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TRANSCRIPT

NAB FY23 Results Media Call

NAB Group Chief Executive Officer Ross McEwan today released NAB's 2023 Full Year Results to the market. Following the release, a media conference was held. An **EDITED** transcript of the conference call is below.

ROSS MCEWAN (RM): Thank you, and good morning.

The steady, solid progress of NAB over a number of years now and our determination to get the basics rights and be a good bank is seen in our results today. Cash earnings were $7.73 billion.

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

All our businesses have played their part. In particular our leading Business franchise has continued to grow. This is a great franchise, with great customers and bankers, and we're determined to keep investing in it to make even better.

We saw the impact of higher interest rates in our first half performance. However our results softened in the second six months amid intense competition as customers seek the best deal. This is all leading to some of the thinnest mortgage margins I've seen in my time in Australian banking.

We also saw the broader environment get more challenging as higher rates and inflation weigh on households. Some customers are feeling it more than others and the RBA's decision to again increase the official cash rate this week because of persistent inflation will increase the pressure on households. Yesterday we made the decision to follow the RBA with a 25 basis point increase to variable home lending rates and also pass on 25 basis points on our core savings product.

Our message to people struggling with the increase in cost of living is: 'we're here to help – please call us early'. We've added more bankers this year to take these calls and will be there when customers need us most.

There has been a slight increase in arrears in both the housing and business book, but off a very low base, and we are not seeing this translate to loan losses. Overall households are adapting and businesses are proving resilient.

The final dividend of 84 cents takes the full year dividends to $1.67 and puts $5.2 billion back in the hands of shareholders. More than 40% of our shareholders are retail investors and these dividends are important income for this group, many of whom are mums and dads and retirees.

Just in terms of our bank, there are a few key points to call out:

- Our Business and Private Banking division continues to grow as we serve more customers. It's the largest lender to small and medium businesses in Australia and has grown business lending by $33.9 billion or 31% over 3 years. Over the same time, we've invested $1.3 billion into this business, added around 700 customer facing roles and introduced better products and services for our customers. We're not done here and still see plenty of opportunity.

- The strength of our Business and Private division has enabled us to make the deliberate decision to slow down the growth in home lending, where the returns have been challenged. Home lending is important for our customers and NAB and we'll continue to approach this in a disciplined, consistent way.
- We're working hard to build a stronger deposit franchise and support more customers with their savings. Over the past four years we have grown our share of both business and household deposits. We have also seen growth in new transaction account openings for both our personal and business customers

Lastly, we set out four years ago to ensure this bank was safe and sound through the cycle. So it's pleasing to see the continued strength of our balance sheet – we have very good levels of capital and we're well provisioned. This means we can continue to support customers and colleagues and invest in our business irrespective of the external environment.

On the economy, for many in Australia and New Zealand, 2023 has been challenging. Growth has been slower and the central banks have taken difficult decisions to increase official cash rates repeatedly over a short period of time to try and counter inflation levels not seen for three decades.

The higher cost of living is the greatest driver of stress for consumers. This has changed how people are managing their money. Most are maintaining a budget and cutting back on spending to focus on the things that matter to them.

I expect to see Australia avoid recession, but it will continue to feel harder for a lot of Australians and New Zealanders. And as the RBA said this week, inflation in Australia has passed its peak but it's still too high, and high inflation makes life difficult for everyone. That's why the RBA is taking the difficult decision to increase the official cash rate.

Despite the headwinds, I'm optimistic. With strong migration levels, low unemployment and demand for our natural resources, Australia is well placed to rebound in the second half of next year.

Most businesses I talk to are still ambitious to grow. They're looking to invest and be more productive and want banks and governments to keep making things simpler and easier for them to get on with the job.

In closing, for a number of years 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.

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

JOURNALIST: Good morning, Ross. I had a question on the interest rate passed through on the deposit side. You mentioned there in the opening remarks that you pushed 25bps through on the core savings products. Looks like they went through to Reward Saver and not iSaver. I just wondered if you could talk about how the deposits are split between those particular products, and how you're managing the NIM on the deposit side. And, in light of this ACCC deposit inquiry, which is due to report in about three weeks, are you doing the right thing by savers, especially those iSavers?

RM: Well first off, great question. And we did, we're keen to pass it through. The bulk of our savings sits actually in the Reward Saver. And that's where we've got our biggest number of customers and the biggest amount, so the biggest benefit flows through to there. And the rate sitting on there now is at 5%. If you have a look at the rates that are being passed through now, we're sitting at a 5%. I think the last time we saw 5% on a savings account was back in 2008 and the official cash rate at that time was 6%. So it's sitting at cash saver rate or Reward Saver at that 5% is a pretty good rate now. TDs [term deposits] at the moment, you and I know they'll fluctuate around pretty much daily, they're sitting at about 4.75. So the saver rate is pretty good there. And that's the bulk of where our money is, or our customer's money for that matter.

