Presentation

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Hello, and welcome to the Deutsche Bank Depositary Receipt Virtual Investor Conference, DBVIC. My name is Zafar Aziz, head of DR IR Advisory, Deutsche Bank's Depositary Receipt team. I'm pleased to announce that our next presentation will be from National Australia Bank.

Before I introduce our speaker, please remember that after the presentation, you'll be directed to the National Australia Bank booth where you can submit questions via email. On a final note, all of today's presentations will be recorded and can be accessed via the Deutsche Bank website, adr.db.com.

At this point, I'm very pleased to welcome Ross Brown, Executive General Manager, Investor Relations, National Australia Bank. Over to you, Ross.

Ross Brown

Hello, and thank you for your interest in the National Australia Bank story. My name is Ross Brown. I just wanted to talk you through a few of the slides to give you an idea of the National Australia Bank story.

Now I'm going to start on Slide 4, which is a bit of an overview of the Australia and New Zealand economic environment to give you some context around the operating environment. And there's a few graphs on the slide. And the first one on the top left is a business conditions and confidence survey that the National Australia Bank has been running for a number of years, and it's a very good indicator of underlying economic conditions. And you can see in that there's been an uplift in both the economic conditions and confidence over the last few years, and new and important economic conditions survey data points is currently tracking at plus 9, and that's above the long-term average of plus 5.

If you look to the top right chart, the non-mining real GDP growth, so there's obviously been a slowdown in the mining, I think you guys are probably well aware of. But what's probably less now and is that non-mining has actually been accelerating as a contributor to economic growth in the last few years and is now above the long-term average.

If you look at the bottom left, you'll see unemployment rate in Australia. It sort of peaked at around 6% in the last few years and is now a little bit below that, trended -- and trending down. Now 90% of our business is in Australia but 10% is also in New Zealand, and that includes a few basic steps there in the bottom right on New Zealand's economic conditions. You can see GDP growth around the sort of 2% to 3% mark, unemployment also just below 6%.

The other economic steps that are relevant here is credit growth. Credit growth in Australia is running at around 6% to 7%, both the housing, lending and business lending. And we did have a GDP statistics coming out a couple of days ago, which was 1.1% growth for the quarter and gave a 3% growth rate for the year, which are pretty robust numbers, we think.

Now turning to the next slide, which just shows the relative amount of government debt that we have compared to other developed countries. And you can see the Australian government debt is very low relative to most developed countries and that also gives the government a fair bit of fiscal flexibility.

Turning to the next slide, there is lots of discussion in Australia about house prices, and they've gone up a reasonable amount in the last few years and whether the household debt burdens are perhaps too high in this country. Now this chart just shows you the level of mortgage interest payments as a share of household income. And you can see while property prices have risen and also debt levels of the households have gone up because of falling interest rates, the actual level of interest burden for most households is back at levels we probably saw 10 years ago and well down from the peaks. So overall, I think the economic backdrop for Australia and New Zealand is relatively solid, probably a lot better than some European economies at the moment.

Now why don't we turn to some of the strategic things that we have focused on here at NAB on Slide 8. It looks -- it's a bit of an overview of the strategy that we're trying to pursue with NAB. Now first and foremost, we want to be Australia and New Zealand's most respected bank, and we've outlined a few of the things that we want to do to deliver that. Now that's a big focus on customer and obviously, every organization will talk about customer focus, but we really are going very deep in embedding that culture in the organization. We've got a lot of technology deployments, which are very customer-centric, including a new core banking platform upgrade which is in the government space. We're investing in getting our wealth customers and products into our banking customers, and obviously, there's a big focus on investing in our people. And if we get this all right, we'll get better customer efficacy, better employee engagement, risk management outcomes will be better and importantly, we'll close the ROE gap relative to our peers and improve that performance, and hopefully, that will lead to a top quartile total shareholder returns relative to the other major banks in this country.

