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# TRANSCRIPT OF MEDIA CONFERENCE

## NAB 2021 Half Year Results – NAB Group CEO Ross McEwan

### E & O E – PROOF ONLY

**ROSS MCEWAN:** Thank you for joining us this morning for an update on our first half performance. I'd like to start with a few short remarks – and then take any questions you have. Six months ago, at our Full Year update, the outlook was still very uncertain. Since then, health and economic outcomes have improved much faster than any of us would have expected.

This is not the case elsewhere in the world and we are mindful of the ongoing situation overseas, particularly in countries such as India, Brazil and still large parts of Europe that are having real difficulties with the pandemic. Here in Australia, the economy has returned to pre-pandemic levels and we are expecting GDP growth of 3.7% this calendar year. Businesses are leading the recovery. Confidence and conditions are improving strongly. New jobs are being created. Challenges do remain for customers who were more heavily impacted by COVID. Where this is the case, we will continue to work closely with them. But broadly speaking, we are optimistic about the future for Australia and New Zealand – and for NAB.

This is a clean set of results with no large notable items. I am particularly pleased to report an increase in our interim dividend to 60 cps. This represents 59 per cent of first half cash earnings – which were up 48 per cent on the second half of 2020. This result is primarily driven by a significant improvement in credit impairment charges.

Given the ongoing uncertainty facing some of our customers, we have maintained prudent capital settings and levels of total collective provisions. Setting aside credit impairment charges, underlying profit declined 7.6 per cent on the second half, as Markets & Treasury income normalised from elevated levels. It also reflects that revenue has also been impacted by low interest rates and subdued asset growth. It remains a challenging and competitive banking environment in both Australia and New Zealand. As I've previously said, in environments like these, it is important to be disciplined on costs – and we have been. But there is more work to do. It is good to see that across our business, momentum is building:

1. We are reinvigorating our leading Business Bank, with more bankers and a growing share of SME business lending. Volumes rebounded in March and our pipeline for new business is significantly higher than this time last year.
2. In Personal Banking, we are simplifying and improving the home lending experience. We expect our progress will return NAB to market share growth in second half 2021.
3. There is disciplined growth in C&IB and BNZ. And we have an exciting opportunity ahead for UBank, with the 86400 transaction on track.

We are now 12 months into our refreshed long-term strategy. Successful delivery requires we stay disciplined, focussed on what matters and that we execute well. We are getting on with the job. While there is still much to do, we are progressing well. We can see that the decisions and investments we are making are having a positive impact for customers and colleagues. We are becoming a simpler bank. We are now close to a successful exit of MLC, and this half we completed the sale of our broker aggregation business (Plan, Choice and Fast) and announced the sale of BNZ Life. This means we can focus all our efforts and resources on our core businesses – and to support our customers who will drive the business-led economic recovery in both Australia and New Zealand. Thank you for joining me this morning. Happy to take any of your questions.

**JOURNALIST:** Hi Ross, thanks for taking these calls. The market will be see pleased to see the provision release in this half, I'm curious to know that if your forecasts for the next half and beyond turn out to be accurate, will you look to release a bigger provision or would it be around about the same in the next half?

**ROSS MCEWAN:** Well, it really depends on what's happening economically because the economic adjustment gets modified based on what the economy is saying. As I said in my opening remarks, I think we just have to remain quite cautious while this recovery takes place, and also there are a number of sectors that are still having some difficulty and groups within sectors. So, for example, the CBD is still quite difficult and many of our customers in those areas, some of the areas in tourism and international tourism, and those related to the lack of international students coming through, particularly around accommodation. So, we are remaining cautious, but over time if the economy continues to improve, the releases will also continue based on those economic adjustments.

**JOURNALIST:** Thanks Ross, look just with the budget coming up next week what are you expecting or hoping to see in terms of greater stimulus to improve the very good recovery we're seeing at the moment?

