



Thursday, 5 November 2020

TRANSCRIPT OF MEDIA TELECONFERENCE

NAB 2020 Full Year Results – NAB Group CEO Ross McEwan

E & O E – PROOF ONLY

ROSS McEWAN: Thanks for joining us this morning. 2020 has clearly been a difficult year for many people. Those who have lost loved ones or experienced health problems. Those who have lost income – through their business or losing their jobs; and those who have, or remain, separated from friends and family. For the first time in a generation, Australia has found itself in a recession.

The challenges of the operating environment are evident in today's result from NAB. Cash earnings declined in the year. This reflects forward looking provisions for expected deterioration in asset quality, revenue headwinds from low interest rates; and subdued credit demand. The final dividend of 30 cents per share – and total dividend for the year of 60 cents per share – reflects these results and is consistent with APRA's dividend guidance.

As I've said previously, our shareholders are hurting and we need to share that pain. That's why we decided NAB senior executives would not receive any annual variable reward this year. I've also taken 20% less in fixed pay for this half.

We've also been very focused on keeping the bank safe and secure. We took decisive action in April to build balance sheet strength, by raising capital and increasing provisioning coverage. As a result, today we are in a strong position that allows us to keep lending and supporting customers.

While the outlook remains uncertain, I am optimistic for Australia and New Zealand. Notwithstanding our challenges, we have fared better than most in both health and economic terms. There is certainly nowhere else in the world I would prefer to be right now.

Economic activity will continue to improve with the benefit of the budget measures and the re-opening of business. We do need to shift from support to stimulus, for a sustainable recovery, and the response of government has been critical.

NAB also has a significant role in helping our customers and the economy. Since the start of COVID-19, we have extended substantial support to customers including loan deferral of their repayments, reduced repayments and fee waivers.

The total balance of deferred loans reached \$60 billion. At late October, that was down to \$19 billion. 90% of customers who have exited deferrals have, or are expected to, resume repayments. Some customers do need further support and we are working with every customer individually to get the best outcome for them.

Australia has become a multi-faceted economy, with impacts of COVID-19 varying across sectors and locations. Many sectors, such as agriculture, have proven resilient. There are also businesses that have – or are finding – opportunity to grow. Suburban cafes and shops have benefitted from more people working from home and spending locally.

Businesses will lead our economic recovery. As Australia and New Zealand's biggest business bank we are well positioned to back them. And we are lending at historically low rates as you saw with the announcements yesterday. BBSW-linked business lending rates are 90 basis points lower than 12 months ago, and that puts \$700 million in cost savings back into businesses. Yesterday, we announced our lowest ever fixed home loan rate; four years at 1.98% pa.

We continue to see opportunity to invest and grow NAB for the long-term. We will do this safely. We have a clear strategy, which has identified opportunities across our core businesses. Business and Private Bank is our key differentiator. We are extending our market leadership by investing in bankers and further leveraging data and insights capabilities.

Given the revenue headwinds we are facing, cost and capital discipline will be fundamental. Every dollar we invest is our shareholders' money and it is spent with that responsibility in mind. We need to be more efficient and resilient. And we need to execute well.

In closing, this is a good bank, with good people and a clear plan. We are focused on what matters. I am optimistic for the future ahead and also the opportunities for a business-led recovery, with NAB at the centre. Thank you and happy to take any questions.

JOURNALIST: Hi Ross, thanks for taking the call. I see that there's a cost element of the result that was a bit stubborn, it appears to be up 10 per cent. You've nominated salary increases in there as a contributor, what are the other more stubborn parts of your cost base and what are you doing about them going forward?

McEWAN: Well, overall the costs for the year were up two per cent, higher in the second half since we took on increased wages; we moved three per cent through our Enterprise Agreement, passed that though. We've also had some levels of restructuring and also some COVID-19 related costs as we moved close to 90 per cent of our colleagues out of our major buildings and to home, there were certainly costs associated with that. And then additional costs of just basic things like additional cleaning of buildings which we did have open where colleagues were involved and technology uplift costs associated with the all the numbers working out of the buildings.

We've also put in our views that we'll get those costs back out to and lower than the \$7.7 billion that we came out of 2020 in, over the next three to five years because cost management is going to be vital. But it's also got to be balanced with investment in your business. We will be investing where it makes a difference for our customers and gets a decent return for our shareholders. So it's going to be a balance of investment and cost take-out of areas that we can improve, using technology mainly.

JOURNALIST: Good morning Ross, you mentioned the new fixed rate in the market yesterday and I just had a question relating to that. What's the strategic rationale for passing through these RBA actions via fixed rate? A lot of customers obviously won't see any reduction. And could you just talk a little bit around the sort of profitability for NAB of lending fixed for 2% with cheap funding, the sort of standard variable structure, with 4% lending rates and whatever the other funding costs are?

