

## **TRANSCRIPT – NABTRADE ‘MEET THE EXECUTIVE’ INTERVIEW WITH NAB CEO ANDREW THORBURN**

### **INTERVIEW DETAILS**

- **Interviewee** – Andrew Thorburn (AT), Chief Executive Officer, NAB
- **Interviewer** – Vishal Teckchandani (VT), Customer Insights Manager, nabtrade
- **Date of filming** – 7 May 2018
- **Link to the video interview on nabtrade** – [https://www.nabtrade.com.au/investor/insights/meet-the-executive/news/2018/05/nab\\_ceo\\_discussesdi](https://www.nabtrade.com.au/investor/insights/meet-the-executive/news/2018/05/nab_ceo_discussesdi)
- **Relevant materials referred to in the video** –
  - The NAB 2018 Half Year Results Announcement (and the Investor Presentation referred to in the video) can be accessed here: <https://www.nab.com.au/about-us/shareholder-centre/financial-disclosuresandreporting/financial-results>
  - NAB's Dividend Payment History can be accessed here: <https://www.nab.com.au/about-us/shareholder-centre/dividend-information/nab-s-dividend-paymenthistory>

### **IMPORTANT INFORMATION AND DISCLAIMER**

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## EDITED TRANSCRIPT

**VT** – Welcome, my name is Vishal Teckchandani. Today I'm speaking to the Chief Executive Officer of NAB, Andrew Thorburn, and we're going to cover the bank's first half results, the Royal Commission and how NAB is transforming itself. Andrew, it's great to have you here, how are you?

**AT** – Thanks Vishal, I'm good and it's good to be with you.

**VT** – Thank you so much. Andrew let's kick off with the first half results, what did you feel were the highlights for NAB?

**AT** – Well I thought it was a pretty solid result in a very competitive and turbulent environment.

### SOLID UNDERLYING RESULT

<b>1H18 v 1H17</b>			
Cash earnings <sup>1</sup>	\$2,759 m	↓	16 %
Cash earnings (ex restructuring-related costs)	\$3,289 m	↔	Flat
Diluted Cash EPS	98.8 cps	↓	17 %
Diluted Cash EPS (ex restructuring-related costs)	117.0 cps	↓	2 %
Cash ROE	11.4 %	↓	260 bps
Cash ROE (ex restructuring-related costs)	13.6 %	↓	40 bps
Dividend (cps)	99 cps	↔	Flat
Statutory profit (\$m)	\$2,583 m	↑	2 %
CET1	10.2 %	↑	10 bps

(1) Refer to page 154 for definition of cash earnings and reconciliation to statutory net profit

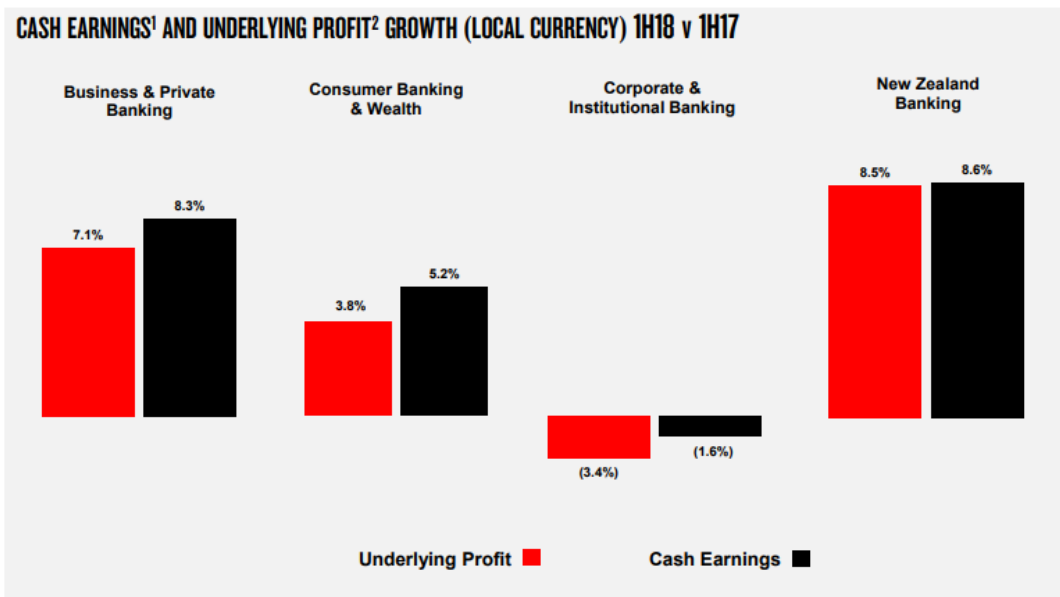


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**Source:** <https://www.nab.com.au/content/dam/nabrwd/About-Us/shareholder-centre/documents/2018-half-year-results-investor-presentation.pdf>

Our revenue was up, and I think particularly pleasing was our Business & Private division, which of course is the core of NAB. It had 1.8% sequential revenue growth which was positive.

