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Operator: Ladies and gentlemen, thank you for standing by, and welcome to the National Australia Bank full year results media call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question and answer session. To ask a question during the session via the phones, you will need to press star-one on your telephone. Please be advised that today's conference is being recorded.

I would now like to hand the conference to your first speaker today, Mr Mark Alexander, General Manager Communications. Thank you, please go ahead.

Mark Alexander: That sounds very formal, just [unclear]. Hi everyone, it's Mark. I'm here with Phil. You obviously want to hear from Phil. We've got some media in the room with us here in Sydney, and obviously you guys on the phone. I'll pass to Phil to make some opening remarks. We will throw it open to questions from the room and the phones, and we'll go from there.

Phil, over to you.

Philip Chronican: Thanks, Mark. Thanks everybody for taking the time this morning. Obviously, it continues to be a difficult time in the industry, and we are doing what we can to make sure that we address all the issues at the pass, but importantly, prepare the organisation for the future.

Over the year we've taken a number of clear actions, both financial and non-financial actions, to make sure that we are properly meeting both customer and community concerns, and meeting their expectations.

We have done a number of things to strengthen our financial position. Obviously making sure that we provide, as far as we can, for all of the customer remediation issues that we're aware of.

In the first half we lowered the dividend rate, and we've maintained that rate in the second half at that lower level. We continue to build our capital to ensure that we can comfortably meet APRA's requirement of 10.5% unquestionably strong by January 1.

The businesses are mostly performing reasonably well. Some parts of them quite strongly, like our small business lending, and our New Zealand business and home lending businesses. Obviously, the low interest rate environment does provide significant challenges, and will provide revenue headwinds going forward into the next year or two.

Importantly though, we are continuing to change the organisation, and we are getting real benefits from the transformation program that's been underway for the last two years, including significant investments that are paying off in our digital capabilities, and significant uptake in that.

Continued growth in our small business lending, improved resilience and rigour in our IT environment with the significant reduction in critical [unclear], and continued productivity growth with overall expense growth of less than half of 1% in the year just gone, again demonstrating that we have been able to accommodate much of the uplift in risk and mediation costs - sorry, risk and control costs, without having to increase overall expenses. That's because of the benefits we have been getting from the transformation program.

With that, I'd like to take any questions that anyone has.

Unidentified Participant: (Journalist) I'll kick off, then. Phil, the CET1 ratio is still slightly below the 10.5. Can you just provide a bit more colour on what you're doing there to get to the 10.5 by January 1? You said there's other DRP…

Philip Chronican: Yes, so today obviously in parallel with the announcement, we are putting a discount on the dividend, the investment plan and having a partially underwritten plan. That will take, on a pro forma basis, will take the CET1 ratio from about 10.38 up to 10.75, so well ahead of the 10.5.

As a result of the lower dividends, we're now - each half we will be organically generating around say 20 basis points, 23 basis points of capital. Actually, with no other adverse news, we'd be hitting 11% by March under that scenario anyway.

There's a number of other moving parts of course in the capital picture, and a lot of people focus on the negatives. There are one or two things that turned adverse this half that could easily unwind. We're pretty comfortable that not only that we'll meet 10.5%, but actually we're on a trajectory much more towards 11%, absent any untoward activity.

Unidentified Participant: (Journalist) Does that take away any reason to raise capital, given that you'll be above - you'll have 50 basis points above [the line?]

Philip Chronican: As I said, absent any further untoward, or bad news, that we're on a trajectory towards 11% and we think that gives us lots of comfort.

Unidentified Participant: (Journalist) Phil, I was hoping you could speak a little about the political climate. There have been, on a range of fronts, a number of pressures.

Remediation you mentioned very early in the document. Also, as you mentioned increased capital requirements as well as the ongoing debate about passing on interest rates. To what extent can we ascertain that the political environment at a federal level is reflected in these results?

Philip Chronican: Well, it's hard for us to reflect political environments in our results, but can I just say the most important issue that I think our leaders in Canberra and our leaders in business need to focus on, is that if we're going to have sustainable growth in Australia it needs to come from business investment. Therefore, the more we can do to drive confidence in the small business community, and ensure that we as banks are able to be in a position to support that confidence with credit, the sooner we're going to get onto a sustainable growth path.

Unidentified Participant: (Journalist) I note that the net interest margin had some pressure as well. Do you think that the banks broadly in your organisation are doing a good enough job of prosecuting that case and explaining to the public the funding cost pressures that you're under?

Philip Chronican: I think we can always do better, it's obviously difficult to get a message through in a very crowded news environment. What we've highlighted here is that when interest rates fall, there are winners and losers. What we are acutely conscious of is that while we've been able to reduce the costs to our borrowers by a certain amount, that's come at a significant cost to both depositors and to our shareholders.

