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TRANSCRIPT

NAB 2025 Half Year Results Media Call

Andrew Irvine (AI): Thank you, and good morning. We've just released our HY25 results. We're managing our business well in what continues to be challenging operating conditions.

Six months ago, we refreshed our strategy to be a more customer-centric, simpler and faster bank. We have plenty of work ahead, but NAB is tracking in the right direction.

We have three clear business priorities – growing our core business banking franchise, driving our performance in deposit gathering, and improving in proprietary home lending.

Our business bank is a key differentiator for NAB in this highly competitive market. We compete from a position of strength, with the benefit of scale and expertise across our franchise, powered by deep and long lasting customer relationships. We want to grow this business, not simply defend it. I'm pleased to say NAB is the biggest business lender. During the past six months, we have increased our share of SME lending. We are also now the largest bank in business deposits, which hasn't been the case in my time in Australia, and we have improved our share of household deposits. We did this at the same time as we delivered strong growth in transaction account openings.

In Personal Banking, I said six months ago we wanted to grow home lending closer to system and do more through our proprietary channels. It's early days, but we've seen a 25% increase in proprietary drawdowns over the past year, as we invest in our bankers and their tools.

NAB's interim dividend of 85 cents puts $2.6 billion back in the hands of shareholders. And given more than 40% of our shareholders are retail investors, this is significant for the many mums and dads and retirees who depend on dividends for their income.

While we are getting simpler, faster and more focussed on customers, safety and stability will always be a feature of NAB, and our balance sheet settings remain strong.

This is important as we look at what's happening globally and so we can support our customers through the cycle, and keep them safe.

The first few months of this year have witnessed dramatic shifts in global economic policy. I expect unpredictability, and volatility, will persist for a while yet. This uncertainty may be uncomfortable for businesses and households, but overall Australia enters this period in good shape. Low unemployment, easing inflation and anticipated growth at the back half of the year are all helping. This provides capacity for future cash rate cuts to help offset any further global headwinds.

The weekend's election outcome brings stability and stability is good for Australia, good for business and good for growth.

So, in closing, we have a clear strategy for NAB and will keep focussed on delivering for customers and Australia. Thank you for joining us and I'm now happy to take your questions.

Journalist: Good morning, Andrew, I'd just like to ask a little bit more about your thinking around top line growth. You say you want to grow the business bank, not just defend it, but obviously others are coming at business banking as well. How are you planning on growing the business bank? Can you just give us a little bit more colour on that and similarly in home loans, is it a sort of shift to prop going to put growth above systems in home loans in the coming few periods?

AI: Well first of all, and you'll hear more about it as we unpack the results over the day, where system is growing in business lending so far this year is heavily skewed to larger, top-end-of-town businesses and that is kind of skewing the overall business lending growth numbers pretty dramatically. When you actually look at the RBA statistics and you look at small and medium sized businesses only, NAB is growing market share, particularly in medium businesses, which is our heartland. Where we have been a little bit softer than system is in larger businesses and that's driven predominantly by a more disciplined approach in our Corporate and Institutional Bank focused on target clients where we have long term relationships and where we have, what we would feel is a fair trade in terms of margin and returns. So we haven't been chasing lower value lending, in this period, and that's why maybe at the top line we've been a touch softer in business lending, although I think we're at 0.8 times system. I think there's a narrative in the media that looks at business lending in aggregate and then parlays that to suggest that our Business and Private Bank is not growing, and that is untrue. We're focused on the areas where we can get a good return for our efforts and that's in SME banking and in targeting clients at the top end of town.

If I turn to your second question around proprietary home lending and home lending generally, we want to be a better proprietary bank. I said that when I became CEO that in home lending, that NAB has been a good broker bank but a poor proprietary bank, and that's difficult because when returns are really challenged, as they were or have been for the last year, year and a half, and you pull back a little bit in broker your growth really falls off a cliff. Whereas when you have a stronger proprietary business, you can moderate those swings and that's what we want for ourselves. I'm really pleased with the year that's gone so far, 25% up in proprietary drawdowns is nothing to sneeze at. We now just need to replicate that over the coming months and years so that we have much better proprietary strength and that will give us optionality to go in and go out of the market on the broker side depending on whether the returns are acceptable to our shareholders.