JOURNALIST: G'day, Ross. If I can just sort of tilt it on the business side – I just noticed in your slides talking about over the past three years you've been growing at 1x consistent growth in business and been able to get share, does that suggest that in general – you don't have to talk about specific competitors – but in general, banks are shying away from business? And what is the reason? Is there a volatility attached to that perhaps returns on that front?

RM: We've seen good growth in the business side, James, and it really is what businesses want to do as opposed to what we want to do in that marketplace. We're recipients of what our customers are doing and how active they are. We have seen good growth, as I said in my opening statements, we've grown about $33, nearly $34 billion, in assets in that business, 30% over a three year period of time. There's been really strong growth. There are times when business has slowed down just as they're feeling what's going on in the economy. But it's been very, very good growth here over the last 36 months. The other thing we have been concentrating very strongly on that's coming through and good growth at 2% growth in the deposit side of that business. One of the weaknesses of this franchise, for probably decades, has been our deposits and savings account franchise, that is certainly changing, and we've seen really good growth on that side of the balance sheet as well. So good growth, and you certainly see over the next 24 months scenarios of really good pockets of growth where we think we can better than we are today. So still seeing growth but it's really in the hands of businesses and their confidence.

JOURNALIST: To the point, does it make it more volatile earnings framework for NAB, if there's overweight exposure to business lending?

RM: Only from the perspective as we grow where customers grow. If they slow down, our growth will slow down. Other than taking market share, and we've been pretty good at that over the period as well, in particular segments of that marketplace. So really we are reliant on the customers growing, we can't ourselves grow without customers growing – either a number of customers or they're doing more business with us. So from that perspective, it slows down, but it's certainly been a franchise that's helped the NAB over the last three to four years with its growth, it's been a major strength for us.

JOURNALIST: Hey, guys, how are you going? Just two from me. The first one just on the NIM outlook. I noticed in your slide you say home lending competition headwinds are expected to continue. That's quite sort of a different view of things than what Westpac was saying earlier in the week, they were saying it was really moderating and they didn't think the competition headwinds would be much of the concern moving forward. What are you seeing that they aren't?

RM: And what's the second question?

JOURNALIST: The second one was, just on the personal bank burning down I think 9.1% cash earnings year-on-year. I mean just can you just explain what happened there a little bit more?

RM: The reason cash earnings in our business, our personal bank, are down is because the margin on our home lending is certainly down and it's a highly competitive marketplace out there in home lending, and to an extent in the unsecured, but mainly in home lending. Revenue has certainly been impacted there in the second half of the year. Strong competition in that home mortgage market. I think we've still got at least another six months of very strong mortgages because what you've got is a refi market going on as people come off their two and three year fixed rate loans and those loans have gone from 2% up to somewhere more like a 6 to 7% and they seek to find a better rate. So I think that market remains competitive and over the second half of the year it probably does get a little bit more positive for us, but to say that the competition has backed off, I just don't think that's the case at this point and won't be while there's a big refi market going on. Where we're competing better is in brand new to market and when customers are buying their first home or their second home and need new finance without processing the ability to deliver a very quick result certainly helps us, but in the refi market we're holding on our own. But it is very competitive. I think it will remain that way for at least another six months.

JOURNALIST: Hi, Ross, good morning. Thanks for taking the question. Just a couple of points in your outlook I wanted to pick up on. One was just around the resilience of customers. Obviously your economists came out sort of pretty early on compared to colleagues saying expecting another hike in February, given the persistent inflation challenge we are seeing. I just wonder, do you see how much more of an impact you see on customer resilience and the ability to sort of factor that into their budgets? And then secondly, you mentioned customer habits changing and then you also sort of called out uBank doing really well in that 18 to 35-year-old market. I just wondered whether you could maybe provide a little bit more colour about what you're seeing that young demographic, particularly new to market in this environment.

RM: Yeah, just on the outlook, we think the interest rates are probably getting close to the top of the market at the moment. We had predicted a November movement by the Reserve Bank and that did come through. But we think we're getting pretty close to the top end. Which actually is really good for customers, because what you saw after 11 or 12 interest rate rises, real uncertainty about what was going on. How do I look after my weekly, fortnightly, monthly budget? What do I stop spending on to pay my increased rent or my increased mortgage or the grocery bills? Everything was moving on them. And what we've seen over the last three months was interest rate stability, is customers actually getting their budgets under control, understanding where their money was going much better than they had when things were moving on them. So I think certainty is a really important thing for both business and for individual customers. So I'd make that point, but we think we're getting close to the top of the cycle. We'll see if there's another one or so left in the Reserve Bank but it's getting closer.

