



Tuesday, 18 October 2022

**TRANSCRIPT OF TRANS TASMAN BUSINESS CIRCLE Q&A with NAB CEO ROSS MCEWAN**

**\*\*Check against delivery\*\***

**MC:**

Thank you so much. Thank you. Thanks so much for that, Ross. And welcome. It was a great lunch, wasn't it? They turn it on at the High Commission.

**Ross McEwan:**

They certainly do. And they did up in Paris as well. And a brilliant view in Paris as well as here in New Zealand. So, just follow the High Commissions around, I think. It's beautiful.

**MC:**

Fantastic. Can you give us an idea of the size of the organization, the group that you govern. In terms of market cap, in terms of people, in terms of branches. Can you give us an idea of the size of it?

**Ross:**

Yeah, well most New Zealanders would see the BNZ brand, which is very prominent here in New Zealand as a business and commercial and a personal bank as well. In Australia it's pretty much NAB, although we've also got a digital operation under UBank and also here and Australia run JBWere the Wealth Management business. So we've got operations in Singapore, Paris, the UK, US as parts of our business that interact with our customers and help our customers come both into Australia and out of Australia. Employ about 34, 35,000 colleagues. Market cap about a hundred billion Australian and just over a hundred billion, we tipped over a hundred billion and the markets pulled back again. So around a hundred billion.

**MC:**

Oh, that's extraordinary. And I was going to, whenever I speak to someone who's working in Australia or we talk about Australian politics, I normally tease them about the high turnover of PMs and difficult at times over the years to keep up with, I think the Brits are about to trump the Australians at the moment.

**Ross:**

I think they've done it.

**MC:**

Tell me a little bit about Anthony Albanese. Have you met with him? What do you make of his early leadership?

**Ross:**

Yeah, look, I had, because of my role, not because of me personally, I had the opportunity of meeting Anthony Albanese three times actually before the election. And interesting enough, when you come back to work people say, "Well, what's he like?" And I said, "I think he's pretty good. I think he'll be fine." And I think in the first, what has it been, about 120 days, we've got a government that's really listening. They're not lurching all over the place, they're actually listening, they've put some markers down on things like climate. And they've said, "this is what we're going for." And they've been very clear about it.

And the Australian economy is going along pretty nicely. So I think a very good early start from Anthony Albanese and Jim Chalmers and Penny Wong and the team there. And it comes after a very turbulent time because of COVID, which the last government had to wear at the end of the day. But I think a very good start.

**MC:**

Have you had the engagement with our government yet?

**Ross:**

No. I was supposed to be meeting your prime minister today, but that's being put off. So I'm catching up with Christopher Luxon this afternoon after this meeting, which will be interesting just to get a feel for what's going on in New Zealand and what they're feeling at the moment. I've talked to lots of customers. I've had the opportunity to talk to a lot of our colleagues at BNZ. I was over in Hawkes Bay Business Forum, 350 business people. So you get a good feel of 'what are people feeling?' in the country from having those conversations. So yeah, we've been talking to a regulator today, which is always good with our board. So no, it's been a good time.

**MC:**

On the issue of leadership, I want to talk to you a little bit about your leadership, because when you came on as group CEO was December, 2019. So we were just starting to talk about this thing going on in Wuhan. And I imagine the last three years has been pretty remarkable for you. How would you describe your leadership pre-COVID versus now?

**Ross:**

Well, there's some features that haven't changed and I suppose there's some that have. The things that haven't changed, having run the Royal Bank of Scotland for six years through a period of massive losses to making money and back paying a dividend, there are some things I think you have to be as a leader. And one of those is be very clear about what you want. In my team also, [would say] "we never die wondering what he's thinking". But I think if you are very clear about what you want, what you expect, the standards, and be very clear on what things are important to an organization. And we were just starting to do the strategic review of NAB when the whole thing closed down, people said to me, "Oh well we should just defer the strategic review." I said, "There is no way we're deferring the strategic review. We'll just do it all on Zoom." And it was the best thing we ever did because it gave very clear, more clarity about which businesses were in, which businesses were out, where we're going

to put our resources, what was important to the organization. We came up with a very strong twin pillars of importance, one being customer and being equal and one being colleague, which I think surprised quite a few of our colleagues, because everyone says, "I'll put the customer at the front," but if you haven't got great colleagues interacting with customers, you've got a problem. So we put the two pillars up and we report them to the board on a monthly basis. We report them internally to the organization quarterly, we put them into our remuneration. So what's important is that we measure and also we report.. And it's been very clear. So I think going through COVID, just becoming very clear about what's important was really important to a new organization.

