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TRANSCRIPT

NAB HY 2024 Results Media Call

NAB Group Chief Executive Officer Andrew Irvine today released NAB's 2024 Half Year Results to the market. Following the release, a media conference was held. An **EDITED** transcript of the conference call is below.

Andrew Irvine (AI):
Thank you, and good morning. It's an honour to be presenting NAB's results as CEO today.

I've spent my first month in the role with customers and with colleagues across Australia and New Zealand.

This has really reinforced my experience in the three years I had running Business and Private Banking.

That is, NAB is a good bank that is getting better. We have 38,000 colleagues who want to provide the best service to our customers every single day and we have a leadership group who are executing a strategy that is working.

This has been important during the half, in what was certainly a challenging environment.

Economic growth is slowing, and a higher cost of living, resulting from higher interest rates and inflation, is being felt by more households and by businesses.

The majority of our customers, however, are doing OK. They're not enjoying it, and having to make some tough choices about how they manage their money, but they're doing OK.

Of course there are some who are struggling, and we are supporting those that need our help.

Our message to those who are hurting is this: please don't tough it out on your own. Please get in touch with us as soon as possible.

I'll now briefly touch on how our bank performed over the last half.

This is a good result in a difficult environment:

- Cash earnings decreased by 3.1% as broadly flat revenue was more than offset by higher costs.
- We have an interim dividend of 84 cents per share, giving $2.6 billion back to our shareholders, including many Australians who hold shares through their super accounts.
- NAB's differentiator is the strength of our business divisions and we saw our Business & Private Bank as well as our Corporate & Institutional Banking account for almost 70% of the total underlying earnings. We are the largest lender to small and medium businesses in Australia and we have continued to see good credit growth, with credit up almost 9% in the past 12 months. Interestingly in March, we had our strongest pipeline on record in the Business bank, that's frankly astonishing.
- In retail banking, the environment remains highly competitive with lower margins in home lending challenging returns.
- Our New Zealand business is a bit of a quiet achiever and has been executing well in a difficult market.
- And very importantly, our bank remains safe and sound. Our capital is above our target range and we continue to be well provisioned.

Looking ahead, we are four years into NAB's long-term strategy.

During the next few months, we will ask ourselves where do we need to evolve based on what we have seen and what's happening in the external environment.

I do not expect there to be any major pivots, but two areas of focus will be greater customer centricity and ongoing simplification in our business.

At the same time, the disciplined execution that has been a feature of NAB over the past four years will not change. We will continue to work on what really matters to customers, be accountable, get the basics right and treat every dollar that we spend like it is our own.

My leadership team is in place and together we're excited to take this bank forward.

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

Journalist: Thanks very much and thanks Andrew and Mark. Just on that final point that you were making there, Andrew, about the next three or four months looking ahead of what you're doing. Obviously, this is a fairly flat result. The worst part is probably personal banking. So when you're looking at the shape of the bank, business and corporate are the standouts. Will you allocate more capital there? Is that one of the things you might think about? Where are you going to allocate capital to get the best growth?

AI: Thanks, Andrew, for the question. We're really happy with our business mix. I wouldn't want a different business mix. So being a bank that skews to business focused segments, not just in Australia, but it's also true in our New Zealand business, I think is a good place to be. And as you highlight both our Corporate and Institutional, and Business and Private Bank are getting significantly better returns than what we're seeing in our consumer franchise.

Over the last few months, and we have a chart on this in our investor presentation, we have seen returns in Australian home lending bottom out and start to come back, but they are still in the broker channel below the cost of capital. They're [pipped] above cost of capital in proprietary, which is good. And you know, we're a disciplined allocator of capital in our business. And so, if home lending continues to rationalize, I think you can see us put more capital in that part of our business. But if it doesn't, we'll allocate capital in our business lending segments.

Journalist: Thanks very much. Thanks, Andrew. I was just wondering if you could give me some colour, what's your first 30 days or so, what have you been involved with, what have you been doing there? And then I'll follow up.

AI: Thank you for the question. I would say the vast majority of time, it's my 5th week now, meeting with customers and colleagues, as well as key external stakeholders. So what I have done? I think I've visited just about every floor in our all of our offices in Melbourne, Sydney, Brisbane and Auckland. Listening to customers, listening to colleagues and just getting their sense as to how we're going as a bank, how we're performing, what's working and where can we do better.