People are changing their habits, and it's because they've got a defined amount of money. They can flex it a wee bit it with a few more hours and taking on a second job with some more hours, but they get to a point where they can't flex it too much more. Therefore, they have to stop spending on certain things, and they do a budget. We're seeing in our research 40% of our customers actually doing a budget for the first time in their life. And I think what that's showing is people are serious about controlling their spend and want to be, I think, serious about how they look after their money. And that is a great thing. It shows the resilience is showing through, people are making decisions. I saw an article in the paper the other day about some groups spending less on eating out, eating more at home, those things are just what's happening in the marketplace now, and the young people are no different to that as well. They're just having to make sure that they spend it on the things that are important to them, and not spend it on the things that they may have been spending that no longer are important to them. But inflation, as we've kept saying, inflation hurts 100% of households and that's why we've got to combat the inflation. And as the governor of the Reserve Bank said, it's coming down but it's more stubborn than they thought. And we've got to get on top of it because it's hurting every household.

JOURNALIST: Thank you. Good morning. You mentioned immigration, the benefits of immigration, for the economy. I'm just wondering what impact do you think that level of immigration is having on house prices or is it really, largely confined, do you think, to rent increases? The second question is, people changing their habits, you mentioned some people are kind of going out to dinner less. What are the other things that you're seeing that your customers are doing that's different? And is it more obvious in in younger families who have taken out mortgages in the last few years?

RM: Maybe if we start with the second one, Jennifer, just on the habits. We are seeing one in two people cutting back on eating out as I described, some entertainment activity. They're also cutting back on certain car travel, because petrol's gone up now about $2.20 a litre, another 10% over the last few weeks. So they're cutting out across the board but it is in those areas of entertainment, eating out, car utilisation, the things they can do without really changing things about where they live and how they look after the family and some of it's obviously impacting into retail like clothing spend. So those are the things that people are cutting out.

On immigration, look, I think we've got to settle down on immigration. In the sense when I say settle down, we lost about well over 600,000 people out of the country when COVID came along, and people went back to their home of origin. And in the last probably year we've had about 500 and something thousand come back into the country. And I don't think – I could be wrong here – but I don't think we're back up to the levels that left, but we're getting pretty close to it. That's been really important when I talk to business customers. Where do they find labour to actually expand their businesses? So it's got to balance 'where are we' and then the government, I think, needs to look at what is the long-term consistent immigration path for Australia. Because we've got a lot of projects and infrastructure and agriculture which need more labour that need to be in the right places going forward, so that's going be around the government's immigration policy.

It has of course impacted on rentals. As you get these groups coming back in again, they're looking for somewhere to live and it's putting some pressure on there. The problem with that is that we're just not building enough houses. And we've got to make it easier for our builders and developers to get the tracks of land to get on and develop, both be they inner city or external. And I think that's the heart of it. We're building something like 175,000 houses a year and the demand on an annual basis is about 225,000. So that's really

– and we've been doing that for quite some years – under building, so I think that's the big issue. But look habits of people are changing and we've got some way to go on the housing yet.

Can I just go back to one point that James raised just on Rewards Saver, James, the iSaver is moving at the same time, so 25 basis points to 500. It was just in the announcement we have reward, but those two are our core saving products. We don't have a back book. So there's no 'are you moving one and not moving the other'. And I know one other company sort of moves one digital thing and it doesn't move the core back. We move everything. So we've got two core savings products, Reward and iSaver, both up 25 and at 5, which is the highest rate they've been at since 2008. Higher than the cash rate, can I say, so yes, savers are doing OK.

JOURNALIST: G'day, Ross, just a question on your lending book and arrears and provisions – they're pretty low and we've kind of seen a big transition over the last couple of years to the non-banks. Is it the case that NAB is no longer lending to those kinds of risky customers that would have got the bank into trouble 10 to 15 years ago?

RM: I think what you're seeing in the numbers – page 70 in the pack, which is worth having a look at – and the New Zealand numbers are even more interesting than even the Australian ones. So have a look at the actual loss rate of housing right now. It's gone from – and these are very, very small numbers – 0.01% in March 2022. It's even dropped lower on the losses on the home loan book to 0.005%. I mean it's like nothing. So you're seeing because house prices have gone up, big demand for housing still, and people who are wanting to exit and having some difficulty paying it are getting out in a in a very good way which is great. And the number of properties in possession has remained incredibly low. If you look through the numbers again on page 70, in September there's something like 151 houses that were up for sale where we are working with the customers to get out and in a good position. That's been pretty static now over the last few years. I think it's even lower than it was back in 2019.

