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TRANSCRIPT OF MEDIA CONFERENCE

NAB 2019 Half Year Results – NAB Group CEO Philip Chronican

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PHILIP CHRONICAN: Thanks very much Operator. You would have had the opportunity to see a quick view of the results that we are announcing today. I won't go into the detail of the financial performance, but I want to draw attention to the three key themes that we've been dealing with in the Company over the last six months.

First of all is of course how we're responding to the current climate. We had the report of the Royal Commission that came out at the beginning of February. We had our published APRA self-assessment, where we highlighted a number of issues where we have identified the need for improvement. We've had significant regulatory actions – by that I mean both enforcement actions and increased activity of regulators. And of course, we've had a significant effort that has had to go through remediating our customers for issues where we had not appropriately treated them in the past.

Obviously, at National Australia Bank, that's been significant and we have already had the resignation of our Chief Executive, Andrew Thorburn, at the beginning of February. Our Chairman has indicated he'll be stepping down later in the year. In addition to those accountability steps, we are today announcing further adjustments to the remuneration outcomes for a number of our senior leaders, both past and present. And acknowledging the Board's overall accountability and advising the market that the Board, the remaining members of the Board, will be taking a 20 per cent reduction in their base fees for the balance of this year.

The second key theme of the result is getting our financial parameters in order. We have already, in this half, raised $750 million in new equity through the converting preference share conversion and today announcing a dividend reinvestment plan underwrite, which will add another $1.8 billion of capital to the balance sheet. We are reducing the dividend from 99 cents to 83 cents, and that is a 16 per cent reduction in the dividend. The combined effect of these measures is to position us well for future shocks that may occur, as well as making sure that we're in a position to comfortably meet the APRA requirement of 10.5 per cent for the unquestionably strong capital ratios at the beginning of 2020.

The third key theme I wanted to talk to is, what's actually happening within the business. So, despite all of the one-offs, the changes, the customer remediation issues, the one-off restructuring. If you strip all that away, the underlying core businesses are continuing to perform well. Our New Zealand business in particular has a very strong performance with a 7 per cent increase in cash earnings over the year. And that's reflected both good volume growth, good margin maintenance and good cost control.

Our Business & Private and our Retail businesses – sorry our Business & Private and our Corporate Institutional businesses in Australia, are performing very strongly. While the cash earnings numbers are only slightly up or slightly down, the underlying trends in both those businesses are very solid. And our Consumer & Wealth business has obviously suffered from the overall margin pressure that is occurring in those activities, in those businesses. But we are very pleased in housing lending in particular, we've continued to grow strongly through the half.

In addition to that, our Transformation program that was set out at the end of 2017, is progressing well. We are halfway through the program and we are halfway through the benefits delivery. So, we are on track and we're continuing to deliver.

So that's the essence of the result and at this point I'm happy to take questions, either in the room or on the line.

JOURNALIST: Hi Phil, just on the reasons, strategic thinking around the cut to the dividend, you mentioned the need to meet APRA's unquestionably strong target of 10.5 and you've dropped below that this period, 10.4. Why have you decided to make that cut now, to what extent has the customer remediation charges that have also been reported in the results today impacted on that decision, there's uncertainty about capital in New Zealand for example as well?

CHRONICAN: Yes, look, I wouldn't draw too strong a link between meeting unquestionably strong [targets] and the dividend, the CPS conversion that we did and the underwriting of the dividend reinvestment plan has quite significant one-off impacts on capital, positive. The dividend issue is really more of an ongoing issue of are we, in an ongoing sense, are we accumulating surplus capital or are we continuing to struggle to maintain capital ratios. When we looked ahead given the number of new shares that we've been issuing cumulatively over the last two or three years, it was harder and harder to sustain a 99 cent dividend and we felt it was better for the company to be in a situation where, on the balance of probabilities, we're more likely to be generating surplus capital rather than continually having to raise new capital.

JOURNALIST: Hi Phil. Much of your mortgage growth has come through the third-party channel, is that part of a broader strategy or is this a reflection of market preferences, and also how are you preparing for any changes to the remuneration model in the third-party industry?

CHRONICAN: It's really more the latter of your point, which is, we would prefer to be able to sell more of our home loans through our own branded network, nonetheless market preference has been something 40 or 50 per cent of all mortgages are currently being originated through broker channels, so we need to be aware of that and position our business around it. I'm not sure where the broker remuneration model heads, of the 76 Royal Commission recommendations there were four that we reserved our position on, not that we were opposed to the four, but two of them related to the way in which mortgage brokers operate and we believe that the industry needs to have a more detailed analysis of what remuneration model is going to work for it and I don't think they're ready for that yet. I know both sides of politics have also reserved their positions on this one, so at the moment we don't know where that's going to land but we are looking at various contingencies, but I don't have anything specific to identify.