**MC:**

I'm going to take some questions from the floor. If you have a question for Ross, just pop up your hand; there's a couple of microphones rolling around and if you could just introduce yourself as well, that would be really useful.

I want to talk to you a little bit about the two environments that we are in, or economies that we are in, in Australia and New Zealand, because there are some similarities. Your big earner or one of your big earners is also your thorn on your side; mining. We have a similar situation with agriculture. If you take a drone view of I guess the opportunities that are out there, the challenges that we are facing, how do you navigate through what we need to do to meet and become net zero economies?

**Ross:**

Yeah, they're quite different economies in the sense of Australia is very reliant on what we pull out of the ground. And right now people may not like it, but we've got a commodities boom going on in Australia. We're actually, the coal prices are extraordinary because economies of the world need desperately energy and we may not like coal, but it's coming out of the ground and being shipped off at extraordinary prices. The same with gas.

We've made the determination that by 2030 we won't be funding any more coal. As part of our transitional plans of moving to a more carbon neutral society, as a bank, we've laid the markers out. So it comes back to clarity. And I, as well, talking to one of our coal mining customers the other day, and they said, "No, we are very clear around by 2030 that we can't have you out earlier." And I said, "Well, what's your path down?" And they had a very clear path. So every business that we're talking to has a clear path. So there's not a lack of motivation around it, but it's going to be difficult. And gas is a transitional fuel. Now we can't just turn the coal off and the gas off, the lights go off. And I would receive pretty much every day. I've had, Linden will tell me, five, maybe 10 letters from people saying, "Stop funding coal." Well, it'd be interesting if we stopped funding coal overnight and we stopped coal. We'd probably have a major difficulty with price spikes on energy. You have to transition. In New Zealand it's a little bit different because the big piece is the agricultural sector. 43% of emissions are coming out of animals, and we can think that's a disaster. I actually don't think so. I think it's a major opportunity that biotech industries will emerge, and they are emerging, to find the reduction in methane. I gave you one example and I've personally got some money into another one that actually supplements that. We think that 90-plus percent of the emissions of methane will be reduced in animals, particularly cows.

That will be a few years away, but it's coming and it's coming very quickly. That actually, if New Zealand gets behind those technologies and stops bashing up on the agricultural industry, which is vital to this country, it's vital to this country. We need to actually find the solutions to support the agricultural industry. And there aren't too many farmers trying to do

bad things and trying to actually run their farms in a good, eco way. Let's get in behind and support, this country will make the transition I think quite nicely. You've got wind, you've got sunshine and you've got water. Great things for power as well. So, two industries pretty well covered.

**MC:**

Indeed. I have a question I think. Indeed.

**Question:**

Thank you. Perfect intro to the question that I had which is really, how far do the banks have to go here and around the world to help drive net zero? What are the banks and the financial institutions going to do?

**Ross:**

A great question. Can I take it from where we are, from a banking perspective? First off, we are working with the top 100 emitters, which is a big chunk of the emissions, on their plans to get to carbon neutral by 2050. We've worked through about two thirds of the way through that group of 100. To date, we have not found one of them resistant. They have all been very interested in their plans and how we can support in that transition. Some are going to have more difficulty than others, but if you have a look at some of the cement industry, which is a bigger emitter, some making pretty big plans and developments even here in New Zealand and in Australia. You've got the coal industry, you've got the gas industry. Some very interesting things that they're looking at doing to reduce carbon or and indeed, the reduction. I gave an example over at Hawke's Bay of a brewer in Australia that themselves had gone through and said, "What's our emission? What's the cost of this energy and emission, and how can we get it down to net zero in the next two years?" And already funded to do it. So, it's everybody doing their piece, but we do need to help.