So you're seeing there's a number of factors here. So whilst interest rates are going up and people are having to pay more for their mortgages, they are still in a position to be able to pay, which is, which is great. House prices are going up, which helps them. And so if they do need to sell it's a good market to be doing so. I think the books are really in good shape and the same with New Zealand.

JOURNALIST: Just a couple of points Ross that you may offer a more information on. You talked about seeing the economy recover in the second half of '24 and you had a tough second half compared with the first half. So can you read from that that your next half at NAB is probably still going to be pretty tough before picking up in the next quarter and then the the other one, just when you're talking about the re-fi, and the churn in there, I think Westpac said last week they were getting back about 80% of their re-fi and then they've lifted that to 90. What your success rate like in retaining those customers?

RM: Yeah let's start with the back and we can go from there. Pretty similar numbers sort of in the 85 to 90% staying with NAB. So, it's I think it's reasonably consistent across the industry looking at the industry data on that one. But, look, you are seeing much softer margins. Therefore, net interest income in the mortgage book and, for most of the big banks, that's where a lot of the assets are held, for us well over $300 billion. So, you get you once the margin gets contracted that of course it hurts your income, and we expect to see that continue on for at least six months as I said with still a good chunk of our fixed rates rolling over. But, look, we we are still seeing good returns out of the business. You see there our return on equity is 12.9%. A lot of that strength comes through from our very big business bank and our corporate and institutional bank. And that's the advantage of NAB in these times. We've got more than one business that that operates, but it also means that for the industry and in an inflationary time keeping costs under control is going to be very important, but our view is we want to invest for the long term in this business and we're going to continue with another investment spend this year about $1.4 billion, which is the same as last year, even though we may get softer results. My view is don't hold back when you've got really good opportunities for your customers, colleagues and growth in the marketplace.

JOURNALIST: Ross, good morning. I just wanted to build a little bit more on those comments that you made about interest rates close to the top of the market. Market pricing certainly suggests that we will have a fairly benign interest rate environment next calendar year – not much movement in either direction. Is that a reasonable assumption? And then a follow up, what are the opportunities that provides for NAB?

RM: Yeah. Well, look, we would see, our economists would see, a fairly benign market for interest rates. We think we're getting close to the top of the cycle and we'll wait and see what the Reserve Bank does. As the

Governor said, interest, sorry, inflation was coming down, but it was pretty stubborn. And we need to see it down. But I think let's see how this interest rate change bites. But we think we're probably getting close to the top, if not at the top.

Opportunities. I mean, we have a very large business bank and corporate bank. We see very big opportunities for continued growth in that marketplace. We've had 30 plus percent growth in that business over the last three years. There are plenty of areas we think we can do a better job in different segments of that market. We've also got our corporate business very focused on growth over the next 12 to 24 months. That's been very slow growth for the last 12 months. We've seen more growth in that area. So we're optimistic in our business bank and we will continue to keep investing in it.

We've also got a very strong private and wealth business we'd like to see grow. So I think there's some real opportunities for us and we're in good shape to take those opportunities. But we've just got to be good at the basics of doing business. And good with customers and we've got amazing bankers that we're just going to keep supporting.

JOURNALIST: Thanks, if I can just quickly follow up of the same vein – does that mean sort of in this environment going forward, so the old thing, you've got a dollar of capital, so you'd much rather put that into the business banking now rather than retail banking, which is sort of facing a higher for longer outlook.

RM: We talked about this about eight months ago at our six months results and we said we were biassed towards both capital and liquidity going into the business bank because we just thought we had the opportunity to see greater opportunities there for growth. It's not that we're abandoning the mortgage market or our personal bank, we just think if you are biassing one way versus the other, you'd put it into a business bank, and that's what we've been doing.

We've been growing our personal mortgage business by about 0.8x system and that's what we said six months ago. Over the last few months, we've shown we can grow that to 1x system, but I don't see us pushing heavily for great growth in the mortgage market over the next 12 months. There are much better returns for the bank and in other parts of our portfolio and that's what we've been executing on. But we're not abandoning, it's just we're tilting towards our business bank.

RM: A good result for NAB. Just a consistent result, and that's what we've been creating a bank that no great surprise is one way or the other good for customers, good for colleagues.

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