JOURNALIST: Phil I just wanted to ask you a lot of the analysts are pencilling in charges for the banks going forward to the full year regarding customer remediation, can you just give us a sense of where NAB is up to because obviously the aligned advisers, we did get an update from Westpac but NAB still hasn't given us an update on where they are at with theirs.

CHRONICAN: Correct. So, obviously we're trying to work through all the big buckets of these, but I would add that there are a lot of small buckets as well. I think at last count we had something like 82 separate remediations, some of them are quite tiny, but obviously there are some large buckets in there. I guess when we talk about three largest elements of that, for us anyway, they would be the NAB financial planning advisor service fees, which has been fully provided for as far as we know in this result. We have any potential mis-selling of consumer credit insurance, which we have provided for in this and I'm not quite clear of where the others in the industry are on that issue. Then we have the advisor service fees and the aligned independent networks, which I understand Westpac has now provided more information on. In order to raise a provision you need to get to the point where you can reliably estimate the number, we're not at that point yet but we have declared what the issue is, we have provided what parameters we can as part of this result but we weren't in a position to raise the provision at this point. Once we are in that position, and let's hope that's in the near future, I think then we will be beyond the large knowable items and we should be getting back to occasional small items as and when they arrive, but we can't know everything, but that's our best estimate at this point.

JOURNALIST: The second half will probably have an estimate?

CHRONICAN: I would like to think that's the case but the auditors rely on us, our ability to reliably estimate and that's what we need to get to.

JOURNALIST: Phil would you be able to give us an update on the CEO search? I know there's some minor mention of it in the document.

CHRONICAN: I can't really provide any substantive information other than what you already know, which is that we have a board sub-committee that has been managing the process. They've got in place a timetable and I know that they are tracking well on their plan, but we have not disclosed what that timetable is and I don't intend to do that today.

JOURNALIST: Just a quick follow up, you seem to have the highest half yearly credit impairment charge for a very long time, and once again it's blamed upon a small number of larger exposures. And just going back over time NAB has a history of being caught with companies that go broke and I just wondered if you could give us some idea of whether this is causing some review of what's going on in the people you're lending to or, as the country's biggest business bank, you're always going to be in there when something goes bad.

CHRONICAN: There is a point to that. When you are the biggest bank to business then when businesses get into difficulty there is a better than even chance that you're going to be there, either on your own, or in conjunction with some other banks. Our business banking is very profitable, and even though we have had an uptick in our credit impairment charges for this half, I think it's something like 15 or 16 basis points on our gross line assets. So, in a historical sense these are well below average numbers, it's just that because we have had almost no significant credit impairments over recent years when you get a couple they stand out. And, they're not huge, but I have been around long enough to see much bigger numbers than this at other banks.

JOURNALIST: Yeah, well Westpac was a good one. Just, is there any trend in that? Is it retail or is it…

CHRONICAN: Look, I think it's fair to say that retail has been a trend, although only one of the names in this current period would be the classic retail type name. We've had over the last three or four years a number of customers in traditional retail trade that have been in very small financial stress, and in this half one of those is resulted in an impairment.

JOURNALIST: Thank you.

CHRONICAN: The other one is a more obscure business I don't intend to get into.

JOURNALIST: Phil, just on the issue of executive accountability.

CHRONICAN: Yes.

JOURNALIST: This $5.5 million of remuneration that has been forfeited by the senior executive team, can you just talk us through how that was quantified and decided upon, and why you have decided to take that action?

CHRONICAN: So, when our remuneration report was published at the end of last year there was significant feedback from a range of different sources that we had got it wrong, and the most compelling part of that was an 88 percent "no" vote on the remuneration report. The Board felt we had to take that sort of response seriously and we reviewed the 2018 remuneration outcomes from the perspective of, if we had a full insight of what we knew now – as in post the Royal Commission report, post the APRA self-assessment, post the rem vote – would we have had a different view of rem outcomes for the affected executives in 2018. We looked across the executives, and rather than take an arbitrary approach, we looked at executives in terms of the issues relative to their businesses contributions to the overall issues set, and determined an approach for each of the executives independently. But I don't want to go into any more detail of the individual outcomes, I don't think it's appropriate.

JOURNALIST: Hi Phil.

CHRONICAN: Hi John.

JOURNALIST: The strong home loan performance, an implication can be that brokers are pushing business where their applications are processed quicker which could mean the bank is really efficient or it could mean it's not asking the right questions and maybe skating a thin line on, sort of, responsible lending and I was just wondering...