McEWAN: Thanks for the question James. First off, just remembering we're a big business bank and most of our business lending is connected to an index called BBSW. So over the last 12-odd months our customers have – as that index has dropped – \$700 million has actually gone into savings directly into them. That's 90 basis points dropped in the last 12 months. You're seeing the fixed rates becoming much more prevalent for customers and customers are liking them for certainty, and yesterday you saw us drop 81 basis points on the 4-year fixed rate. Funding in that area has become better for us, and therefore we can pass it on to customers.

It's an interesting thing talking about funding, because there are ups and there are downs. We always seem to concentrate on that piece that's come down, but there are costs of funding that have also gone up. For us, particularly around areas like deposits, which actually interestingly enough we got less benefit out of in the last 12 months, so it's swings and roundabouts. You've seen across the banks net interest margins dropping, which means that in pretty much all cases customers are getting a better deal. So it's across the board, I think customers have seen the benefits and now moving more and more towards fixed rates. Well over 30 per cent of the book is in fixed, of all new loans going towards fixed rates. And these I think more customers will take them for certainty.

JOURNALIST: Hi Ross, just before what you were talking about with the loan deferrals, you said 90 per cent of customers are likely to resume normal repayments. Does that mean that the bank is anticipating 10 per cent won't be able to come back or resume normal repayments beyond that deferral period?

McEWAN: I don't know whether you got what we sent out, just from the pack I'll take you though some of the aspects of that, both of home lending and of business lending. So on the Australian home lending deferrals, we've had 54 per cent of customers have advised their intent to repay their deferrals on expiry. So, 54 per cent.

We already have 38 per cent who have resumed repayment. So that basically leaves us with eight per cent of customers either not committing to come back on their repayments or have already done so. Of that eight per cent – one per cent have converted to interest-only. And of the rest, one per cent we've gone on deferral already, extended deferral, and that's another for two to four months. And we've seen that as the best thing for them and that's what they've agreed with.

Which leaves five per cent, who we are dealing with individually. There's different courses of actions for that group. Our primary objective is to keep them with the home and get them resuming payments. But putting them into NAB Assist allows them to have that direct communication and a support on a monthly basis with our colleagues in NAB Assist.

So, it's five per cent that have gone into our specialised group to help them with service. Which, given what it looked like six months ago, I think is a great outcome. Now we don't know yet, at this stage, those customers who've said 'look, we're resuming' whether they will be able to. So, we won't know that for the next probably three months. I think a good outcome overall. We're there to support customers. We want them getting their repayments resumed, because that's exactly what they want, but a good outcome to date.

On business loans – not too different a picture. We've already had advice that 76 per cent have advised they intend to resume. We've had 16 per cent who have already resumed their repayments. We've got one per cent who have already paid out their loans. And it leaves six per cent, who have referred into NAB Assist for 'what help can you give us going forward'. Part of that help could be on deferral, but there are other strategies we will work with customers to make sure they can get back onto repayment.

So a good picture overall. Our balances have dropped quite significantly and it's good to see the economy starting to move again. I think the stimulation from the Government and the last Budget will certainly be helpful over the next 12 months.

JOURNALIST: Two questions if I could. Following on from James' question, the package of measures announced by the Reserve Bank on Tuesday, what impact can you see that having on NAB's profits going forward? I'm interested in your small business customers in general, just what appetite there is for new loans. Is there a lot of demand there or not?

McEWAN: Just on the package from the RBA. The RBA have been very helpful right from the start of this virus, they've worked very well with government, with the banks and with the regulators so everybody's been doing their job here. The dropping of their basis points, I think they're indicating that they're going to pull every stop they can and buying bonds to the level they've indicated shows they're going to participate in the market and be helpful to get this economy going again. That in itself will be helpful to the banks to make sure there is money available and it's at a decently low price for people to want to borrow it and put into their businesses which will then turn around and create growth and jobs.

Low interest rates though do have an impact on a bank, particularly a bank the size of ours. We've got a lot of deposits on our balance sheet and the earnings off those become very, very limited. So it has a positive and a negative. We hope they balance out.

The other thing it is creating is great competition in this marketplace. You're seeing interest rates now at their lowest levels ever, so you're seeing very strong competition in the lending market, and great for customers. Whenever you see that happening, it's very good for customers and we're seeing very strong demand for home lending, both refinancing and new.

And what we've started to see in Victoria; Victoria getting going again. Our lending demand, chatting to our head of our metro business yesterday, getting very strong demand from businesses wanting to get going again. And I'll just give you a few quick stats on Victoria: for the five days it was open from 28 October to Sunday 1 (November), the actual physical spend – dollar spend – in physical stores was up 49 per cent, general retail dollar spend was up 82 per cent.

And the outstanding numbers in here: clothing up 1,047 per cent, shoes up 1,608 and furniture up 250 per cent. Restaurants, we're all back out eating and drinking again. Restaurant spend up 62 per cent, bars up 169 per cent and barbers and beauty shops up 174 per cent. And it's up over 1 per cent higher on the same week period last year. So we're seeing hopefully a sustainable, good rebound that'll get this economy going.

That's got to be good for Australia as well. SMEs, it's a confidence play for them. And we are doing \$2.4 billion a month in SME lending since June. It's been strong. We're there, we're open for business and we will support good businesses.