**ROSS MCEWAN:** Thanks Peter. Can I just say I think the government has done a good job at managing both the health and economic impacts, and we do welcome some of the actions that the government is already taken. The bringing forward of tax cuts, the enhanced investment incentives which we are now starting to see really through flow into a lot of the businesses in what they are purchasing to get their businesses going. The areas that we've been talking to the government about really, are those that help get that unemployment level below five per cent and I think there's a number of areas that would be helpful. You saw today the government coming out with a 1.2 digital budget with 50 per cent going into government digitisation - that's something we've been saying is really important. Let's make sure as businesses interact with government it's a smooth transition and easily done, but also the use of that money for upskilling in many digital areas is very, very welcome. The other area is we are going to need skilled migrants coming into the country and also as I've been around the country in areas like the Northern Territory and Far North Queensland, the need for labour is really, really important. So we've got to find a way of opening up our borders to the migrants that will help both at the areas of skilled and some unskilled levels that we're really struggling with, but also things that make it easier for SME businesses to hire new colleagues and take away some of the bureaucracy that they're burdened with. But I welcome the moves that have already been made and today the announcement on that 1.2 billion is a step absolutely in the right direction.

**JOURNALIST:** Good Morning Ross, I had two questions the first is just a follow on to Peter's on the budget and you mentioned efforts at getting unemployment down below five per cent. We saw the RBA earlier this week upgrade its expectations and perhaps unemployment may have a four in front of it next year, is that the right time for the government to think about budget repair and reducing spending do you think – when is the time to flip from fiscal stimulus to getting the budget back on track?

**ROSS MCEWAN:** Well I certainly think now is not the time to be making big moves to try get back into surplus, the Government is managing this well. We also believe that next year, by the end of 2021 the unemployment rate will certainly have a four, and it will probably be a low four but one of the big issues that we want to see coming through across the economy is wages up. It's not until you get to the low fours that you start to get wage increases across the board, not just in certain sectors. So certainly, the move to get unemployment levels down, but also wages up is critical over the medium term – and I think that should be the priority. And I certainly believe that is the priority for the Government and also the Reserve Bank.

**JOURNALIST:** Hi Ross, two questions: Your foreign exchange traders, do they preposition trades to hedge their books for coming deals?

**ROSS MCEWAN:** If you're relating to the recent case, the answer to that is from our position no, not that I'm aware of. Do you have something specific?

**JOURNALIST:** I'm following on from Westpac allegation, so that was surprising to you?

**ROSS MCEWAN:** We weren't involved, so I don't know the details of that case until it comes out - but I certainly wouldn't comment on somebody else's operations. So no answer to that one.

**JOURNALIST:** Hi Ross, this time last year NAB was slashing dividends and raising billions in fresh capital. I just want to get a sense for how things have changed. Back then, would you have ever guessed that 12

months on we would be having such a relatively strong economic outlook and raising the dividend again, and why do you think banks underestimated the economy's ability to snap back so much in the last year?

**ROSS MCEWAN:** I think you do look back on 12-14 months ago and we were looking at a pretty dire situation globally with a pandemic and I just remind people it was only 12 months ago that this economy lost 900,000 jobs in two months, which was magnitudes greater than what happened during the Global Financial Crisis. So that was the scenario we were looking at. We were looking at GDP dropping considerably, which it did, but it's rebounded so quickly because of the actions by the Government and people in New Zealand and Australia, because those are the countries we operate in. So, at the time, I said we wanted to be a very safe bank, that's the positioning I took. If I got it wrong, well I'm happy to be in a very strong position now going forward for customers and our shareholders. But looking back on 12 months, myself and the board thought it was the right thing to do and we're comfortable with the position this bank is in now.

**JOURNALIST:** Hi, thanks for taking the question, wanting to get your thoughts on the vaccine rollout and the speed and pace of that. And how crucial that is for this economic recovery to truly be business led.

**ROSS MCEWAN:** Good question Charlotte. We've been looking at GDP growth this year about 3.7 per cent and that is premised on borders, international borders not being opened up to any great extent. And also, a vaccine rollout happening throughout the year. And it's good to see that the vaccine is starting to get rolled out and it will build momentum I believe over the next three to six months. So, I think what's important is we do get the vaccine rolled out, that everybody participates in it, and I have certainly lined up to get mine this month. Let's get the country back into a very normal position as much as we possibly can. But we haven't anticipated international borders being open to any extent until the beginning of next year at the earliest.

