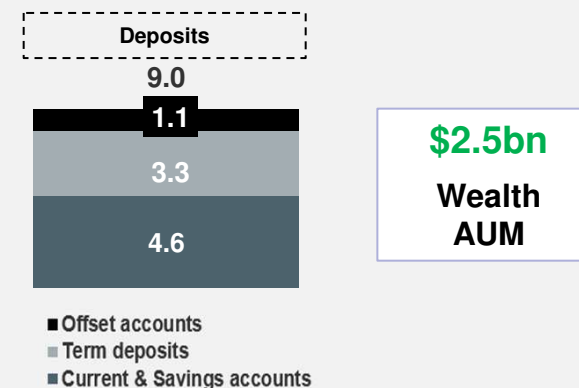


Accounts (000's)	30
Average Balance (\$000's)	~267
Net Credit Losses (% of Avg. Receivables)	0.01%

## DEPOSITS / WEALTH

- ✓ Long tenured client base
- ✓ Integration opportunities with NAB Personal Bank and NAB Private Bank

Net balances by product<sup>2</sup> (\$bn)



Customers (000's)	410
Average Balance (\$000's)	~22
Wealth Clients (000's)	~4

1. Based on standardised risk weights for unsecured lending balances (104%) and mortgages (37%)  
 2. Balances as at 30 June 2021  
 3. As at 31 March 2021

# UNSECURED LENDING IS CORE TO OUR PERSONAL BANKING STRATEGY

## PERSONAL BANKING STRATEGY

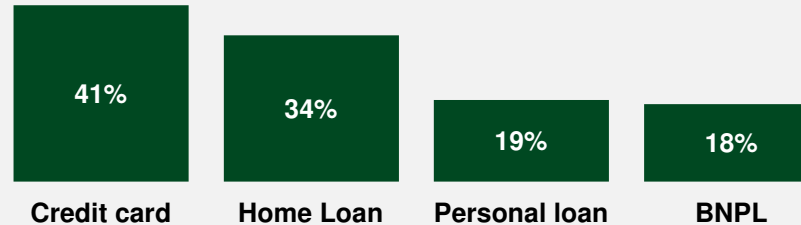
*Simple & digital*

- Flexible and professional bankers – able to serve customers whenever, wherever and through any channel they choose
- **Deliver a simple and digital everyday banking experience, including unsecured lending**
- Deliver Australia's simplest home loan

## Credit cards are an important product for our customers

- While total balances have declined in recent years, **credit cards remain an important product** facilitating customers' short-term cashflow needs

Type of debt currently held by customers<sup>1</sup>

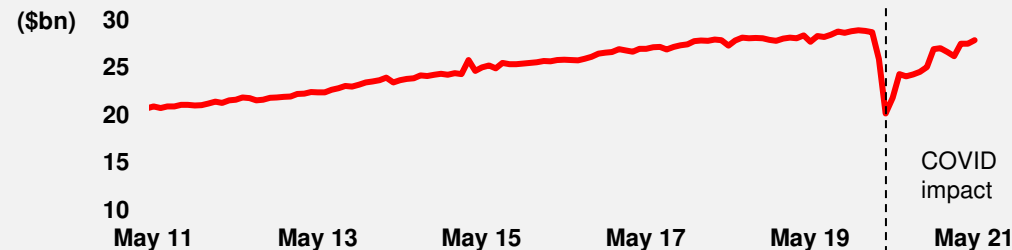


**\$39bn**  
Credit card balances<sup>2</sup>

**>16m**  
Credit cards on issue<sup>2</sup>

- **Payments are more frequent**; credit cards remain material as a share of total payments
  - Credit cards are used for payments ~6x per week / ~265m transactions per month
  - Monthly spend almost at pre-COVID levels – potential upside when international travel resumes

Monthly value of credit card transactions in Australia<sup>2</sup>



**~\$27bn per month**  
Credit card transactions<sup>2</sup>

**>40%**  
Credit cards as a % of total card payments<sup>2</sup>

- **Deepens customer relationships** and improves Personal Banking share of wallet
  - CC / PL customers 1.8x more likely to take out a home loan vs transactional customers
- **Transaction data will be key to product and service innovation** in personal banking. Innovation supports customer acquisition and retention

1. Q1 2021 NAB Consumer Insight Report – Buy Now Pay Later. % of customers with each type of debt based on survey responses from a representative sample of >2,000 Australian customers