We need to get the energy sources onto a far more renewable sense. As a bank, we are the largest funder of renewable energies in Australia and in New Zealand. We are the number one. We're number 12 in the world. But nobody wants to talk about 75% of my energy book. They want to talk about half a billion of coal. They don't want to talk about the billions and billions of the other set. So, I think we just need to get our conversations in the right place. But we are seeing more and more with working on the agricultural sector in Australia and New Zealand. All of these sectors, we're developing plans and actively working with them to get the reduction. I'm optimistic, but it's not going to be easy. We should not think this is an easy task.

**MC:**

Brilliant. Thank you, Ross. Next question please. Yes, we are getting one to you. Here we come, quick as we can. Oh, brilliant. It's all good.

**Question:**

You're talking about climate change. I'm just wondering about the sort of risks associated with the impact of weather conditions on housing or farms in New Zealand and what you guys look at or whether it's becoming an increasing kind of thing that you do need to look at.

**Ross:**

Becoming an interesting thing that we do look at. Insurance industry obviously has enormous amounts of data on Australia and New Zealand globally on weather patterns, where it's a problem to date, but likely to become a problem tomorrow. And that's going to have an impact on things like premiums, which will then start to have an impact on 'do people live in those areas?' for the costs. More from a banking perspective, if these areas are going to be constantly flooded, do we have a problem with our funding in these areas?

For example, in Australia, I've just spent \$2 million on refurbishing our Lismore branch, which has been knocked out for the second time in five years by massive flooding. We thought about, do we go back in or do we move it? Our decision at the end of the day was to support the community and to go back and to be part of the regeneration, but that needs severe work there to stop the flooding that's happened so frequently.

In Victoria right now, last week, devastating floods again in areas that haven't necessarily seen it that often before. Some had, some hadn't. This is my point about, you're getting more frequency of flooding and we need to be aware of it. It will have an impact longer term on A, do we fund these areas and what's the price of funding if you do? It will have an impact. We can't have other parties funding on behalf of... People have to take responsibility for the areas that they're operating in, and I think it will have an impact on over time.

**Question:**

And just because I've got you here, there's been a bit of a bidding war on Tyro Payments or there's sort of interest from a number of banks. Is National Australia Bank interested?

**Ross:**

Well, as you'd know, I wouldn't make comments on those sorts of activities, but thanks very much for asking the question. But seeing I've got the mic, BNZ has probably got the best offer in the merchant space, and in Australia we've just launched last week the first, on the Android phone, in Australia where you don't need that dongle thing that you pay for. You can just download the app in three minutes and make payments and receive payments. I think that's the first in Australia. But thanks for giving me the opportunity to say that.

**MC:**

Next question, please, from the floor. Yes.

**Question:**

Hi there, Jackie Madison from BNZ Private Bank. I'm really curious in terms of the three themes you've mentioned today, Ross. Overlaying that, I think is a sense of national productivity uplift and how those things align internally within NAB and BNZ then also for our customers moving forward. I think we saw examples with COVID and immigration and the skilled labor, what sort of technology and things like that and investment and support will you be providing for that type of ecosystem?

**Ross:**

Great question. It does come to the heart of, I think, having really brilliantly trained colleagues with great technology. Technology in itself I don't think does the job. And part of the strategy of the bank was actually to rebuild our relationships with our customers. Because I firmly believe banking hasn't changed much in 200 years, maybe 300 years. It's

about people. And I sense that, particularly in parts of the market, and with ourselves, we were moving away from that fundamental of a relationship. For me, it's relationship supported by great technology gets the productivity uplift. And we are doing more and more end-to-end work on how do you get, for example, a small business loan through in 20 minutes, front, finished.

And we've mastered that with a thing called QuickBiz. We are now looking at the mortgage, not just taking an application but an application that's approved or turned down within an hour. We don't have to do anything else. We're happening. It's on. And those have been major challenges, but technology's enabled us to do them quite advanced, which has helped with our service levels but also helped our colleagues have great conversations and not worry about ridiculous processes that take forever. And we've got a long way to go and that's why I love getting out and seeing colleagues. And I usually only ask them one question and that question is, what's the one thing you want us to fix for you? And it's amazing what usually comes out when you ask just one. And I said, you don't have to tell me now. You can drop me an email. You know my email, because they all do, drop me an email.