**JOURNALIST:** Hi, thanks for taking the call. I just wanted to get some of your thoughts on a point that was made yesterday around your expectations or want to know your expectations for when the TFF expires in 2023. Do you see a bit of a problem happening there with both Australian banks and homeowners facing like a pretty big spike in funding costs when that expires?

**ROSS MCEWAN:** What's interesting, over the last six months, is the way home owners have been funding their homes has moved quite considerably from the standard variable rate to fixed rate, and the rate periods have been spread across mainly two, three and four years, so I don't see a great cliff be it three years' time because there is quite a spread of rates customer have been taking. We'll handle the TFF as it rolls off, we have to do that as part of our normal funding program. That's something that our treasury operation is looking at on a daily basis. This is very similar to what happened up in the UK and banks have to plan for the funding of the organisation. From a customer perspective, we look at this. When we give them a loan or agree to a loan, we do stress test that loan with adding another two and a half per cent to the existing rate that they are getting, to make sure that if interest rates do lift, they are very capable of paying off a mortgage at a much greater rate. So today if someone is sitting at a two per cent mortgage, we add a minimum of two and a half per cent and we put a floor of 4.95 per cent interest rate. The other thing we have been doing is encouraging our customers to pay down while these interest rates are low. Right now, 70 per cent of our customers are at least a month in advance and across the book, the actual book is about 45 months in advance of payments. So, we've been encouraging customers to get ahead of their payments so that there is always a cushion for them should rates rise as well. So, I do not see a cliff appearing both from funding, or from a customer perspective.

**JOURNALIST:** Yes, hi Ross and thanks for the questions. I just wanted to ask your presentation suggests that you're still looking at prudent capital settings. When will NAB start thinking about when the CET1 ratio of over 12 per cent and the target being much lower than that over the long term? Do you think next half, capital management initiatives might come back onto the radar?

**ROSS MCEWAN:** Thanks for the questions. We certainly are going to take a prudent approach to this. Today we will be announcing that over the medium term we will bring our capital requirements or capital levels back down to a range between 10.75 and 11.25. You're right, we are sitting well over the 12 per cent today so we've got a very strong buffer there. As I've indicated, there are some business and sectors that we are keeping an eye on and we want to be there to support. So holding higher capital levels is the right thing to do. The first thing is, we want to grow the bank. Secondly, we want to give the capital back where we don't have a requirement for it and thirdly, we'll do part of that through reducing the share count because I think NAB has for many years increased its share count to the detriment of its shareholders and I'd like to see that start to reduce. And that's certainly part of mine and our Board's planning.

**JOURNALIST:** Hi Ross thank you for taking my questions. Look I just wanted to kind of get your take on small business in light of CBD area and international tourism and kind of struggling. Do you think there should be an extension of that SME loan guarantee which is supposed to end next month?

**ROSS MCEWAN:** Well the SME loan has just been extended out, this is where the government is assisting with 80 per cent of the risk on those loans. We've got a number of customers who are taking advantage of that loan. They're customers that still had staff on JobKeeper payments at the end of March, so I think it's targeted at the right organisations. But the loan itself has a period of up to 10 years with the two years being deferred. So it's actually quite well constructed for those businesses you're talking about who believe they have a long-term future but are struggling while each of the states takes some time to actually recover. So I think the loan itself is good. The extension of it has been put in place, the changing of requirements is also in place. I think it will help those businesses should they choose to continue on. But they will have to make a determination as well – is it a business that will recover and therefore they should take the loan, or is it one that's going to struggle going forward. We're working with customers on those decisions.

**JOURNALIST:** Just a quick follow up to my earlier question. Do you have concern, given what we've seen in India at the moment, that there may be a level of complacency here in Australia given concerns about third or fourth waves of the pandemic?