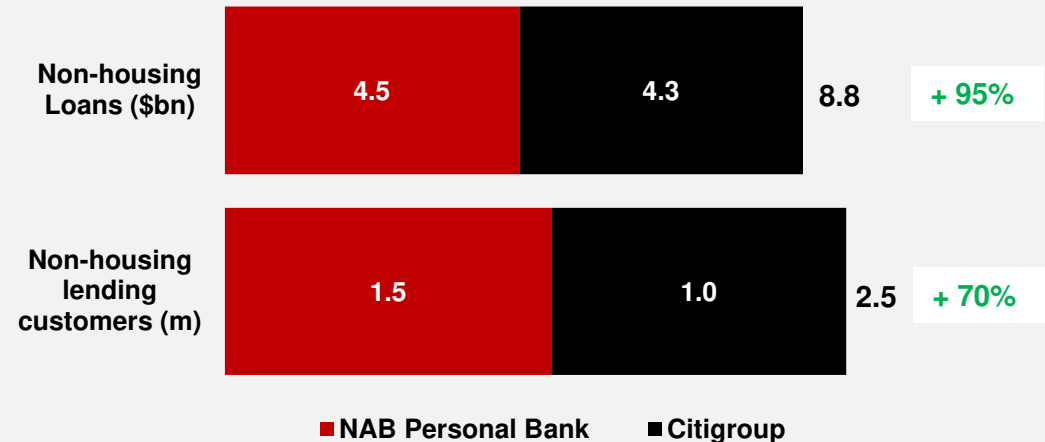
2. Source: RBA

# SCALE AND ACCESS TO CAPABILITY WILL ACCELERATE OUR AMBITION

## Increased scale will support innovation in an evolving unsecured lending and payments market

- Increased access to **transactional data** with ~1.0 million additional unsecured lending customers
- Scale supports **investment in new technology** to
  - deliver market leading digital capabilities; and
  - drive product innovation to deliver market leading customer experiences and adapt to changing customer preferences
- Combined business to be the **2<sup>nd</sup> largest credit card provider** in Australia based on outstanding balances

Incremental scale to NAB Personal Bank (Jun 21)



## Citigroup management expertise will help drive improved outcomes across the combined unsecured lending business



*Experienced consumer banking management team with ~10 year average tenure at Citigroup*



*White label partnerships and product management experience*



*Experience in campaign modelling and advanced analytics – improves customer acquisition and retention*



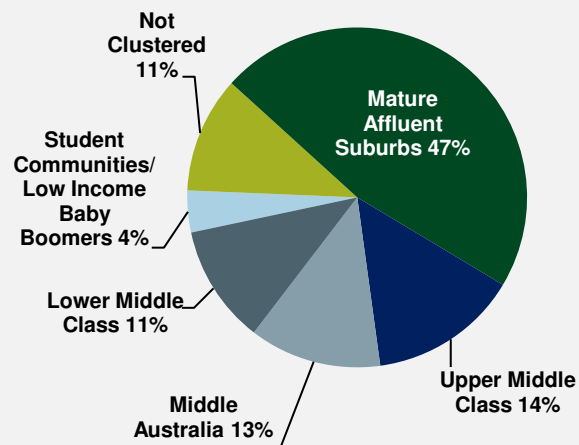
*Track record of product innovation including development of digital BNPL offering in Australia*

# INCREMENTAL SCALE IN MORTGAGES AND DEPOSITS

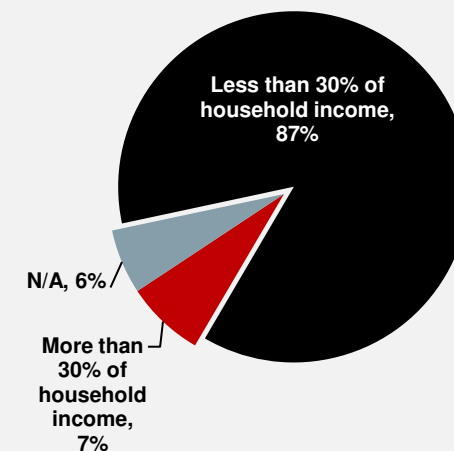
Migration of Citigroup mortgage and deposit portfolios delivers over 400k customers...