I don't think we - one of the points we are trying to make here is that continued reliance on monetary policy alone is reaching its limits, and that we need to get focus back on what's really going to drive growth. The biggest barrier to businesses investing is not interest rates, it's business confidence.

Unidentified Participant: (Journalist) What can the federal government do to help that along? Obviously there has been talk around tax cuts, which has come through more so on the personal side as opposed to the business side, other tax reforms, increasing the GST and removing other taxes. Can you talk through what you think, given you're the biggest business bank in the country? What can be done?

Philip Chronican: Well, a couple of things. I think it's helpful if governments focus on the true impediments to business investment. A lot of that is to do with the increasingly complex regulatory environment that our business customers have to operate within. Yes, it's helpful to have tax cuts. Yes, it's helpful for broader macro-policy settings like mediumterm tax reform. I'm not saying they aren't important, but if you wanted to have a near-term stimulus to business, it would be to lower the regulatory burden on small business to enable them to invest to grow. To find out more about what the impediments are to the credit cycle working smoothly. I think those are things that might actually have an impact in the next year or two.

Some of the other issues that you've suggested there I think, yes, may well be supporting of growth over the three/five/seven years. But if we want to be a kickstart to a business investment cycle we'd be better off focusing on microeconomic reform and regulatory reform.

Mark Alexander: We might just take one from the phones.

Operator: Your first question from the phones today comes from the line of Clancy Yeates from Sydney Morning Herald. Please go ahead.

Clancy Yeates: (Sydney Morning Herald, Journalist) Oh hi Phil, I'm still just going through the results. But what's your outlook for loan growth? Do you think you'll be able to grow ahead of system in both mortgage lending and SME?

Philip Chronican: Yes, obviously SME in Australia has been growing well ahead of system, even the system growth has been slowing. We have got no doubt that we can continue to grow ahead of system there. We have fallen behind in the second half in home loans in Australia so we have got work to get back to system growth. But the numbers I've seen of the last four weeks to six weeks in terms of applications suggest there's pretty strong momentum coming through there. But that's clearly an area of focus for us.

In New Zealand we are growing ahead of system now I think across almost all major categories. So I'm pretty comfortable that we can grow broadly in line with system credit growth or better. But obviously that's going to be a low number credit growth, it's going to be a low single digit [gross/growth] number.

Clancy Yeates: (Sydney Morning Herald, Journalist) Okay, and then the net interest margins are they kind of - I mean are they coming under pressure just given rates are flowing through and so on?

Philip Chronican: Yes, that's one of the points, and you'll see it in the presentation. Materials that even if rates were just to stay where they are today, as a number of the structural elements of our balance sheet unwind and get repriced at current rates that'll have further downward pressure on interest margins. So it certainly is an uphill struggle on that regard.

Clancy Yeates: (Sydney Morning Herald, Journalist) Okay. I mean [do you then] want to talk about revenue growth and how it's harder to get revenue growth? Well, even just profit do you reckon you'll be able to grow the Bank's profit in the year ahead?

Philip Chronican: Ah, look, it's a pretty fine line to be honest. I think you've correctly identified that top line revenue growth will be hard to achieve. Therefore profit growth will really be a function of how well we manage our expense base and how well we manage credit costs. So I wouldn't want to put a number on it because we're talking about very small differences there.

We might take another one from the phones, yes.

Operator: Your next question comes from the line of James Frost from The Australian Financial Review. Please go ahead.

James Frost: (The Australian Financial Review, Journalist) Hi Phil, I hope you can hear me there. I was just keen to know, the word disappointing is mentioned a few times. Could you help us zero in on what's been most disappointing about the result. Is it the Consumer Bank performance for instance? What's disappointing?

Philip Chronican: I think the home loan growth in the second half is disappointing. But I would make a point that in - within National Australia Bank we have traditionally sourced quite a significant number of home loans from our business customers. So it's not purely a Consumer Bank issue. But home loan growth in Australia is clearly an area of disappointment for us.

The second is simply the fact that we've spent quite a lot of leadership time not on growing our business and looking after our customers, but on going forward - but on remediating issues and dealing with regulatory and litigation issues. So it's disappointing to be in a position where we have to deal with it. I think it's fair to say that it's largely of our own making and therefore it's appropriate that we deal with it. But nonetheless it's frustrating.

James Frost: (The Australian Financial Review, Journalist) Could you nominate an area of red tape or microeconomic reform where you think we'd see some immediate benefit, as you referred to before?

Philip Chronican: Well, obviously in our own case getting a clarified and simplified approach to the responsible lending issues would certainly be helpful. In the case of our customers I think that a lot of it is tied up in many of the - for example, in the property side of it, a lot of it is tied up in many of the planning and development issues that they have to get involved with.

