



Monday, 22 June 2020

TRANSCRIPT OF INTERVIEW

Bloomberg Invest Virtual Summit – Interview with NAB Group CEO Ross McEwan

YVONNE MAN: Ross, thank you so much for joining us.

ROSS McEWAN: Thanks Yvonne, nice to be with you.

MAN: Alright so, we kicked it off with, of course, what we've been seeing here where people are very unsure about the economic recovery from this unprecedented health crisis we're seeing right now. You were known as one of the biggest UK corporate turnarounds during your tenure at RBS during the financial crisis and really successful at trying to get back into profit. What sort of lessons are you getting from then and taking those days during the RBS days and how are you applying in now to NAB?

McEWAN: Well first off, I think that the crisis that we had from 2007 through, was quite different to the crisis that we're experiencing here. This has come across, this has hit so many businesses so quickly because the economy has closed down effectively, people couldn't move, people couldn't travel, all the tourism stopped, so this happened so quickly. I was talking to businesses on a Monday, and by the Thursday they'd closed their doors. So, I think this is quite different to the last crisis that the world had around the global financial crisis.

But, there are some lessons that you can learn from both. Firstly, now is the time to look after the balance sheet of a bank, and whilst everyone is worried about profit and loss, which is still important, I think the balance sheet is the thing that we should all be concentrating on from a banking perspective and that's why, very early on in this crisis, I talked to the Board about going for more capital and making sure that we were in a very strong position leading into this crisis, coming through it for our customers and there being also very strong at the tail end of it as well, no matter what shape this crisis takes. So, there's some lessons we can learn, I hold on to a very strong balance sheet, and the second thing that I can learn is, support your customers. I've been very careful, don't support customers that won't be able to pay back, because it's not in their interests or our own, but stay in a very strong position, and I think that we certainly learnt that out of the global financial crisis.

MAN: We're going to have some viewer questions, Ross, one of which is, do we need to re-shape capitalism? That didn't happen back in 2008 and that gave rise to populism and other associated problems now. So, what's your take?

McEWAN: Well, I think, as a bank, we need to be thinking about our customers, first and foremost. That will be the success of banks, but also the success of customers. We should only grow when our customers grow. And that's what we're forming this bank around. We're forming it around twin peaks of the areas that we'll concentrate on, firstly customers and secondly our colleagues, making sure we have the very best colleagues, who are trained and developed well, to look after customers. And those are the two things we're concentrating very strongly on. And it's about "how do you grow a community?". Because it's when you're out of balance and the community's not growing, yet a bank is, it starts to look a bit strange. We should only grow when our communities and when our economy are growing. That's when a bank should grow as well. So, it's keeping everything in perspective.

MAN: Ross, NAB is notably Australia's biggest business lender, so you probably are most exposed to these companies that have been hit hard by COVID, these SMEs. What are your clients, what is the bank data, telling you at this point? How many businesses can actually survive coming out of this crisis?

McEWAN: Well, look we're making the assumption that those businesses that were strong going into this crisis, we should be there supporting them, because we know nothing different. I guess there'll be some sectors that we have to be much more careful with and we'll have to support in a different way. But our view was that a good business going in, we'll support to be a good business coming out. But it may take some time. You're already seeing some industries doing quite well, but you're also seeing some industries, obviously the inbound tourism industry, the airlines are really struggling. So, you have to care for them in a different way to what you would for other businesses that may not be affected as much. But our going in assumption was, a good business starting is a good business that will come out. But on the other hand, if you had a struggling business going into this crisis it is very unlikely that it will survive or do well going through it. So therefore, you need different strategies per business.

MAN: Obviously there's been a lot of focus on the tensions between China and Australia, Ross, we have a viewer question as well saying that Australian politicians seem to be resetting the China relationship. How is that going to affect your bank clients?

McEWAN: Well the China-Australia relationship's incredibly important for business. It's been a big source of income for Australia and obviously for China as well. And, at the moment, you know, there are these relationships being tested. Our view is that, over the long term, these relationships will build again. They've been very, very strong for decades. And the relationships are important to both countries, and they are being tested at the moment, but I'm sure that we will be able to work our way through it.

From a banking perspective our ambition is to support our customers who are trading in China and vice versa. And that's been the biggest thing for us, is to focus on how do we make sure these relationships enable us to do business, and also, our businesses in Australia, up in China, are still able to do business. We've got a business in China that is important to us, but it is very much there for those people who are trading in China.

MAN: Even before this pandemic hit Ross, the Australian banking sector seemed to have its fall from grace moment with this inquiry from the Royal Commission on financial misconduct. How much of that legacy, in this investigation, is in the background when you're making these decisions on how to handle this crisis now?

McEWAN: It was very important and you're quite right. The Royal Commission showed the banking industry was not delivering in many, many areas that it should've been to its customer base and to the greater population of Australia. It did need to rebuild the trust that had been lost throughout the findings of the Royal Commission. The crisis that we've gone into, the industry – I think has worked very well with government, with regulators, with the Reserve Bank – and together I think we've done a very good job to date of making sure Australia is in the best shape it can possibly be. We did learn a lot out of that Commission. There are some basic things that we just didn't get right and we needed to admit to those and start fixing these things. I think it has become a lot stronger and you're seeing the way that the banks have all worked together, with the industry association and the regulators and the government to make sure that we're in the best shape that we possibly can - and putting customers at the forefront of everything we do.

MAN: You were just promoted to the CEO job, Ross, not too long ago, back in December. Between fighting the crisis right now and actually making real changes at the bank, how are you balancing your time right now?