- High quality, low risk mortgage book with skew to more affluent borrowers
- Increase in deposits across a range of products
- Opportunity to offer NAB products to Citigroup Consumer Business customers

Mortgage customer demographics

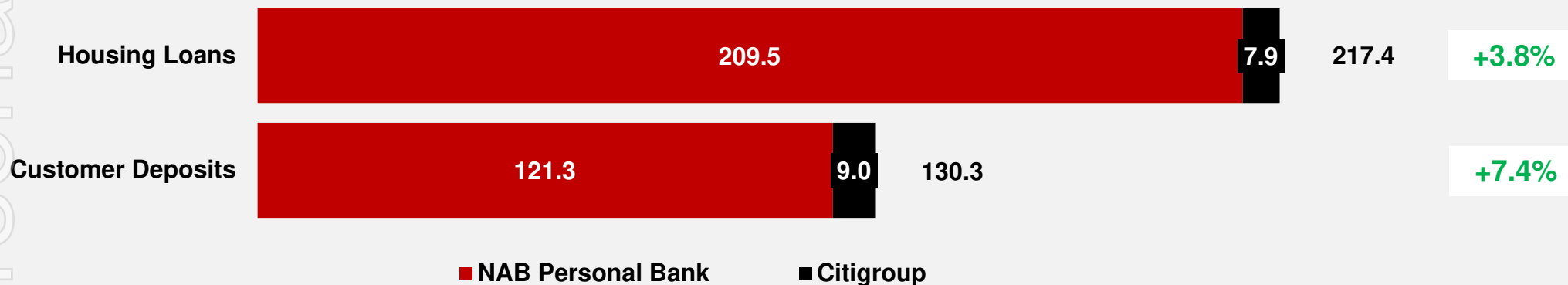


Mortgage repayment profile



...adding incremental scale to NAB Personal Banking

Jun 21 (\$bn)



# SIGNIFICANT SYNERGY BENEFITS

## PRE TAX SYNERGIES AND INTEGRATION COSTS

- Total pre-tax annual cost synergies of ~\$130 million p.a. to be achieved over three years
- Representing ~30% of Citigroup's stand alone cost base<sup>1</sup>
- Majority of savings driven by combining our unsecured lending businesses
- Additional synergy benefits include potential revenue upside from expanding white label relationships and distribution of NAB products to Citigroup Consumer Business customers
- Estimated pre-tax acquisition costs of \$20 million plus integration costs of \$355 million with majority incurred in FY22 and FY23<sup>3</sup>
- Integration costs include \$165 million to be incurred in FY22 and FY23 to build new unsecured lending platform for combined business
  - Amortisation of capitalised costs for new platform build expected to be recognised over 5 years (through cash opex)
- Other integration costs recognised through non-cash earnings as incurred

## Sources of cost synergies

*Technology systems<sup>2</sup>*

*Group infrastructure<sup>2</sup>*

*Support functions*

*Vendor contracts*

*Property rationalisation*

## ...with potential revenue upside

*Deepen customer and white label relationships*

1. Based on estimated cost base of \$410m for the year to June 2021

2. Transaction structured as asset and liability transfer. NAB will not be acquiring all of the technology or platform that currently services the Target Business

3. Assumes targeted completion date of 31 March 2022, subject to regulatory approvals

# FINANCIAL IMPLICATIONS

## Financial considerations - Pro forma impact on cash profits<sup>1</sup>

- ✓ Pro forma financial impact assumes Target Business underlying earnings of ~\$330 million and cash NPAT of ~\$145 million for the year to June 2021<sup>2</sup>
- ✓ Key considerations for future revenue impact (post completion)
  - mortgage balances expected to decline over time (partly offset by customers retained through refinancing);
  - short term outlook for card balances to reflect ongoing COVID conditions (elevated repayment rates);
  - detailed integration planning and management action to mitigate potential customer loss
- ✓ Total pre-tax annual cost synergies of ~\$130 million p.a. expected to more than offset the impact of revenue decline in the mortgage book
- ✓ Impact of acquisition on Group cash opex target to be confirmed at 1H22 – Target Business pro forma cash opex of ~\$410 million on a pre-synergies basis. Impact on forecast group cash opex subject to finalisation of TSAs with Citigroup and more detailed integration planning

## Key metrics

- ✓ **8x pro forma Target Business NPAT** based on upfront **equity required of \$1.2 billion**
- ✓ **1.25x Price to book** based on pro forma capital structure under NAB ownership
- ✓ CET1 impact on completion of **32bps** with ~\$220 million of capital (~5bps) released from achieving A-IRB status (approx. 3 years post completion)
- ✓ Expected to be marginally **Cash EPS and Cash ROE accretive** from completion<sup>3</sup>
- ✓ Targeting pre-tax **cost synergies of ~\$130m p.a.**

1. Pro forma financial impact of Target Business based on estimated income and operating expenses for Target Business

2. Assumes credit impairment charges of ~2.7% on unsecured lending portfolio, consistent with average charges observed on NAB unsecured lending portfolio from 2008 to 2020