Journalist: Just first up in terms of when you're expecting your economists are expecting a couple of interest rate cuts for Australia this year coming out on the other side, what sort of economy do you think Australia will look like if we're sitting with an interest rate of, say, 100 basis points lower from where we are today.

AI: A good question. We are looking at I think three or four rate cuts over the balance of this year. Obviously, that depends on the RBA and how they see inflation and the outlook for core inflation, in particular. I think it's meaningful, every 25 basis point cut is worth about $100 a month to the average household, and that will help the average household get through what's been really difficult times with cost of living. Then on the margin, I think some of that will be saved but some of that will be spent and that spending will also drive sales and then that will be good for businesses as well. So I think we're expecting growth of around 2% GDP growth, which is a lot better than we had last year. So I think we're through the bottom and you know both households and businesses are confidence players and every single rate cut will increase confidence. I think that's good for the psyche of Australians, and particularly, I would expect us to feel this in Southeast Australia, NSW and Victoria that have had a tougher time than some of our other geographies.

Journalist: And look, and just while I've got to in back in your days in Canada, did you ever come across a gentleman, Mark Carney? I'm sure you have.

AI: Yes, I've come across Mark in my time. He's been a great banker, a great central banker and a good businessman, and I think he's exactly what Canada needs in these turbulent times. He certainly has a strong mandate from the Canadian people, and I wish him well in his efforts to negotiate with the Trump administration.

Journalist: You haven't reached out to him or anything yet have?

AI: We definitely sent him a note of congratulations on his election outcome.

Journalist: I was just after a little bit more detail about what impact do you think these trade tensions are having on your business customers, you sort of highlighted all the uncertainty. Is that making business more hesitant or reluctant to invest and is that why

NAB is tipping a pretty big rate cut this month. I think your economists are tipping a 50 basis point cut because the sort of reduction we normally see.

AI: I would say a couple of things. First of all, practically speaking, the impacts of the trade tensions on our Australian business customers is likely to be modest. Our bilateral trading relationships with the US is lowering, makes up low single digits of our exports. And where it's more meaningful in areas like pharmaceuticals or beef, it's also still relatively low. I think we're as well positioned as we could be given that macro uncertainty. But I think you're really correct to identify confidence and what we're seeing is that our pipelines right now in business lending are very robust. In fact, they're higher than they were at this time last year, but the pipeline is what I would characterize as slightly slower to settle than we've seen in the past, and I think by implication that would suggest that business owners are being cautious and thoughtful around pulling the trigger in terms of getting extra borrowing. And there must be just looking around and just want to make 100% sure that taking on that extra debt is a good thing for them and for their business. And I think you can certainly put that down to that macroeconomic uncertainty and the trade tensions as well, so the quicker that we can get to a place where this calms down, hopefully the Trump administration starts deescalating this and maybe even announcing bilateral deals with certain jurisdictions, I think that will be very positive for our business customers.

Journalist: Firstly, I wonder if we can talk a little bit more about the margin pressures you're facing as you look to grow the business and personal bank and you know what are you seeing out there is, is it getting tougher? And then my second question was around rates. If they do drop to about 2.6% you're expecting, possibly I guess we would expect to see another house price boom, and I know you've spoken in the past about the housing market issues in this country. I'm wondering the prospect of another leg up in growth there and house prices. Does that worry you? And what do you want to see the government doing about?

AI: Yeah, I think we're on the record of saying it. It is really competitive out there and the competitive intensity in the business bank has continued to heat up and that's expected when you consider that housing has been under pressure for a significant period of time, and other banks want more exposure to higher returning sectors like business. In a nutshell, everyone else wants what we have and we're not going to give it up without one hell of a fight. I think we've showed that in the past.

Our market share today is broadly similar than it was in September ‘20 when I came to these shores. So the business is holding up really well and I'm particularly pleased with how well we're doing in deposits. Australians seem to be so focused on one side of the balance sheet, but you can't lend money you don't have. Deposits are critical and if anything our strength and growth in deposits has been one of the standout measures in the last four or five years in our business and private bank and our corporate institutional business. It's really pleasing to be able to sit in front of you right now and say not only are we the largest business bank in terms of lending, but we're also now the largest business bank in terms of deposits. That's really pleasing and it also helps you manage your margins when more of your loans are funded by your own deposits, which has been a really strong focus for us.