McEWAN: It's quite an interesting situation to be in, which started as a strategic review, back in December last year. Just as we were coming to the conclusion of that review, we ended up with this crisis on our hands. My view was "keep going". We had very, very strong strategic positions, both in Australia and in New Zealand with our businesses. The prior leadership had left us good businesses

and certainly, in the business market and our corporate institutional in New Zealand, we've got a good, but not great, retail business that we can do things with, so actually, strategically we are positioned very, very well. So, our view was, keep going, try and take some advantage out of this COVID crisis and how we think about the business going forward and this crisis, I think, will create some opportunities.

I think it has brought forward many of the trends that you may have thought may have taken us 10 years, are now on us right now. For example, in the last 14 weeks the use of cash has dropped off dramatically, the use of cheques has dropped off dramatically, the use of ATMs has dropped off. These trends would have probably taken another 5 to 10 years to have emerged and all of a sudden people don't want to touch cash, so cash usage is down 25-30%. So, I think we are looking at saying, what could we accelerate? What are the parts of the strategy that we can bring forward to in the next 12 months not the next 36 months, and how can we shape the business to do a better job with customers using a lot more technology and our very good relationships that we have with our customers?

MAN: Obviously, we have seen a lot of aggressive action from central banks all around the world Ross, a viewer question asking about the Fed. The Fed has said that it will do whatever it takes. What about the [Reserve] Bank of Australia, where do you think interest rates are going?

McEWAN: Look interest rates I think are low, and are going to be low for a very long period of time. Our Reserve Bank has taken a very similar position, maybe voiced it in a different way, but they're there to be supportive and it was right from the very start. And as I said earlier, the banks, the Reserve Bank, the regulators and the government I think have worked very strongly together to create the best possible scenario that we will come out of this very well and look after customers in the community.

I think our Reserve Bank stepped in very early to make sure that there was liquidity in the system and that is working, it has not been an issue and my view is that they will continue to do so as they need. But it's also been all the parties working together, we've had a government that very quickly moved to support the economy through programs such as the JobKeeper program, to try and keep people connected to their employers, so that when COVID-19 in Australia starts to ease people back into employment.

So, there has been a lot of programs that have been put in place both at federal level and at a state level in Australia, that I think will stand the test of time and show to be the right things to do. But it's not over, there many other programs that may need to be put in place.

MAN: Negative rates in Australia, Ross? Could it ever happen Ross?

McEWAN: Look it could happen, but I don't see it. I'm not convinced that negative rates are where people should go. Having experienced that up in Europe, where it got into negative rates, I'm not too sure how you get yourself out. So, the first thing is, don't go there. There are other mechanisms that can be used to help stimulate an economy.

We've got very low rates here, at 25 basis points, I'm not convinced that we need to go any lower. I'm not too sure what the benefit would be.

MAN: You mentioned about the JobKeeper program, these wage subsidies to keep people attached to their employers. Stimulus programs we've seen from the government as well as the RBA. Is there a concern for you Ross of what happens when this huge government stimulus starts to get withdrawn?

McEWAN: Well, I think the government, as I've said, has done a very good job of stimulating to keep things moving along while we go through this crisis. I don't think governments can continue forever to do that, but I do think there's a path to look after industries that have been very badly damaged that will take a lot longer. I would expect to see some of those industries with some form of support for a long period of time.

You've seen, here in Australia, the government has started putting in place packages for building of homes to make sure the construction industry, which is very essential here in Australia because of the

need for more homes, that is kept stimulated and moved along as well. So, I think there'll be smaller programs that will supplement as we go through this and each one will have a very clear purpose and it will be ready to help industries move along until they can stand on their own two feet.

MAN: Ross, just bring back the poll survey that we have with our guests here today. 32 per cent say they expect this economic recovery to be more of a U shape, 51 per cent say it's W shaped as well so that's kind of where things are tilted at this point. The economy obviously is going to take some time to come back, there's also going to be pressures on banks as well. Are shareholders just going to have to get used to a less profitable future?

McEWAN: Well, I think in the short to medium term it's quite clear that there will be a less profitable banking system here in Australia. But, I say short to medium term because in the long term, it's a very strong economy here in Australia. We went into this situation actually in a very strong position from government debt levels and they have been able to support this economy. The banks were in a very strong position from a capital and equity perspective. So, there are a lot of very good things about the Australian economy leading into this crisis and it will emerge again.

And I would suspect that people are looking at the performance of both Australia and New Zealand with some form of admiration, and I suspect there would be a lot of people that would like to be living down this part of the world as things settle down. And, Australia has always been very open for skilled migrants to come into this environment and to get the economy going. And I see a time where we get into maybe 2022 that this economy will be back to GDP growth equal to or greater than where we finished 2019. What the recovery looks like, I'm not too sure whether it's a V, a U or a W. Today, having experienced a second wave of increases of the virus in Victoria, it feels more like a W. I think it's just uncertain.

MAN: Ross, you did some bold moves after your last earnings call, your earnings report. You've talked about the recent capital raise, you did a dividend cut as well. Do you think NAB has enough capital to get through this crisis?

McEWAN: On the scenarios that we've run, yes, we do, but our view was that going for capital early showed a strength, and made sure that we've got capital to take our customers through the experience over the next 18-24 months. Make sure we're in a very strong position coming out of this in 18-24 months' time so that we can take advantage of the opportunities and support our customers – that was the main aim of what we did. It was actually a very, very big day. We brought our results forward by two weeks, we did the strategic review on that same day, and we raised capital. But my view was, be decisive, look after the balance sheet because that is what is going to see this bank through and always remain in a strong position. And I think that's something I certainly learnt up in the UK with the experience I had with the Royal Bank of Scotland.

MAN: Ross we'll leave it there but we appreciate your time and all your insights here today. Ross McEwan, NAB CEO, joining us there, thank you so much.

ENDS