3. Assumes targeted completion date of 31 March 2022, subject to regulatory approvals



## APPENDICES

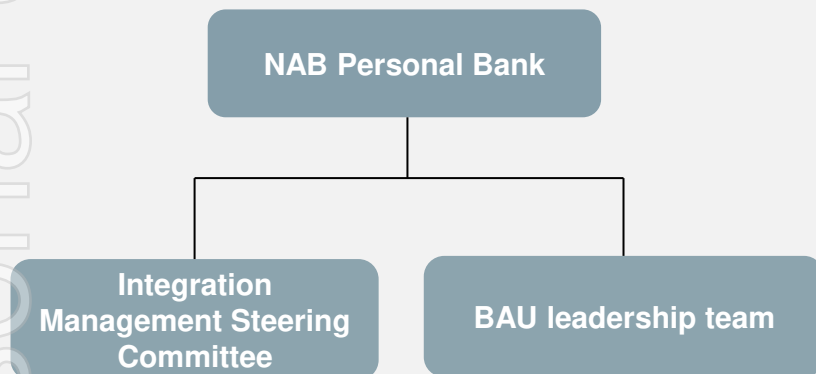
- **INTEGRATION STRATEGY**
- **KEY TRANSACTION TERMS**
- **CARDS ASSET QUALITY**

# INTEGRATION MANAGED BY SPECIALIST TEAM TO MINIMISE DISTRACTION

## High level integration phasing



## Focused execution, minimising distractions: Integration management runs integration and BAU runs BAU



- ✓ **Dedicated NAB Integration streams and Integration Management Office** to support multi-year program of platform build and delivery of migration and integration
- ✓ **Integration managed by a team with expertise** in delivering large scale separation and integration programs
- ✓ **Ongoing close collaboration with Citigroup** to deliver joint outcomes
- ✓ **Active communications and continued focus on** our customers, partners and colleagues to minimise impact on business

# KEY TRANSACTION TERMS

Key Areas of Focus	Commentary
Transaction Perimeter	<ul style="list-style-type: none"> <li>The transaction is being structured as an asset and liability transfer, with NAB acquiring Citigroup's Australian consumer banking business comprising unsecured lending, mortgages, deposits, BNPL and wealth, the dedicated employees and associated contracts and assets<sup>1</sup></li> </ul>
Conditions Precedent	<ul style="list-style-type: none"> <li>Completion is subject to certain conditions including approvals from APRA, ACCC and the Treasurer</li> </ul>
Transitional Services	<ul style="list-style-type: none"> <li>As part of the transaction, NAB will enter a Transitional Services Arrangement (TSA) with Citigroup. The TSA is expected to be in place for approximately 30 months</li> <li>Ultimately end-state is to migrate the Target Business portfolios onto NAB's infrastructure over time</li> </ul>
Employees & Technology	<ul style="list-style-type: none"> <li>The Australian employees that currently operate the Target Business are included within the perimeter of the transaction. Senior management and approximately 800 colleagues in total are expected to join NAB from Citigroup on completion</li> <li>NAB will not be acquiring all of the technology or platform that currently services the Target Business</li> </ul>
Liability Regime	<ul style="list-style-type: none"> <li>Broadly, liabilities relating to pre-completion conduct to remain with Citigroup<sup>2</sup></li> <li>Customary warranty and indemnity regime, including indemnity protection for some specific regulatory and conduct matters. The indemnities and warranties are subject to various limitations and qualifications</li> </ul>
Other	<ul style="list-style-type: none"> <li>Consideration will be subject to standard closing account adjustments for balance sheet movement (including appropriate provisioning levels)</li> <li>NAB will enter discussions with white label partners and there is no certainty that all white label partners will transition to NAB</li> </ul>

1. As part of the transaction, NAB has also agreed to acquire the shares in Diners Club Pty Limited, subject to certain additional conditions

