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TRANSCRIPT OF MEDIA CONFERENCE

NAB 2023 Half Year Results – NAB Group CEO Ross McEwan

E & O E – PROOF ONLY

NAB GROUP CEO, ROSS McEWAN: Good morning. Our HY results show NAB has delivered another strong, clean financial performance.

Underlying earnings increased by 18.4% and cash earnings rose by 12.3% over the half. We have delivered a strong increase in cash return on equity to 13.7%.

The interim dividend of 83 cents is a 5 cent increase on the second half 2022.

These results reflect the consistent execution of our long-term strategy over the three plus-years since we announced it.

This strategy is focused on delivering better outcomes for our customers and colleagues – regardless of the environment – and it is serving our customers and our bank well.

The results reveal strong contributions from all of our businesses. I'll now call out a few of the highlights:

- A 14.8% increase in underlying profit for our largest division, Business & Private Banking. This is a market-leading franchise and we continue to grow and invest in it.
- Corporate & Institutional Banking achieved a 20% increase in underlying profit, driven by increased revenue in our Markets business.
- Personal Banking and New Zealand Banking have both delivered good results in challenging environments, with over 10% increase in underlying profit.

As I said in November, we are making deliberate choices about where we invest and where to pull back. As well as our business franchise, we have grown other target segments including high-net worth customers, unsecured lending and Ubank.

At the same time, we have taken steps to moderate growth in home lending given the current market dynamics, which have seen new loans written well below the cost of capital.

The importance of strong, stable banks has been highlighted through recent market volatility offshore. Growth for our bank needs to be safe and sustainable.

Our funding position remains strong. Our tier one capital ratio increased over the past six months by 70 basis points to 12.21%. This is well in excess of our target range of 11-11.5% and above the unquestionably strong benchmark set by regulators.

This puts us in a great position to support customers and navigate an uncertain environment.

We expect the local economy will slow this year given the rising impact of higher rates and inflation. Overall, our customers remain in good shape. But we know the cost of living is hurting some and our message remains that we are here to help.

While there remains uncertainty in the outlook, it seems increasingly likely Australia will avoid a pronounced economic correction. There has been encouraging signs inflation has peaked, however the RBA has shown again this week it will act to get inflation under control.

There are other reasons to be cautiously optimistic. I'm out with customers every week and they continue to tell me that their businesses are growing. They say it's still hard to get labour with the jobless rate remaining near historic lows. So the message here is it is likely to feel harder over the next six to nine months, but the Australian economy is proving resilient.

I also want to touch on another area of significant concern for our customers: the sharp rise in fraud and scams.

This is a global crime wave that we will never stop but we must make it as difficult as possible for these criminals to target Australians and New Zealanders.

Actions we have taken include additional resourcing, investment in customer education, 24/7 account monitoring, security alerts and proactive payment prompts.

We're also working with telecommunication providers to limit NAB-related spoofing calls and messages.

For three years now we have seen the benefits of executing a clear and consistent strategy. We are focused on the long term. Our strategy is about getting the basics right and delivering better outcomes for customers and colleagues – regardless of the environment.

I remain confident in the outlook for NAB in Australia and BNZ in New Zealand.

Thank you for joining us and I'm very happy to take your questions.

JOURNALIST: Thank you for taking questions Ross, and good morning. My question just relates to residential housing prices. We've seen a couple of months now of prices starting to rise again. Do you think that housing prices have hit the bottom and are set to increase from here?

And if that's the case Ross, I just wondered if you could just talk a little bit around the demand and supply side. Do you expect to see increasing demand for housing credit if the market starts to lift off the bottom? And on the supply side, have you got any concerns with higher levels of immigration and ongoing difficulties in residential housing approvals in the CBDs, and will there be a bit of a supply side squeeze that might see prices accelerate even further? Thank you.

RM: It's a big set of questions. First off, I think what we are seeing is there's very few houses on the market for sale at the moment, and that is creating… house prices we think will bottom out from a decline that's been happening over the last six to 12 months.

I think you're seeing more and more prices going sideways as opposed to down. It is a demand and supply issue – not a lot on the marketplace, lots of people looking for it, lots of people looking for rental accommodation. And the big issue is we need to actually get more supply through more building going on, and what is quite a difficult construction sector at the moment for residential housing. But a number of the areas here, that probably need to be addressed, sit around council and states making sure tracks of lands are available so that we can get building again. And there's a supply and demand concern, and of course with immigration starting to happen again – both on permanent immigration and temporary – there's going to be continued demand for housing. So, we need to get the supply sorted out pretty quickly.

JOURNALIST: Thanks, Ross. I'm just trying to extrapolate. All the divisions there, you've got double digit earnings growth in there which is probably the first time I can remember for NAB for 15-20 years. I'm just trying to pull that apart. So, how much of that would be related to the banks getting a benefit from the higher interest rate environment as opposed to the hard yakka of restructuring?