CHRONICAN: Look, normally I'd leap in here and defend our amazing process efficiency. I think while that is helpful, I think it is also helpful that we had a Standard Variable Rate loan – a Standard Variable Rate – for much of the first half that was below the rest of the market because we did not follow with our increase. That provided a positive impetus, so I don't rule that out. You will see we have published some other data that shows that our time to unconditional approval, therefore our process cycle time, did actually increase from 4.2 to 4.9 days on average. That is a function of the additional time being taken for verification of customer income and expenditure. What's also interesting though is that our approval rates are unchanged. So, what that tells us is that the underlining credit underwriting standards haven't changed. The approval rates are the same, but we are taking almost a full day longer on average to get loans approved, but it would appear in the industry context that it is not as severe as some others.

JOURNALIST: What's your opinion of how the responsible lending laws are applied right now?

CHRONICAN: There's not a lot of clarity around what responsible lending really does require. Indeed, I think there's a court case that we're still waiting on the outcome of in the next few days that might provide some clarity on that. But, verifying a customer's income is pretty well-established, although there's still a lot of judgment involved in that.

Verifying a customer's expenditure is inherently more difficult and that's why I think you'll see varying practice across banks because the question is not actually an objective question.

JOURNALIST: Great, thank you.

JOURNALIST: Good morning Phil. Consumer and Wealth took a big hit. Is this the new normal for banking in Australia? Are the golden days of retail banking well and truly in the rearview mirror?

CHRONICAN: They were great days, James. What we're watching, and basically what you're seeing in our consumer result, is the margin compression that has occurred in home lending over the last little while. And obviously, late last year that led to a number of banks increasing their SVR and as you know we were slow to join them but, ultimately, were forced into that. Margin compression is real, and even though we were able to grow our volumes, we're now watching the overall revenue contribution come down, so yes, I think we've seen better times. And I think with low overall system growth we're seeing intense competition for the growth that is available and I think based on what we've seen already with results this week, there are quite divergent outcomes showing up in the industry.

JOURNALIST: Hi Phil. I had a question on interest rates. Do you think the economy would benefit from a cut in official interest rates at the moment and if so, how does the RBA deal with the difficulties of perhaps doing that during an election campaign?

CHRONICAN: Thanks Clancy. I'll leave that to Phillip Lowe to make that judgment. The only observation I'd make is that when interest rates are at absolutely very low levels the effect of further changes in interest rates are relatively muted. So, I don't expect, whether there is or isn't an interest rate change in the next little while, I actually don't think it will have much effect and I don't think the last two or three changes had much effect either. Rates are at absolute low levels. People who wish to borrow aren't going to have a material change in their risk appetite as a result of them and of course it has the other effect on investors and savers. So, I don't expect any rate change to have a material effect.

JOURNALIST: Are you at all worried about a change of government?

CHRONICAN: I've been around a long time and have seen changes of government on a reasonably regular basis and the banking industry has worked with governments of both flavour over a long period of time so, I don't think worry is the right word.

JOURNALIST: And, do you feel as though you can trust Bill Shorten?

CHRONICAN: I'm not sure how I could answer a question like that.

JOURNALIST: Just in the sense that he's said he is actually pro-business.

CHRONICAN: I've worked with Bill Shorten actually quite a lot. In his last time as a Minister. I've worked with Chris Bowen. So, these are people I've had constructive working relationships with in the past.

JOURNALIST: Can you just give us a bit of an update on how you see the business banking environment over the course of the next twelve months. Obviously if you don't expect an interest rate cut in the middle of an election cycle…do you think things will return to a bit more of a healthier state or is this year likely to be a bit of a lacklustre year for businesses?

CHRONICAN: We still see good opportunities in business lending. Businesses, you know, typically when they look at expansion it's the confidence they can have that over the time horizons of their investments - and you know most of these investments are things that will play out over a say, a five-year period or so. Businesses want to know whether the markets they've identified and the opportunities they've seen are going to persist over a period of time and is the tax and regulatory and overall economic environment going to be stable so that when they run their numbers they can invest with confidence. My point about small changes in interest rates not having a big effect on it is, I think of all the things that can affect a business investment proposal, a change of 25 basis points or 50 basis points to an interest rate is actually relatively minor in that context. So, businesses will be looking to see whether or not it is an economic climate in which they can invest with confidence, if they think the global economy is going to be supportive so there will be growth, do they think the tax and regulatory environment will be stable so they don't have sudden shocks when they make investments that adversely affect their returns from them. So, overall, our outlook for the economy is that it might be subdued in the sense that some of the very strong growth rates that Australia has seen over the last 15 or 20 years – growth rates of around 2 per cent, with inflation at very low levels, with interest rates at 1.5 per cent and unlikely to go much higher for some time – actually it's a reasonably, it might be subdued, but it's actually a quite sound business operating environment.

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