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TRANSCRIPT OF MEDIA CONFERENCE

NAB 2020 Half Year Results – NAB Group CEO Ross McEwan

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NAB GROUP CEO, ROSS McEWAN:

Thanks so much for joining me this morning at such short notice. You'll have seen that we have gone into a trading halt this morning as we've made some announcements regarding a share placement so I thought today I'd just cover off on four items. First off, on impacts of the COVID-19, secondly look at the major announcements from NAB today, thirdly look at the plan going forward and also some of the changes we are making today.

So firstly, on the impacts of COVID-19. Banking is an essential service and we're seeing this at the moment, at the heart of commerce and in the community – but these are unprecedented times. NAB has been mobilising to help customers; to date we've had well over 650,000 enquiries for assistance from both business and individual customers and it's happened so quickly.

I want to acknowledge the support of the Government, of regulators, of the community-at-large, the media and business all helping to get through this issue we're all dealing with. Working together, we will get to the other side of it.

On major announcements from NAB today, as you've seen in the trading halt, we entered this crisis in a very good financial position, as a safe bank that is there to support our customers. As we look at the scenarios that could well come out of this from the economic information and also the feedback from many, many of our customers at the issues they are experiencing, we have decided to take very proactive steps today in raising capital and also reducing the dividend down to 30 cents per share.

There is a balance for a bank in making these decisions and with 48 per cent of our shareholder register being retail, our view was we should continue to make a dividend payment to our retail shareholders and at the same time raise capital. What we want to make sure is that this bank is in great condition both for today and for the future so that we come out of this crisis in a very strong position, able to take opportunities on the other side of it.

We have also been working on the strategy of this bank and today we announced some of the core planks of the strategy and really the issue for me is that we want to make sure this bank is here to serve customers well and to help our communities prosper. We've got some very, very good businesses and the bank has solid foundations. The opportunities are to do better with these businesses and that's what we've outlined today. There are no wholesale changes but we have seen this bank needs to execute much better than it has done in the past.

Today we are announcing that the strategy rallies around our investment in 'twin peaks' – that of colleagues and also our customers. We're going back to a more traditional operating structure of four end-to-end businesses and one business that will be a digital growth business using UBank. We're not asking for any more investment than what we have today of \$1.2-\$1.4 billion spend on the bank on an annual basis, but we need to focus this cost on fewer things and do less. We need to work on those things that make the most – that matter – to our customers and to the bank itself.

In closing, I am very confident in the bank and its people. We have moved we've swiftly as you've seen today on the COVID-19, to make sure this bank stays in a very strong position today and for the future. NAB also has a very clear plan and now we just need to get on with it. Very happy to take any calls.

JOURNALIST:

Hi Ross, I was just wondering when you made this decision to have the capital raising and, because you have done that, do you see any advantages in going first? And also, it suggests that you see a very, very grim prognosis for the economy?

McEWAN:

First off, we have done our scenario planning and based on a base case that we are putting out today, and now we will talk to investors, but also on a very bad case – and under all these circumstances we believe that the bank will be better positioned to have more capital so that we can support customers both today, and also come out of this very strongly. You usually find that banks who have a very strong position come out best at the end of these crises, so that's what I want to position this bank for. We have been working through this scene since we've been looking at the possible impacts of the crisis – working with our Economics team, but also talking to customers and looking at what support they will need going forward. And that has worked through to what capital we believe this bank needs today to stay very, very strong.

JOURNALIST:

Hi Ross, thanks for taking questions. Just wanting a little bit more colour on the decision to both raise capital and continue to pay a dividend. What's the balance there? Does that reflect that some of your retail shareholders won't be able to or won't have the resources at the moment to participate in the capital raising? What are you thinking?

McEWAN:

With the SPP we are hoping that our retail shareholders do take the opportunity of participating. We have gone to institutional investors for \$3 billion, but we have also got an opportunity for all our existing shareholders to take up to \$30,000 worth in a special purpose SPP. And I think it was the best option in today's time to allow the dividend to continue because we are acknowledging that retail shareholders are in the stock for the dividend – and do require it. But our view was also that we shouldn't be paying out the level we have in these very uncertain times. So, it was a balancing act.

JOURNALIST:

Hi Ross, thanks for taking the question. I just wanted to get your view on the economic outlook given that you are looking at a GDP decline by 8.4%, jobless getting up to 11.7%. Do you see a V-shaped recovery?