James Frost: (The Australian Financial Review, Journalist) So with your SME customers and their home loans, and you're talking about that flowing through to the Consumer Bank. Would you like to see some easing there, particularly around complexities around the treatment of people putting up their homes as security for business loans?

Philip Chronican: Yes, it's a little bit - it's less of the security being put up and more to do with the confusion around whether or how the responsible lending legislation applies to self-employed business people who by nature have variable income. It's just a complexity where we don’t have agreed market practice yet.

Mark Alexander: We’ll take one more form the phones.

Operator: Your next question from the phones comes from the line of Emily Cadman from Bloomberg News. Please go ahead.

Emily Cadman: (Bloomberg News, Journalist) Good morning all. Just on the customer compensation side of it, it's obviously been the big hit to the results this year. How confident are you that you've now provisioned through it fully? Or are there still the risks of similar sized bills to come next year?

Philip Chronican: Well, I'd hope we would - I would be very disappointed if we had similar sized bills next year. But I have to say, while we have provided for all the issues we can know about. We can never be 100% certain that it's fully provided because there are assumptions that underlie the amounts that we have provided. As we dig deeper into these issues we may have different experiences.

So I think it would be irresponsible to say that we are 100% certain because we can never know. Even on the issues that we have provided for we can't be 100% certain that we've got those assumptions right. Secondly, of course, there can always be other issues that we're not yet aware of.

So we've done what we can. We have provided for everything we can see and we have tried to be moderately conservative in the way we have provided for it. But I think it would be unwise to say that we're 100% certain.

Mark Alexander: I think we've got - sorry Emily.

Emily Cadman: (Bloomberg News, Journalist) Look, this is obviously a different result from what Australian shareholders have come to expect over the past sort of 10 years or so. How much is this kind of lower growth and reduced dividends the new normal for banking in Australia now?

Philip Chronican: Oh, look, we're going through a period obviously of the currents of two cycles, one is the old remediation path which is a product of what's happened through the Royal Commission and the regulatory regime. That's happened at the same time as a period of extremely low credit growth and low interest rates. So those two things coming together obviously have had a big negative effect on the profitability of banking.

But one thing we know about our industry is that over time cycles change. There will be a growth cycle at some point in the future and we will be positioned to take advantage of it. How long the current period goes on for is something that I don’t think any of us can be certain of.

Mark Alexander: We'll take one more from the room and then I think we're done.

Unidentified Participant: (Journalist) [Gil Joyce] again. I was going to ask you around the MLC divestment. It looks as though there is a bit of scope there not to de-merge if those - if the public markets don’t sort of look attractive at that time next year.

Philip Chronican: Well, when we initially announced it, it was with a view to the de-merger being effective in the period just gone. Obviously as we fully grasped the size of the remediation work that was inappropriate because the business wouldn’t have been ready to be separated. Because obviously we can't separate the business until those issues are appropriately dealt with.

The second - so there's three things really that need to be in place for separation to occur. One is, we need to make sure that we're sufficiently well advanced on that remediation. So that we're not handing on a legacy liability to the new shareholders. Secondly, we need to complete the functional separation of the business and make sure it's on a healthy footing. That’s the work that's underway with Geoff Lloyd leading it and progressing very well.

Then thirdly, the market environment has to be right for a whatever the sale mechanism is. So let's say it's a float, for that float to succeed. So we'll keep those under close review. Our current plan is still that we will execute that during her course of calendar 2020. But we're not going to box ourselves in to sell something at an inappropriate time.

Unidentified Participant: (Journalist) Phil, just as a quick follow-up to that. You mentioned cycles in the banking system earlier. Do you also see potentially a positive uplift in the cycles for wealth management? Is it feasible that the wealth management business could potentially stay within the bank?

Philip Chronican: I think our decision to separate it is still the right decision. I don’t think it's our intention - we have no intention to keep it. We're looking for a way of separating it. There's a whole host of reasons that sit there, which not least of which is that I think these businesses are likely to perform better as independent businesses.

The important thing for the wealth business, particularly in with high dependence and relationships to the superannuation industry, is it's got to be a cost-effective and it's got to be a performing business. Therefore there's a lot that we have been doing to make sure that the superannuation business is fully competitive with other providers in the marketplace.

Obviously in the year just gone that's had an [earnings unclear] as we've repriced products to be competitive. But we're also starting to see that that has the effect we would hope it has, which is that customers stay with the business and we see some growth.

Selling a growing business obviously is going to be a lot better than selling a business in decline. So even though there may be an upswing that may be - maybe that's the upswing that provides the right opportunity for the separation.

Mark Alexander: Thanks very much everyone for your time this morning and appreciate your interest in that. Thanks guys.

Philip Chronican: Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating, you may now disconnect.

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