And I'm going to continue to do that over the coming weeks as I get my feet under this desk.

Journalist: On the results today, you have outlined, or the bank has outlined, a buyback of $1.5 billion. We're now hearing the drum beating about interest rates rising again whether they do or don't, but is it maybe that the bank moved too early on this buyback?

AI: No, we're very comfortable with our positioning on both the buyback and the dividend. You know, just some comments from me, I would say right now the Australian economy, and to some extent the global economy, are actually proving to be pretty resilient and are, if anything, performing better than our expectations. You can see that in our numbers. You can see that in, if anything, also why inflation is proving to be a bit stickier on going down. Obviously, as you then highlight, there's a negative externality of a more resilient economy, in that it probably it gives less room for central banks, not just here, but overseas as well to reduce rates because they want to make sure inflation is under control. That is not an easy needle to thread and it's one of the reasons why we've continued to retain a conservative setting on our provisioning and coverage ratios. That's not because the book isn't performing well – it is. But there is continuing uncertainty on the outlook for the reasons that you mentioned in your question.

Journalist: Hi there, Andrew. Just following on from what you've just said there on provisioning being maintained and just getting a little bit of an outlook on the health of the consumer if rates do stay higher for longer as it suggests may be the case after that inflation data last week. You've had a bit of a tick up into calls into NAB Assist, I think 7% over the half. Just wondering you're thinking on the ability of the household customer base to withstand higher rates for longer. And I've just got the second question relating to business lending I'll come back to.

AI: Yeah. Well, look, like I said, I think they're continuing to be resilient. Households are continuing to be resilient. They are not enjoying it, but they are getting by. I think that's been a feature so far. Of course, that doesn't mean that there aren't sections of our economy particularly, I think first time home buyers as well as renters, and I'd probably call out renters even more, who are struggling. Last week actually I spent some time with two of our key customers and partners, the Salvos as well as the Good Shepherd and they were saying that the need for their services in this economy is as high as it's ever been. They're seeing the customers that they would have always seen and are providing those services, but what was interesting is that they're also, in their words, seeing more customers, new customers, if you will. And what was interesting is a large percentage of those would be both renters as well as people who are in jobs, but they're just struggling because their income is not really enough for them to get by.

Journalist: Ok, Andrew, and on business lending, you just said in those introductory remarks that you had credit up to 9%, business credit growth, I think, and you were just talking about the March pipeline being the strongest on record, and you said that was frankly astonishing. What is astonishing about that?

AI: Well, we expected business credit to moderate as interest rates rose and as economic conditions in the country softened. And frankly, what we're seeing today is business credit growth surprising on the upside. And I would say, actually surprisingly, surprising on the upside. We would not, if you had asked me six months ago, as the previous head of the Business and Private Bank, whether we would have pointed nearly 9% business credit growth, I would have said no chance. And yet, here we are.

Journalist: And what's driving this?

AI: I think one is, there are still large sectors of our economy doing really well. And I think, candidly, we over emphasise the difficulties in our economy and those that are struggling and underemphasise the portions of our economy that are doing well. That's a natural human thing to do, but it's quite clear that there are large parts of our economy, you know, minerals, mining, agriculture, manufacturing, as you look at supply chains being brought back onshore closer to customer, defence, healthcare; large portions of the Australian economy doing really, really well, and they don't get talked about that much.

Journalist: I just wanted to come around to business lending again. So, you call out competition on the Personal Bank, and that's one of the things that's really driven down returns there. We heard all the big banks in the last round of earnings calling out that they wanted to get into business lending. Are you seeing that level of competition in business lending and if not, why?

AI: Look, first of all, I've had, I think the first newspaper article I ever read coming to Australia in September of 2020 was other banks were coming after our business banking market. And I think that article in some way shape or form gets pushed out every three or six months repeatedly and it makes a lot of sense for great business. I, you know, if I did have a lot of this market, I would want it. So again, it's a great starting position for us. We're just going to keep being really good for customers every single day and being a great bank for relationship bankers to want to build a career because at the end day we want to deliver our services through terrific bankers and they're key for us. I think what we have shown over the last three and a half years that by focusing on our customers and doing the basics well, that we've been able to not just retain market share but actually increase it, which I'm not sure people would have expected with all the hullabaloo of competition. So we're going to continue to focus on ourselves, look after our customers and run our own race.