## STRONG CONTRIBUTIONS FROM BUSINESS & PRIVATE BANKING AND NZ



(1) Refer to page 114 for definition of cash earnings and reconciliation to statutory net profit  
 (2) Underlying profit represents cash earnings before various items, including tax expense and the charge for credit impairment. It is not a statutory financial measure

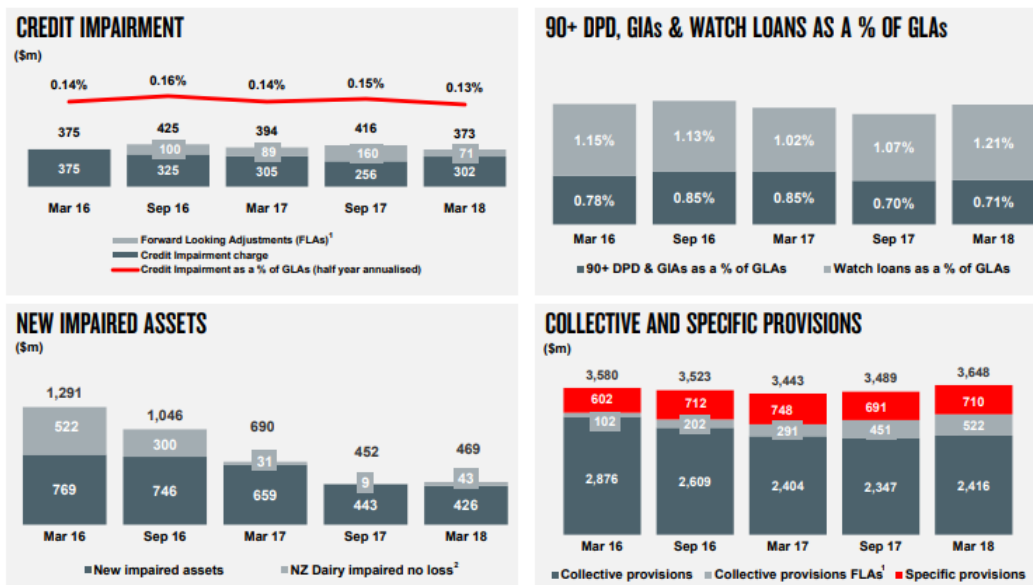


**Source:** <https://www.nab.com.au/content/dam/nabrwd/About-Us/shareholder-centre/documents/2018-half-year-results-investor-presentation.pdf>

Our costs were in line with what was expected because of our acceleration program; much bigger investment in the bank and therefore higher costs for the half but in line with expectations.

Our bad debts or credit impairment charge remains quite low and we now have a \$500 million what we call 'forward looking adjustment'; sort of like an extra provision that we've set aside for potential credit charges in the future.

## STABLE ASSET QUALITY AND PRUDENT PROVISIONING



(1) Represents collective provision Forward Looking Adjustments (FLAs) raised for targeted sectors  
 (2) NZ Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans



**Source:** <https://www.nab.com.au/content/dam/nabrwd/About-Us/shareholder-centre/documents/2018-half-year-results-investor-presentation.pdf>

And our Group Basel III Common Equity Tier 1 Capital Ratio capital, at 10.21%, we feel is within striking distance of the 10.50% we need to get by January 2020. So I think all things considered we felt it was an on track, pretty solid result.

**VT** – Let’s focus on the dividend. NAB has announced a 99 cent dividend, and that’s the rate that the dividend has been maintained at for the ninth consecutive profit result. Now like any business, NAB needs to balance rewarding shareholders with investing for the future, and on that latter point you’ve flagged an increase in investment expenses through till financial year 2020. So when can shareholders expect to see the benefit of that investment translate into dividend growth again?

**AT** – We are investing a lot more, Vishal, you’re absolutely right. We feel that as we look into the future, it’s a challenging future but it’s also got opportunities. A bank is a long-term business and it needs to invest.

And normally, we invest about \$1 billion per year and over the three next years we’re going to invest another \$1.5 billion to take it to \$4.5 billion in total, so a very big investment but it is about setting the bank up to be simpler, more resilient and more growth oriented for the future.

We know the dividend’s important, particularly to retail shareholders, and we have maintained that at 99 cents and the Board has said it intends to maintain that for the next half so we have a continuation of the FY 17 dividend in FY 18.

But of course future dividend growth is into the future but we know that capital generation is good for the bank. We know that risk-weighted asset growth has been low - or growth in our credit aggregates has been low. We know that people want that to improve but we just have to invest, get the platform right and the dividend yield of course at current levels is quite attractive.