The cheeky ones will ask two, but most of them just ask one. And it's mostly around process, so that they can spend more time with customers. And that's where I think the productivity uplift comes. We've seen about a 30% productivity uplift in our business banking over the last 12 months because of that in Australia. 30% is massive. But it's around the connectivity of great colleagues with much, much advanced technology. And then I thought, Angie Mentis, who was running BNZ now looking after digital data. So how do you use data to help colleagues and help customers do better things?

**MC:**

Thank you. Another question from the floor for Ross?

**Ross:**

Very quiet group.

**MC:**

It's Wellington, you see. They're all very polite in Wellington.

**Question:**

Rachel Woodhouse from BNZ as well. My question is probably a bit broader. I'm really interested - you see so much more than we do and I'm very curious as to how you see Ukraine playing out and some of the impacts that could have for us?

**Ross:**

Well, let's start with what's going on in Ukraine is a disaster, humanitarian disaster. And to see one country try and take out another in this way is just... I think we should all be concerned. And I'm delighted that Australia, New Zealand, the United States, and UK are in there supporting as much as we possibly can.

And then you think about the ramifications globally. You think about what's happening in Europe. They're going to have a very cold winter, I suspect. And the same with the UK, because a lot of the power or the gas comes in there, and it's going to be pretty difficult. So everybody's worrying. What's going on? Look, I don't know how it's going to end. You've got

a very determined human being wanting to take something back. And if you look at the history of these countries... I'm reading 'A Concise History of Russia' at the moment, which is well worth a look at. These sorts of battles have been going on for thousands of years, of taking bits and then taking them back. And it's quite an interesting history in that area. And what you've now got is somebody saying, no, we want to be on our own, thank you. And they're fighting for their freedoms.

So look, I don't know how it's going to end. I think we just need to be supportive. It's a country that wants to be on its own and doesn't want it be controlled by something else. So it's a big focus for all.

**MC:**

Another question down here in the front. You've got the microphone. Making you run today. Thank you.

**Question:**

Thank you. I'm Jane and I'm a board member in Australia, New Zealand and Singapore. So hopefully can have a [inaudible] if it makes sense. I'd just like to go back to your climate change discussion because I'm very pleased to hear you talk about the transition process. I just wonder how you see the timing of these. What we all hope, I think, are just transitions, so that we don't have major dislocations of people's jobs and livelihoods and capacities to contribute to the economy. But we don't have much time. And I just wonder how you see that timing piece fit into the optimism that you offered earlier.

**Ross:**

Yeah, Jane, thank you. Nice to catch up with you again as well. But I think 2030, let's put a sort of semi-stake in the ground, on their way to 2050. And I think that's quite helpful, that we could see some of the action happening. So for example, from our own perspective, we've set a goal that gas is a transitional fuel. So we've capped the amount we'd lend into the gas industry till 2026 and then we've measured it all the way down to the 2050. So the transition we've capped, so we're not lending anymore, unless it's for national security supply. And I think that's really important and we don't expect to be called on, but if we are, it's a national security supply issue, we'll help out that.

We've done a lot of measurement on this. By 2026, some of the transitional fuels start to kick in to the extent that we can see that's certainly in gas, but gas has got probably another four years plus. Coal, however, we've got to move on a lot faster and get rid of the low quality coal as we transition as well.

So we've said 2030. So I think most organizations have points along the way that they're being judged against. And we've certainly put our stake in the ground. So we're coming out later this year with four other industries that we're working through. And what we see the [inaudible] time frames and hopefully the following year will come out with the other six to get the 10 industries. And as I say, four make up 90%. You've got to get to the significance as well. So is there a lot of... I'm not going to put a lot of energy into, for us, a small industry from our perspective. It may be big for somebody else. I'm going to put our energies into the bigger ones that make a difference. And for us, when you think about the home lending box, homes, your home and mine, the big reduction in energy in the home is energy coming in. And if we can get that renewable scope three comes down dramatically, and the same with commercial property. So we've got some real opportunities when it comes back to

managing. And for New Zealand, it comes back to emissions in the agricultural sector is a big one. But can I say I'm optimistic about the solution for that?