We turn to the next slide. I'll talk through some of those points in a little bit more detail. Now in terms of customer focus, we use a system in Australia called NPS, which is Net Promoter Score. That really is a measure of customer efficacy whereby advocates or customers are asked to write the experience from a NAB interaction between 1 and 10 with 9 and 10 scores viewed as being an advocate and less than 6 as a detractor, in between is neutral. So it's a pretty high benchmark to get positive customer advocacy scores. And you can see in the chart, we've seen some improvements relative to our peers in absolute terms, but still minus 11 is not where we wanted to be. We want to be at a positive score. And we've been investing in a whole lot of initiatives to improve that around customer pain points. We've addressed 39 customer pain points in the last 18 months impacting positively 1.3 million customers. All the key executives and their remuneration is linked to these customer efficacy outcomes. We have customer connect days where every employee of NAB is contacting proactively a customer. So all part and parcel of embedding a real customer focus in the organization.

We turn to the next slide, that talks about some of the digital capabilities that we've invested in recently. And obviously, digital -- every bank will talk about digital initiatives. And on this page, I have outlined some of the digital initiatives that were launched in the last 6 months for business customers and personal customers. And I won't take you through the specifics but feel free to read them at your leisure. But it really does -- so 2 key purposes. One, it does provide customers with some genuine benefits and enhancements that are unavailable elsewhere, and also, I think, it provides us with a good position to defend some of the disruption that is out there from FinTech startups and the like.

We'll turn to the next slide, that deals to our core banking platform upgrade. Now we started on the core banking platform upgrade in 2009. We've completed most of those major components, and the biggest one is the Personal Bank Origination Platform, which is currently in rollout across Australia. We completed the rollout in 3 states and should complete the remainder in the latter part of this year. Now this is a brand-new retail origination banking platform for all regional products across all retail channels. So it's got an enormous amount of scope. It's probably one of the biggest technology deployments in any bank anywhere in the world at the moment. As I said, it's on track [indiscernible] for completion later this year. Numerous benefits for our customers around single-application process for multiple products, ability to receive loans and settle your loan documentation online, security checks can be done online, customer receipts, electronic updates, [indiscernible] banking, e-mail or SMS giving the progress, updates on how the loan application is traveling. And you can see in the bottom right, there is some real benefits for customers that the time to yes or the time to approval effectively for the loan is greatly reduced by half, and we also have some significant productivity benefits we'll achieve once the rollout is complete this year.

Turning to the next slide, the other point of differentiation for National Australia Bank is around Business Banking. Now we are Australia's largest business bank and particularly in the SME segment. And you can see in the bottom part of that slide, we have market shares between 20% and 33% of SME depending on which segment you're talking about. That's a very dominant position. And part of that is because we have more bankers in more places than any other bank in Australia when it comes to business lending. And the reason we are investing further in this segment and see good opportunities for better growth and returns is because if you look at the little bar chart on the top right, the ROE for SME-type customers, which we grouped under our NAB business, [indiscernible], is more than 2x higher than we get for the returns on institutional and corporate lending. So it's a very attractive segment for us. We have a dominant position, and we are investing further in that. And we've had some good progress in the last 6 months. The revenue in that segment grew 4.5%, and that's just a 6-month performance. So we're getting some good traction and better returns in Business Banking.

Maybe I'll now just turn to some of the financials. And if I look at Slide 14, which looks at the snapshot of the headline numbers for NAB, cash earnings. It's very much in Australia in description of earnings, but basically it takes out some of the noise in earnings around volatile items, which are tend to be mark-to-market derivative things which do not impact on our net capital position. And you can see, in the last 6 months, we delivered a profit of $3.31 billion. That was 6.5% up on the product period. In terms of the EPS terms that was actually a decline of 4%, and the main reason for that was we raised $5.5 billion of capital in the middle of last year in part to enable us to divest our U.K. business but also to meet some regulatory changes that are coming into place this year. Dividend of $0.99 per year equates to about a 7% yield assuming that dividend is sustained going forward, and the cash return on equity is around 14%. You'll note that there is a statutory net loss of $1.7 billion, that basically reflected the fact or the costs associated with divesting our U.K. business, and we IPO-ed and demerged Clydesdale Bank, which is the name of our U.K. business, in February. That business is no longer a part of the NAB Group, but there were some costs involved in that IPO and demerger.