Journalist: Hey, guys. Thanks for taking the question. I was just wondering, we look back nine months ago, that's when everyone, including Ross, starts saying that they're walking away from the home lending market or pricing more rationally to preserve their margins. Nine months on from that,

your margins are still off 30 basis points year on year in the Personal Bank, so I was just wondering is it possible to meaningfully step away from mortgage lending or is it just too commodified to really make a difference, or if you step too far back, do you lose too much scale for it too really be worth it?

Al: Look our goal here is to try and be rational and consistent in our approach. I think in the last month, if I'm not mistaken, we grew 0.7% of system and we focused more on our business and private bank versus our consumer bank. About a third of our home loans are in business and private, they skew investor and they skew proprietary and so we actually grew home lending in that business and private bank three times faster than we did in our consumer bank. Yeah. So look, has it offset all of the NIM compression? No because you highlight that. But what we are doing is as best we can, manage our business so that we immunise ourselves where possible. Our focus is on relationships and so to the extent we can do more in our proprietary business, that's what we strive to do.

Journalist: I guess is it possible to see mortgage margins returning to growth in the near term if everyone's taking their foot off the gas, but we're still seeing all of this sort of NIM compression go on?

Al: Well, we've actually, there's a chart in our investment pack that we've put online so you can see it, that actually shows that front book mortgage NIMs have not only stabilised, they stabilised over the last few months and then in the last quarter have actually started to go back up. Now they're nowhere near, you know, what I would call normalised margins, but at least the trajectory is upwards now, and so we'll see what happens going forward.

Journalist: Just a question about what you said earlier about broker channel loans being below the cost of capital. According to the investor pack, 65% of new flows in the March quarter come from this channel. So I wonder, will you be pushing them to Direct to try and tip the cost of capital back into positive territory through proprietary and if not, how are you going to fix the below the cost of capital issue in the broker channel?

Al: One of the things that we do in the broker channel is to have a price premium versus competitors. And so routinely we would price at a 5 to 7 [basis point] price premium to other banks. We do that because we have a superior service proposition. And what we find is that when customers are buying homes, when they're in the purchase market, they're very comfortable with paying a premium because they want to have certainty on settlement and low stress. When it's a refi heavy market, I think customers are a little bit more price sensitive and so what I think that does is allow us to moderate volume in that channel and you're going to continue to see us do that while returns are sub cost of capital.

Journalist: Thank you and a follow up, if the cost of capital continues to be an issue, will there become a point where if we do have further rates cuts, the bank won't pass these on to retain margins?

Al: We price our mortgage book on the assumption that we will pass on cash rate changes, both on the upside and on the downside.

Journalist: Thank you. Yeah, just to tie up a couple of things. You made the point about simplification being the second of the key strategic elements that you've got. What do you actually mean by that? Is that selling off more businesses? Is it just sort of incremental digitalisation?

Al: Good question. I would say it's less selling off businesses. We are in the products and the markets that we want to be in and it's more about speeding up and simplifying our business. Getting rid of practices, processes, policies that get in the way of our bankers doing their best for customers and where possible, automating and digitizing as well. So that's what this is about. The simpler we are, the better we will be for customers.

Journalist: Have you got any good examples of that? Man hours cut back?

Al: Yeah, a grand example would be in business lending actually. We've halved our 'time to yes' for those customers and actually we now have a larger proportion of our business loans on the small business going through our digital business lending solutions. And some of those can get to yes and have cash in your account in minutes. And why is that good: it's good because it's far cheaper for us; the longer anything takes, the more hands and eyes work on it, that's more costly. And also the longer it takes, the worse the customer experience is. So it's a real win-win, because it's cheaper for us and a far better customer experience at the same time.

[Closing remarks]
Thanks everyone for your time today and for taking an interest in NAB's half year results. I do look forward to meeting with many of you more in person either today or over the next few months. And if you do have any further questions, please do follow up. Thank you again for your time this morning and have wonderful day.