McEWAN:

Well look at this stage we are not too sure; it's pretty uncertain as to what the recovery will do. I can say that the moves that the government, both at a state and federal level, have been incredibly helpful to keep the income in peoples' hands and to keep employees on with businesses – which should I think be very, very helpful coming out of this. But at this stage we don't know, so we've just made sure that each of the scenarios we have covered off on, in case it is a U-shape instead of a V-shape. The V-shape obviously being down very quickly and back up very quickly, and the U-shape being going down and staying down for a lot longer. We have modelled out both and this is the reasons we are saying, we want to stay very strong throughout even if we have a U-shape, but at this stage we don't know and I'd be very surprised if anybody did. Wery uncertain times and at these times, a bank should look after its balance sheet.

JOURNALIST:

Hi Ross, two questions. First following on from James, APRA made it pretty clear that it was sort of discouraging you guys from paying a dividend and I can see what you want to support them, but at the same time you're releasing 7.1% more shares so you're effectively diluting their earnings from their shares so you're giving them kick in the backside there, as well. That's question one. Question two, I'm interested in you've got a big small business base amongst your customers. Can you give us any feedback just on how they've faring during the virus please?

McEWAN:

Thanks John. We have had conversations with APRA as you'd expect. I think they took the right approach of giving guidance but not telling the businesses and banks what to do. I think it's then up to the senior executives and boards at banks to make sure they look after their own banks given the circumstances they find themselves in.

We've done a lot of scenario planning as I've said on different options that may come out and what capital we'd need. We've had those conversations with APRA and I think at the end of the day the Board got comfortable with the position we've taken and as I said it is very much a balancing act. You know, 48% of our shareholders do rely on a dividend and in a time when you're actually doing a placement, you don't want the

share price, the share drag down, while you're also doing a placement. So as I said there is a very strong balancing act going on here. I think we've come to the right position for all parties, and I can guarantee you that the retail shareholders will not be happy with the dividend reduction as we've done, but I think in the circumstances we have done the right thing.

On small businesses, we are the largest small business bank in Australia and we have been talking to tens of thousands of businesses and they're hurting badly. They are hurting very badly and it was so sudden to see their income stopped basically, not quite overnight but within a week because of the closedown. A closedown was the right thing to do, but the impact has been on businesses and the Government has been stepping in, as have banks, to be helpful. But it's quite clear that they are hurting badly and the measures that we have been taking to actually help them out I think have been welcomed, and also the measures being taken by state and federal governments have also been very welcome.

JOURNALIST:

Ross, just on the impairments, about \$800 million of that is directly related to COVID-19, I'm just wondering if you can break down any distribution like is that what you're expecting to come from your mortgage book or from your small business book? And equally, do you think that's enough or can you give us a bit of colour about whether you think you've been forward-looking in this or whether you expect to come back and update this on a frequent basis?

McEWAN:

Under the new accounting rules that came in 18 months ago, you actually have to look forward with the economic scenarios that you have and then predict what sort of losses you may well take. So, we have made an Economic Adjustment here of \$807 million, which is not specific to any business or any sector but it relies on things like projected unemployment rate, house prices, commercial property prices, GDP growth. So, you run those scenarios and numbers through your model to come out with what your Economic Adjustment should be. And that's where you get the \$807 million, so it is not specifically related to [that].

As a bank we have gone through pretty much every portfolio and dissected each part of that portfolio to see what the likely impact of the COVID-19 crisis will be on businesses. So for example some businesses like airlines, restaurants, tourism, trade, will be more affected than for example the agricultural sector which is still going well and certain large retail supermarkets. We've gone through each part of the portfolio and assigned a marking as to whether we think there's going to be low impact, medium or high, and then also looked at our adjustments. It has been done in a lot of detail which gives us at this stage, based on the information we have, good confidence in the economic adjustment of \$807 million, the capital raising that we are doing, and also the changes to the dividend.

JOURNALIST:

Thank you. Hi Ross, I was just looking at slide 29 in the pack and it seems to set out quite a few deficiencies you have found in the way the bank is run; lack of accountability, slow to respond to customers, NPS still negative, inconsistent experience from bankers, historically low market share amongst small customers, too many priorities and competing interests, I mean, the list goes on. I just wondered if you can give us some perspective, you have worked in London, you worked at Commonwealth Bank – is there something fundamentally that has been wrong with NAB for about 10 years?