Turning to the next slide. This is the one which was a little bit more detail around our core businesses. You can see, as I mentioned, the earnings for the NAB Group were up 6.5% over the year. You can see most of that growth was driven by Australian banking, which is about 80% of the group. New Zealand banking, which is about 10% of the group, had a small decline, mainly due to higher loan losses in New Zealand dairy, and I'll talk to that in a minute. And our NAB Wealth business also had very strong growth. And you can see next to that underlying profit, which is the profit before tax and bad debt expense, was also relatively solid at 3% for the year.

Now, forget the next slide, that deals to the asset quality outcomes for NAB. And you can see in the top left chart, bad and doubtful debt expense as a percentage of our gross loan book have been pretty stable at around that sort of 12 to 14 basis points over the last 4 halves. That's probably a little bit below where we think mid-market losses are, but given the relatively favorable economic backdrop, those are probably reasonable set of numbers in the circumstances.

If you look to the top right, you will see the impaired asset type ratios. So the light blue is the 90 days past due in impaired assets as a proportion of gross lines, and you can see that is at 0.78%, so relatively low levels of impairment. And our watch loans are tracking at stable 1% of the loan book as well. So again, fairly good asset quality metrics there.

The bottom left chart shows the flow of new impaired assets into NAB, and you can see that in the last 6 months that did pick up a little bit at $1.3 billion. Most of that increase related to $522 million of New Zealand dairy exposure. Those are basically New Zealand dairy lines which are doing a little tough at the moment partly because the milk price -- global milk price is at probably 10-year lows and well below where it has been in recent years. Those loans are very well secured that we have, and we do not expect to incur any loss at this stage given those levels of security.

Now if I turn to the next slide to talk about our capital position, the Australian regulator has a slightly different calculation on common equity Tier 1 ratio relative to other overseas peers. And you could see in the top left chart, our common equity Tier 1 ratio on the APRA metrics is 9.69%, but when we harmonize that for differences between the Australian regulator and overseas regulators that gives you a like-for-like international comparison of about 13%. Our target capital ratio is about 8.75% to 9.25% on the APRA measure. As I said, we're currently at 9.69%. There are a couple of things -- a couple of changes coming this year around increased mortgage risk rates as well as the sale of our life insurance business, but the pro forma impact of all of those changes is that our common equity Tier 1 ratio will land at about 9.3%, which is still slightly above our target capital range. In terms of dividend, we have a target payout ratio of 70%, 75%. At the most recent set of results it was 78.8% payout ratio, slightly above our longer-term target ratio. We're comfortable with being a little bit above that, mainly because we can see -- based on current dividend settings, we can see a path back into that payout ratio over the medium term.

Now just to wrap up. Look, we've had a pretty solid first half set of results, mainly driven by an improved Australian banking performance, particularly our Business Bank, which is our key point of difference in Australia, which now has some reasonably good momentum after a period of change. As I've described, we've got a pretty strong balance sheet, both capital and asset quality outcomes, strategically very focused on some customer-centric culture being driven through the organization, and we're getting some pleasing but early outcomes around improving customer efficacy outcomes. We're investing in significant technology, digital investments and also in our core banking upgrade, which we are at a key point of deploying the most important parts of that, and we're starting to see some benefits both for customers but also in terms of productivity. And following the merger of our U.K. business, which took place in February, we're now very much a simpler Australia and New Zealand major bank, focused on the sort of priority customer segments around mortgages and SME lending. And these are the segments where the returns are higher and ones where we can see a decent path delivering better return on equity and hopefully, better total shareholder returns.

With that I'll wrap up. I thank you for your interest in the NAB story. If you have further questions, please feel free to email me or you can go on to the NAB website, where there's a lot more shareholder-related information at nab.com.au. Thanks again for your interest. Bye now.