RM: I called out in my commentary that it is to do with higher interest rates, but we also have been growing the book and making sure that our growth is in areas that are giving a reasonable return to the bank and cost of capital. We have had growth, remembering in our prior 12 months to this half, very strong growth across the mortgage book, across our Corporate and Institutional, and our New Zealand business. And I made comment about our very strong Business and Private Bank.

So, all of the business have been growing up until the last six months, helped by interest rate movement for the first time in 12 years going up, not down. But you've seen that the net interest margin is starting to reduce slightly again, and the competition is very strong in the deposit end of the marketplace and putting pressure on net interest margin. Competition is a wonderful thing. And when there seems to be a good market for something, people are into it.

JOURNALIST: If I could just follow also, the credit impairment charges have just come up slightly, a little bit. I'm just wondering if there Is any colour you could put around that in the Personal Banking business?

RM: Yeah, we do watch what we call the different buckets – the 30 day, 60 day and 90 day – there's been a ever so small increase in the 30 day and 60 day buckets, i.e. where people miss the first payment and then a smaller number missed the second, but it's not flowing through into our 90 day bucket yet, so they are curing, i.e. our customers are finding their way back to payment. So we're not seeing a major problem at this point, but we are on a watchful eye.

An interesting stat for you, we've made contact now with 7000 of our mortgage customers that we thought may have been having a little bit of difficulty - now this is in the last three months, so this is as they rolled from a fixed rate of around 2% to a fixed rate more around 5-5.5% - out of the 7000 only 13 have said 'yes we would like some help'. So I think it's showing the resilience in the marketplace. It's showing that full employment, unemployment being at 3.5 per cent. is really helping and that's the crucial thing to watch out for, the unemployment level.

One of the things that people are looking for is just a level of certainty in the payment structure, so that they can actually balance their household budgets. In a recent survey we've done shows 40% of customers are now doing a budget for the first time ever in their life. So, it just shows that people are taking it very seriously, they're trying to plan their way through this and the more certainty they get the better.

But as I said 7000 people have been called in the last three months and only 13 said they needed some form of help. So good resilience in the marketplace.

JOURNALIST: Thank you.

JOURNALIST: In terms of home lending, you called out that you haven't really looking write anything below the cost of capital, but you do have your bank offering cash back of about $4000, so has NAB actually written anything below the cost of capital?

RM: What I have said is that we are still writing home loan mortgages. You will notice that we actually have had a little bit of growth in the book in the last six months across the bank, in home mortgages, so it's not that we are out of the market at all.

But we've said that we want to be righting the business at a level of cost of capital but we also want to maintain our customer relationships, so there is business being written in the bank sub cost of capital. It's just not a market I've chosen to grow in, as we were for the 12 months prior to this period of time.

On the cashbacks, it's an interesting one. You've got as high as $4,000, $3,500. I think actually UBank right now is at $0, and our own cash back on NAB is $2000, so that changes around in the marketplace pretty much on a daily, weekly basis – the cashback. So, it is part of the market at the moment, but I think cashbacks look like they've been coming down over last six to 12 months, which is probably a good thing.

JOURNALIST: Hi there, Ross. I note that your comments about how the higher rates are helping to drive this revenue. I'm wondering how you think your customers might feel about hearing that today - hearing that you're essentially making more money as their pain is increasing?

RM: The Reserve Bank has been moving interest rates for the first time in 12 years, back up again, and we know that actually has a big impact on households. It's not just home loan interest rates though that's hurting households, it's right across the board with power prices, fuel prices, supermarket prices. It's across the board that the cost of living is going up, because we're being hit with inflation. That's the thing that we need to actually attack and that's why the Reserve Bank board has been moving interest rates up.

We do appreciate what's happening to our customers. As I said we've rung 7,000 that have had movements on their fixed rates to make sure that they're OK and that they can afford what's going on, or do they need some help. But on the other side of the equation too, often people don't talk about, you'll notice that yesterday too we moved all of our savings rates up 25 basis points. They are now sitting at 4.5%, only 12 months ago they were .1%. So, some pretty big moves going on both sides of the balance sheet and I think we should take that into recognition.

64% of our profit this time round is also going into our dividends to shareholders, they're up this time. So the dividend increase goes to mums and dads through the super funds and investors, so it's across the board. But I do understand what's happening to our customers and that's why we do a lot of surveys and a lot of reach out work to them.

JOURNALIST: Thanks for taking my question, Ross. You just touched on it there, could you talk a little bit more about deposit competition please.