McEWAN:

First off, I have found very, very good businesses. But one of the issues we have found is that we are just far too complicated. Too complex, too much bureaucracy. Takes us too long to make decisions and when we do make decisions it is usually OK but it just takes too long. And, the execution hasn't been what it's needed to be. So, we have got very good businesses right across the board from our business bank which still remains the largest in Australia. We have a very good BNZ business. Our Corporate & Institutional bank I have found to be very, very good. We have a slightly smaller retail business, personal business that needs supporting more. But it really has come down to our execution capability and then I go back to, just far too complicated. I think the bank has been trying to do too many things for too many people instead of having very clear priorities. We have gone from something like 467 projects down to a much, much smaller [amount], and I am only concentrating on 20, so this is what I think will be the difference.

I have also found very good people, very good people willing to really work with the bank and customers. And you have seen this in the last six weeks where we have moved mountains in a very short period of time, that just shows the capability. So, I think lots to do but from a very strong base as well. And we are getting on with the job and that's what it is about now. As I said in the last six weeks the team here have shown me they have huge capability and ability to do the job when focussed.

JOURNALIST:

Hi Ross, good morning and thanks for taking the question. I just wanted to ask about your thinking around the reopening of the economy, obviously Australia looks to have done relatively well in suppressing new cases of the virus. Based on the medical data that you're seeing and the conversation that you're having with the regulators, what's your view on timetabling for reopening business and getting back to business?

McEWAN:

Well, we're going to have to rely on the state and federal government on the timeframes around that but I think businesses like us are starting to move our conversations to how do we get our colleagues back to work safely, and what measures do we take and what parts of the business you bring back in the old form and what parts do you bring back in a new form.

Because what we've seen throughout this is we've moved from having the ability of having 5,000 of our colleagues able to work from home, to now 30,000 which is just about everybody. And they've had some advantages and some disadvantages and I think we need to work through what the advantages of a changed business model are and also what are the things we should hold dear to the organisation. But as you're starting to see – and I welcome the Government's move on the COVIDSafe app, I think that's a really good step forward – we need to start thinking about how do we come out of this health crisis and get the economy moving, but at a safe time and doing it safely. I think we've learnt a lot. We've learnt a lot about how to keep our colleagues safe in a business and also how to work quite differently; working from home, as I said, about 30,000 colleagues of ours doing that today.

JOURNALIST:

Hello, Ross, how are you going? Just a quick question on your scenario modelling, you said you've done a base case scenario, both V-shaped and U-shaped, which one do you consider more likely?

McEWAN:

To be quite honest, given the uncertainty, I couldn't call it today and that's why we've done the scenarios and why we've taken absolutely decisive action today, so that we're in a very strong position really, hopefully no matter what comes at us. And given the scenarios I think we've put ourselves in a very, very good position with the moves that we've taken today. They're decisive. A bank as ours needs to be ready for anything thrown at it and I think that's what we've tried to do today. Given our scenario planning, we don't know whether it will be a 'V' or a 'U'; everyone's hoping it's a 'V', so plan for the worst and hope for the best.

JOURNALIST:

Ok, and quick clarification, are they – is the base case, based on built on a scenario of six months of hibernation for the economy or are you assuming as slightly more lenient shut down?

ROSS McEWAN:

Well, in the pack that we've sent out there it shows the base case GDP changes, unemployment changes, house price on the base case for 2020 and 2021 and it also shows the U-shape on a severe downside. So, on the base case you're looking at this year GDP changes of -3.0% and in 2021 +3.4%, but unemployment peaking at about 11.6%, 11.7% and then coming down to about 7.3%. So, you're seeing the base case, but also, you're seeing the severe case – we just don't know at this stage.

Many thanks for joining us today, as you see we are taking decisive action in the light of what's going on with COVID-19 and the impact it's having on the economy. We believe these moves are right both for the bank and for our customers and shareholders long-term as we build a very solid bank to see ourselves and customers through what's coming at us – and also to take the opportunities as we come out of this crisis.

We do have a bank that has a very clear plan going forward and it is focussed around investing in both colleagues and in customers, and we are moving back to a more traditional organisation structure. We're also saying to investors we don't need any more money invested in the bank than what we are already putting aside each year, from \$1.2-\$1.4 billion. The big thing for this bank is – and we have shown it in the last six weeks – we just need to work on what matters most.

Thank you very much for your time this morning and we'll talk to you maybe through the day or over the next few weeks. Cheers.

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