In the half, we saw margins decline in our Business and Private Bank by 5 basis points, but my understanding is that’s significantly better than the peer that's already announced and we'll see what our other peer announces later this week. But I think you can get to the conclusion that we're managing the growth and margin dynamics as well as we can and that's because we do that from a position of strength. We have great bankers with deep expertise and long term relationships. When you are with these clients, the median tenure of a relationship of a business banking client is over 10 years. If you cover those clients well, you look after them and you're on their side, they're much less price driven than maybe a consumer client would be. It doesn't mean you can't be a ballpark out on price, you have to be competitive, but price is one of many factors driving where they place their business.

Journalist: Thank you. That's really helpful answer. And then on the house price question?

AI: I think on housing, we've got to increase supply because economics 101 suggests that if supply isn't growing up and demand increases, prices go up. So you're right to point out the fact that if interest rates come down around 100 basis points that likely is, in and of itself, going to drive house prices even higher. So we may not get the outcome we want, which is getting more people into houses. The Australian dream is to own a home and you want younger people to have a chance to do that. You want new Australians to have a chance to do that, and the only way we're going to address this is to fix supply. So we've got to have more conversations on that and it's still the case that too much of the discourse on housing is on the demand side. We need more discourse and levers on the supply side.

Journalist: Andrew you’ve covered the outlook for business and what you’re expecting there. I notice your result is pretty well in line with market expectations, but provisions were a bit better than expected. Can you talk us through what the outlook is looking like on the credit quality front and the provision front and maybe what your expected credit losses are? Are you building in a bigger downside case?

AI: I'm happy to give a bit of that and I also have Shaun Dooley next to me who's our CFO. Shaun, if you want to pop in after, feel free to. Look, we would say that the performance of our book is playing out as we would expect and we expected to see some delinquency manifests in both our home lending and in business lending and that has materialized. Most of that delinquency is not impaired and so you've got issues where businesses are struggling with cash flow, but the underlying asset is in good shape and the bank's not going to lose any money. So what we're doing is working with those customers to try and get them back on their feet and help them do that. I think that's playing out as we would expect. It's hard to point to the future right now given the global uncertainty. If all that trade and global uncertainty were not around, I think I could, with more conviction, tell you that we're through the worst and that things are going to ease from here on in, but offshore, with all that uncertainty, I think we've got to still be a bit more prudent and a little bit more cautious on the outlook and that's certainly manifested in our settings at the half. You only have to go back five or six weeks to recall extreme uncertainty in markets, both debt markets and equity markets, and this hasn't yet fully played out. So it's a little bit of a watching brief, if I'm honest. Shaun, anything you'd add?

Shaun Dooley (SD): Thanks, Andrew. A couple of things that I'd add. You raised a question on the downside, so in our provisioning we have a downside scenario and we've looked at that in light of recent announcements and so on. We feel that the assumptions in our downside scenario take into account all of those global risks that Andrew talked about. The performance of our portfolio is operating in line with our expectations. The expectations would be that we could still see asset quality outcomes in business bank continue to soften in the second half. We've always felt that there is a lag between the peak in business and the peak in housing. So it would be fair to say that we'd expect to see some further deterioration in the sector.

Journalist: And could I ask one more on the Net Promoter Scores across the bank? There seems to be some softness there. Is there anything significant in that Andrew?

AI: Net Promoter Scores are a lag measure and so if anything, they're one of the last things to actually end up moving. Where we're focused heavily right now is deploying the strategies and interventions underlying our strategy. And I'll talk more about that later today in our analyst briefing. But we are seeing really good early signs there. I'm still pretty encouraged by how the company is adapting and adopting the refreshed strategy and the significantly increased ambition we have for ourselves with regard to our customer experience. So lots of work for us to do, but I'm confident we're tracking in the right direction.

Journalist: Thanks for that.

AI: I just want to finish the call by thanking everyone for your interest and for your questions today. There is certainly plenty to talk about. I continue to be excited about our bank and what's ahead and what we've can achieve. Thanks for your time and have a great day.

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For further information:

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