RM: In what sense, because what we've been doing in balancing the interest rate rises on the home lending across into our depositers. We only have in our Personal Bank two savings accounts and both of those we moved yesterday again. I think we've moved these rates across various areas from TDs to savings accounts about 50 times now in the last 12 months, but we moved again 25 basis points. So, they're sitting at the 4.5% now on both our savings accounts. We don't have any other savings accounts or backbook in our personal bank.

Term deposits have been moving. Term deposits tend to move on a daily or weekly basis depending on funding for the bank and what's required. And wholesale funding rates have gone up as well. So, cost of funding across the board has been increasing for us and for other banks.

JOURNALIST: Hi Ross. Just a quick question on those early-stage arrears - do you have any detail on what types of customers are getting into trouble a little bit, is it owner occupier or investor? What vintage are those loans from, and do you expect that trend to continue, would you expect arrears to start picking up a bit from here?

RM: The group we are concentrating on, and the reason for the calls, is that more recent customers who have taken out of home loan are that they've just gone through the 3% buffer from the initial rate that we had them on – that's the group that we've been concentrating on. And as I said we've been making the calls into that group and very little help needed, which I think is great showing the real resilience in the marketplace. So, that's the group we've been concentrating on.
We are seeing the very smallest of increase in where customers want to sell the house and move on. Very small, it's still much lower than where it was back in 2019. So, at this stage we're concerned for customers, we're reaching out, but at this stage very resilient.

JOURNALIST: Hello, thank you for taking my call this morning. I've noticed NAB investing a lot in the scams and frauds space and using quite a range of technologies such as biometric technologies, machine learning, I was just wondering how it sees genitive AI like Chat GPT helping NAB in this space and what use cases does it see the cyber security area as well.

RM: I think overtime we will use other techniques and other sources of technology like artificial intelligence but at the moment there's a lot, we've got about 62 changes being made throughout the Bank between now and May that will help our customers and keep them safe because that's our primary concern.

Bio catch which you've talked about has been installed, that's with great success but a lot of this is around education as well, we just need customers not to click on links and feel free to push the red button on their phone if they have any concern about who they're talking to and that's the awareness we need but we are making a lot of changes behind the scenes. I won't be discussing those publicly because we don't want the fraudsters knowing about those either, but I think the big thing for all of us including the media that these are criminals stealing off Australians and New Zealanders and we need to hold hands to stop it including media, telcos, and everybody it's an Australian moment. It is a crime wave that's going on, so will play our part, we've got lots to do.

JOURNALIST: I'm looking at slide 25 of the presentation today. It looks like there has been a tick up a retail trade exposure on default, and we know what's happening in construction. As the biggest business bank in Australia, can you talk about which sectors you're starting to see those real pressures coming through, particularly as the economy slows and the demand comes off?

RM: On that page 25, just for those who don't have it in front of them - the areas we have called out that we are watching, and not that there are major problems going on in these areas, but keeping an eye on is: retail trade, tourism, hospitality, entertainment, construction (as you called out), and office CRE.

The issues here are as the economy slows down, it's often these areas that are impacted most. It's also interesting here is that our growth in these areas since March 20 has actually been slower than in other sectors.

So we have had an eye to where are the areas that could have some difficulty, not saying they're all having them, but could have difficulty as the economy slows down.

We are not seeing a lot of change. We see through what we call SBS, our special banking unit, that looks after customers who are having difficulty in a business sector, there's not a lot of increase going in. There's a small amount of increase, but it's nowhere near or even back up to the level of 2019. So, I think we have to be very careful that even though we are seeing increases, they're not back anything near the level of 2019 at this point, but we are keeping an eye on it.

JOURNALIST: Just wondering what it's going to take for this competition or the level of competition where banks are having to write loans below the cost of capital, and everyone needs to maintain share in the market. What will it take for that to sort of ease off? Is it a pickup in new loans or is the refi way that's keeping loan growth going, how will it all work? If that tapers off will, competition get worse or better?

RM: There's certainly big competition in the refinance market, because new loans have slowed down. It's become a very strong refinance market as all banks try to hold onto existing customers and at the same time, compete for new.

I've seen these cycles before, they tend to find their way through when you do need to find a reasonable return for the ultimate owners of the business.

At the moment there's a lot of competition out there. Cost of money is going up, competition has got stronger, and we want to do our share of looking after our existing customers and keep our business channels working. As I said, there is competition, it's very strong, and we will play our part. We've also got other areas growing very strongly in our bank that we want to concentrate on.

CLOSING REMARKS

Thanks very much for joining us on the call. A good, strong set of results. And across all four businesses (they were) good. I'm optimistic about what's happening in the Australian economy as comparative to other parts of the world. And I do believe that over the next 12 to 24 months we'll see some smaller growth in this economy, but it will feel more difficult as inflation stays a little bit higher than we want and measures need to be taken to reduce this pressure on inflation.

But a good set of results, we're pleased with. And a nice, clean set as well. Thanks for joining us on the call.