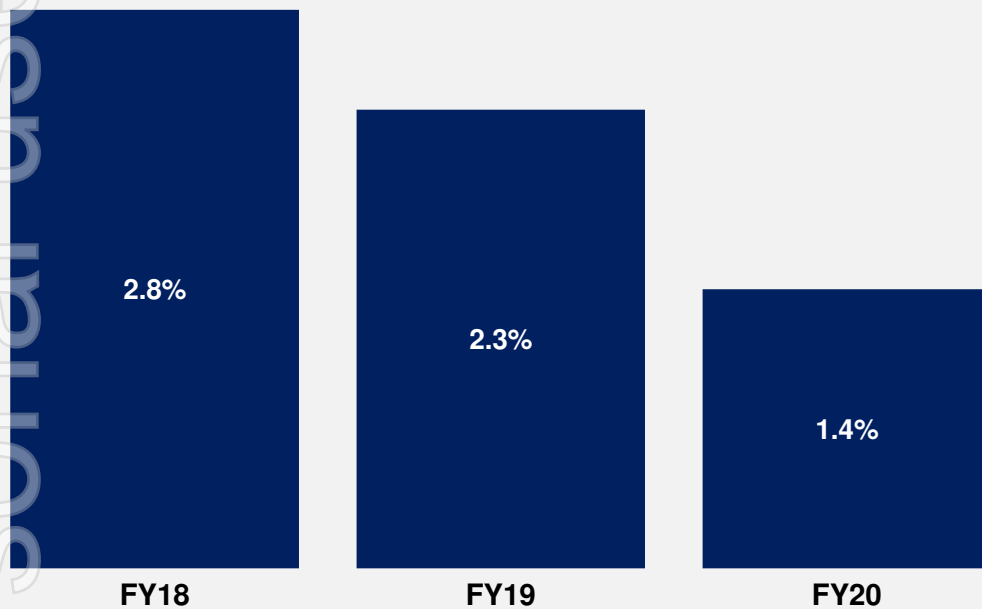
2. Pre-completion liabilities to remain with Citigroup include liabilities that arise from wrongful conduct in the period prior to Completion, such as breach of law and breach of contract

# CARDS ASSET QUALITY

## KEY COMMENTS

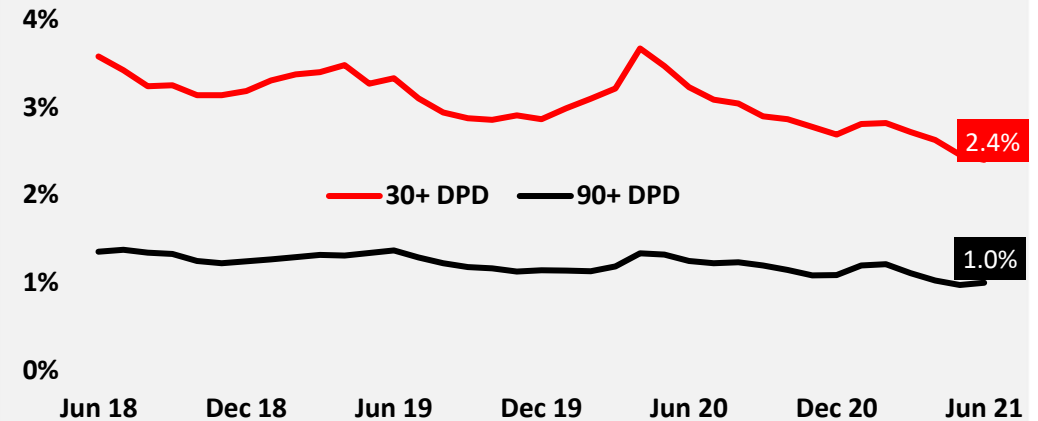
- Arrears low and on a downward trend post COVID-19 related spike in early 2020
- White label portfolio tends to perform better than Citigroup portfolio

## CREDIT COSTS<sup>1</sup>

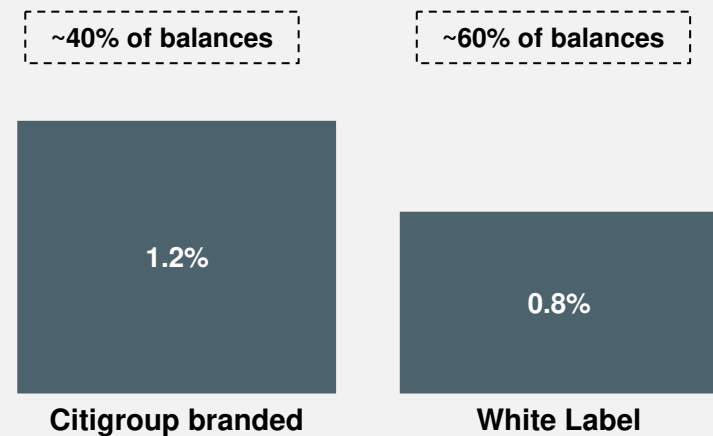


<sup>1</sup>. Represents Citigroup Cards' equivalent of credit impairment charges for financial years to December

## ARREARS



## 90+ DPD – BY BRAND



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