**ROSS MCEWAN:** No, I don't think we have any form of complacency here in Australia and I think you've seen that in both the federal and the state level with the actions that have been taken. I don't think anyone wants to jeopardise the amazing work that's happened both here in Australia and in New Zealand, the two biggest countries we operate in. I don't think there is any complacency. And you know, we just need to balance that with looking after everybody here and the Australian citizens that are offshore. And really our thoughts have got to be with the people in India particularly at the moment and their family and friends. It's a terrible situation going on there, but I don't think there is any complacency here at all, in Australia, that I have seen.

**JOURNALIST:** Thanks Ross. My second question just related to the performance in the Business Bank just compared to the last first half, the cash earnings were a little bit lower, sort of five per cent down and the net interest margin is a bit tighter, about seven basis points tighter. The Commonwealth Bank has made a lot of lifting up the competition against your business bankers, they've been hiring and pretty price aggressive in the market. Would you just be able to talk through the competitive dynamics in business banking and how you are tracking against that renewed effort by those guys?

**ROSS MCEWAN:** I'm actually pretty pleased with the results coming out of our Business and Private Bank. We are seeing a pipeline growing that we haven't seen for years and years and years. We have got more bankers being supported by more Associates than we have had for probably decades. It's a competitive market but we are doing very well in this market now. And across the board, right through from the small business right the way through to our very large corporates, you are seeing us starting to grow market share in a competitive marketplace. I enjoy competition, as we've discussed in the past, and so do my team, but we've got momentum. I've been on the road recently and seen the work that our bankers are doing, and I have no fear that we're going to be losing market share for quite some time. We're growing market share, as the stats are showing. Competition is good, but it's coming from a lot of areas as well. It's coming from little digital players, it's coming from those who are in the relationship business game, it's coming from the larger players and we are doing very well in this marketplace. We are the biggest Business Bank and we won't be giving that up any time soon.

**JOURNALIST:** Morning Ross, thanks for taking the question. I have a couple of questions. One is about your home loan applications, you talked about the rise of 45 per cent in the half. Could you give us a little bit of colour on that, in terms of the type of buyer, the geography and also how you handle that big jump, like where you guys pretty swamped?

**ROSS MCEWAN:** Look there has been a major increase in the applications coming through and you are seeing our volumes starting to build. I made a call 12 months ago to step back out of some of the pricing that was going on in that market given COVID. But we are back in the market now competing well. Our home loan processing has stood up very well with the massive increase in volumes – 45 per cent, that's across the board. It's both city and it's also regional markets that have people making application for and refinancing. And as you will see from some of the stats that come out today, we are starting to rebuild that business very well. We have used some technology to assist here, we've put in place what we call a simple home loan process that's gone very well. Fifty per cent of the loans that come through that process for our proprietary channel are being signed off in a day, and the other 50 per cent is an average of five days, which is pretty

good in this marketplace. Our colleagues in the bank have really stepped into this and we see it an area of growth in this bank going forward.

**JOURNALIST:** Thanks Ross. I was just wondering, you talked about the investment incentives, the impact of the investment incentives really coming through the economy. Do you think next week's Budget needs to do any more on that front?

**ROSS MCEWAN:** I think we're certainly starting to see the impact of the incentives that the government has put in there, particularly for businesses buying equipment and we've seen it come through particularly in the areas of agriculture with tractors, harvesting equipment, irrigation, even though the things like coffee machines – they've gone up 155 per cent. So, there is a lot of investment going out there. I think maintaining that for a period of time would be very good in this economy to make sure we don't see any drop-off in economic activity. The other thing that gives me confidence in this market is around the survey we do – some of the confidence levels of small and medium sized businesses are at the highest they've been since the survey started. What generally tends to follow is six to 12 months later that translates through to businesses investing and we're starting to see that right now with more and more applications from businesses. So, at this point in time just don't do anything that would stall a recovery, because the recovery is certainly starting according to what we've seen.

**ROSS MCEWAN:** Thank you for joining us on this session. As you see the results are solid, we still are cautious about some parts of the market but from a NAB perspective we certainly have momentum in our Business Bank as well as all other parts of the organisation, which we're very pleased with. And we are looking forward to the continued recovery for both Australia and New Zealand.

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