**MC:**

Oh, we've got one over here, too. It's all on now. We'll take this one first.

**Question:**

You were talking to us earlier about wholesale funding costs going up. Can you talk about how high they've gone and what's driving them and where you think they're going?

**Ross:**

Yeah. The latter one, I've got no idea to be honest. Depends upon what the wholesale markets think the risks are. But just so people understand, a bank like NAB or BNZ isn't just funded out of their own deposits. So whilst the money gets held by the reserve bank and you get the overnight cash run rate, we do about 20, 25% of our funding through wholesale markets, i.e., large players in the New Zealand, Australian, and overseas markets. And the price of that funding has escalated quite dramatically over the last six to 12 months. So whilst the cost of funding has gone up through the overnight cash, you've also got your wholesale funding rates that have probably move from 100 basis points to 400 basis points. That then gets reflected through into your mortgages and all your other lending as well.

Where that goes to, I'm not too sure, but if markets get more and more spooked about what's going on in the world, that cost goes up because any investor wants a return from the risk. And I think there's a bigger risk, they want a bigger return. Now we are blessed down here in Australia and New Zealand with a very well regulated banking sector and also a reserve bank in both countries that are respected. So that does help, but people want a return on their money and when you're putting it into the wholesale market, they're expecting a greater return at the moment. And that also influences what flows through into your mortgage rates. So it's not just what Adrian Orr or the Reserve Bank does in Australia. There are other factors as well.

**Question:**

Ross, Hamish from Salesforce. Following up on the Ukraine question, more locally, China has come out with some interesting statements in the last couple of days, they've got a geopolitical situation with Taiwan which will impact this region dramatically and we've got supply chain issues coming out in China. What's NAB's view on that sort of geopolitical tension?

**Ross:**

Well, it's probably been most felt out of Australia where there've been some trade costs put on some goods out of Australia into China over the last couple of years. I think it's a case of we just need to all respect each other. And respect different views to be quite honest because we all have them. And I'm just wondering that the world's, not just at the geopolitical level, but right across our own societies, is becoming quite intolerant to different views. And I think we just need to have a hell a lot better conversations with each other and understand people's different points of views. But there are tensions, I raised that. And a move on Taiwan would what I think create some real difficulties. We're very connected to some



players in that part of the world and to America and it would create some problems. But let's see if we can work our way through them as opposed to getting to that point.

But we've seen the world take action when somebody does move on somebody. And the world came very quickly together on sanctions, even to the point of closing down the SWIFT system, which is the international payment system, pretty much within a couple of weeks. And I think that's surprised people how quickly the world will move on when they don't like what's going on. And yeah. Probably better way to find things than having wars with each other.

So look, there's lots of tensions and I think we've got an opportunity, Australia and New Zealand, to stay very bound together for everybody's sake. So who knows? I'm not a geopolitical whiz on these things. We've just got to work our way through. But also from a business perspective, we just cannot have all our eggs in one basket. And we saw that with supply chains. Many organizations had difficulties when a supply chain fell over through COVID and it wasn't all in China. Some of it was in other countries as well. So lots of normal business risks that we have to be thinking about and having alternatives to.

**MC:**

Ross, just finally thank you so much. But the theme today was better together and I'm going to put you on the spot a little bit here and ask you that if there's something that everyone could take away with them today about that concept of the two economies, what would it be?

**Ross:**

Well, we have freedom to move and freedom to move goods in and out of each other's countries. And are we taking the most advantage out of that? We have freedom of labor to move backwards and forwards as well. We're taking the most out of that advantage and I think we could do a lot better together. As the high commissioner said, we've got a magnificent arrangement between two great countries and we should see each other as just fantastic training partners on everything.

And also moving into the world together. How often do we have even states of Australia going into different parts when Australia and New Zealand could hold hands and go and do some of these things together as well on trade missions and having representatives for both countries there together rather than competing with each other? So I think we've got lots of opportunities sitting under our nose and often, I know from business, we look somewhere else instead of looking to ourselves first. I think it's some good opportunities there.

**MC:**

Ross, thank you so much for sharing.