JOURNALIST: Hi Ross, thanks for taking the question. Last week Shayne Elliott talked a little bit about the bank levy and the potential perhaps for the government to reassess that tax on the banks given what the sector is enduring and how it's helping get to the other side of this crisis. Can you just talk to your thoughts on that particular idea and whether you think it does make sense to rethink that tax?

McEWAN: I think it would certainly be good for bank shareholders because that money flows through back into the economy through the dividend. You've seen our dividend down 64 per cent so any assistance to get the profitability back up again and lower tax actually flows through to shareholders, which most Australians through their super funds will be shareholders. But look it's got to be a government move, they've got to see that as stimulating more activity in the economy.

JOURNALIST: Have there been any discussion to that effect?

McEWAN: Not that I'm aware of.

JOURNALIST: Hi Ross, good morning and thanks for taking the call. My question is around the statistics that you mentioned earlier in terms of Victoria and spending. Does that put them back to pre-COVID-19 levels or is it just a rebound and not quite there yet? Or perhaps what ANZ was saying about Western Australia, to above pre-COVID-19 levels. And my second question is just on your costs. Any chance you can guide or just give us an expectation on when you expect costs to start trending down? I think you were guiding for two per cent higher in FY21?

McEWAN: First off, on the stats I gave on Victoria, they are one per cent higher than the same period last year. So there is growth over the same period last year, and certainly massive growth over the closedown period into what had happened last week. There will be pent-up demand in there. But it does show I think that Victorians have done the right thing and they are wanting to get back out and get circulating and get into their businesses again. And that will be good long-term.

Not all businesses will do as well. There are still parts of Melbourne that we need to get moving again, particularly central Melbourne, and that's why I used the example of the café in the suburbs doing very, very well because people are people from home, which means that cafes in the city aren't doing as well. But it's a good start to the recovery. It will take some time and the stimulation that the Federal Government has announced and the state governments when they come out with their budgets will all be very, very helpful and needed.

On costs we have indicated this year the cost base will move zero to two per cent. We've got some work to do here on getting our costs down given our revenues are under pressure. We will take that challenge on very strongly and I've indicated costs will come down over three to five years. But we're also investing very heavily in this business. Today in the pack you'll see we are going to be spending about another \$1.3 billion on investing in this business. A lot of that is to do with just making this a simpler and easier business and getting the basics right for our customers and our colleagues. But also some new innovations coming through.

So I think a good balance, but over time we've got to get the costs down. We are in an industry that's had a pretty good run for 30 years. It takes a bit to learn to get the muscle back of how do you quietly reduce costs and the costs that don't make any difference to customers. It's a work in progress.

JOURNALIST: Hi, thanks for taking my question. CBA put out its moratorium on foreclosures earlier this week, I'm wondering if NAB will follow suit? And my second question is about the US election. We are obviously right in the grips of it now and I'm wondering what you think it would mean for Australian businesses, especially those reliant on international trade if we see Trump not conceding to Biden?

McEWAN: I'll start with the latter question. A bit like you, I'm watching the election with interest and it seems very, very close, so it'll go to the wire. Australia has got a very strong relationship with the US and has had so for decades. I'm not too sure that will change under either president. We are a key trading partner for many Australian business. So we will continue to watch it with a keen eye and support businesses wherever we possibly can. But really not much more to say on that topic.

On the CBA moratorium announcement, if you actually look through the process that we as a bank go through, we are very unlikely to be taking any action against a customer between now and September of next year anyway. By the time you work with customers on the best options for them and if that option is it needs to be sold, I think it will be well into September of next year and you'll find that's just every bank. We will deal with every customer individually.

There are circumstances though when it's in the customer's interest and their desire is to move much faster than that. And that's what you've got to be ready with and that's why it's an individual conversation. But there was nothing that surprised me in their announcement the other day; it's pretty standard practice for NAB.

JOURNALIST: Good morning and thanks for the honour of the last question. I just wanted to follow-up on the colour that you gave regarding Victoria; I just noticed in your bad debt provisions they're pretty high, jumped up quite a lot, about triple since last year. Just wondering if you think, given the activity you've seen come roaring back in Victoria but also elsewhere in Australia, whether you think that provision might be too high and how quickly you think you'll end up releasing that provision coming into next year?

McEWAN: I think there's a lot of work still to be done across Australia, and in particular for Victoria. We're delighted that it's bouncing back, but there's been a lot of damage done to businesses because of COVID-19. And we've got to remember it's because of COVID-19 that the damage has been done and therefore our solutions for these businesses need to take that in mind.

We've taken the provision across after doing a lot of detailed work by sector, by location even, as I used the little example of the café. The location makes a big difference to a business. I think we're pretty comfortable with our provisioning. We are at the top end of the market on the provisioning, I'm very comfortable with that and having a very strong liquidity and capital position. We set out in 2020 to be a very safe bank, so that nobody had to worry about us for that, and so that our team can get on and look after customers. And I think we've achieved that as a big part of 2020. Time will tell whether we've over-provided; at this stage we are very comfortable.

ENDS