Payment type	Payment date	Ex dividend date	Record date	Dividend rate per share (AUD)	Franking level %
2018 Interim	5 July 2018	15 May 2018	16 May 2018	99 cents	100
2017 Final	13 December 2017	9 November 2017	10 November 2017	99 cents	100
2017 Interim	5 July 2017	16 May 2017	17 May 2017	99 cents	100
2016 Final	13 December 2016	4 November 2016	7 November 2016	99 cents	100
2016 Interim	5 July 2016	17 May 2016	18 May 2016	99 cents	100
2015 Final	15 December 2015	5 November 2015	9 November 2015	99 cents	100
2015 Interim	3 July 2015	15 May 2015	19 May 2015	99 cents	100
2014 Final	16 December 2014	7 November 2014	11 November 2014	99 cents	100
2014 Interim	8 July 2014	14 May 2014	16 May 2014	99 cents	100
2013 Final	18 December 2013	7 November 2013	13 November 2013	97 cents	100
2013 Interim	16 July 2013	30 May 2013	5 June 2013	93 cents	100
2012 Final	18 December 2012	9 November 2012	15 November 2012	90 cents	100

**Source:** <https://www.nab.com.au/about-us/shareholder-centre/dividend-information/nab-s-dividend-paymenthistory>

And with franking credits, you know we still think it's worthwhile using those up and we still have quite a bit left. So all in all, we're monitoring this carefully and we know that shareholders want to see the dividend improve but what we need to show is that we're building a platform that's a strong, efficient, growth oriented bank into the future.

**VT** – Okay so let's delve deeper into that investment piece; this is something you've emphasised quite a lot over the past year. What will NAB be able to do in three years and how are you reshaping your business for the next three years?

**AT** – Well, the first thing is we're investing in what you would call the platform and foundations of the bank: technology, risk capability, our systems and architecture that deliver confidently for our staff and then for our customers and for our regulators. That's point one.

The second thing is we are simplifying the bank dramatically. We have decided to divest MLC, we've obviously done a number of other divestments, so we're back to Australia and New Zealand. But we're going to halve the products that we have on offer and we're going to reduce the number of IT applications by at least 15% to 20% so we simplify the bank dramatically.

What that enables us to do is to focus on growing our Business Bank. We're the number one Business Bank in Australia; look at housing credit starting to slow, business credit starting to lift up and the future is in private sector businesses.

So our Business Bank will have more bankers, will have an even better specialisation model, and we'll have more representation on the ground. So I think growing the Business Bank is a really big investment opportunity, so that's where we're going to be investing to make the bank not just simpler, and more efficient and more resilient, but also poised for growth.

**VT** – Okay so let's park the results for a second and come to the Royal Commission. Clearly the public perception of the banking industry has been dented a bit by everything Australians have seen and heard during

the hearings. As a senior leader in the industry, as the CEO of NAB, what would you say is your key message in a nutshell to the public, to the community, to NAB shareholders and customers about what you're doing to reinstall faith not just within NAB but within the industry by and large?

**AT** – Well, I've been in banking my whole career and it has been disappointing to see what's happened, particularly in the last five to ten years in banking. And we have to own that; you know we have to acknowledge that we have not always delivered for customers and for the community.

And we have to rebuild trust through actions steadily and progressively over time. Making ourselves a simpler bank will mean that we can deliver for customers more consistently than we have in the past. A lot of our mistakes have been driven by very complex product and architecture systems and so we're going to address a lot of that.

And then we just have to be transparent around when we make a mistake that we acknowledge it. I can't say that we'll never make another mistake because it's just a very big, complex, fast-moving business. But when we do, we want to acknowledge it, tell regulators about it, acknowledge it to customers and fix it so it doesn't happen again.

The only other thing I'd say to investors is you need to have perspective. The bank is strong, it's profitable, it's got very good asset quality, and it's got really good businesses. The Royal Commission is into misconduct, so as a result all you're going to see is bad things. But that is not systematic in the bank.

There are people in the bank who are hard-working, who have very good character, who want to do the right things for clients, so if we had a Royal Commission into good conduct I think it would go longer than the one we've got into misconduct. So I think we just have to have perspective here and zoom out and see there's a lot of very good things that the bank does and it will continue to do.

**VT** – Let's come back to the results. Another important element of the announcement was that NAB is reshaping its wealth management strategy. Can you explain what exactly is happening here and why is that you've opted to retain these two specific businesses which are nabtrade and JBWere?

**AT** – Well we looked at this carefully and thoughtfully over time and we still believe firstly that wealth products, services and advice to our clients are very important, but it's focussing on particular client segments.

So obviously JBWere which is the premium advice franchise that we have and one of the leading franchises in Australia sits alongside our Private Bank and the many high net worth business clients that we have. So that's why we have that.

Also, nabtrade we think is a really good platform. We've built it out, it's grown its market share, and we have confidence that as we continue to do that it will provide a very good platform for some high net worth clients who are self-directed and others who are confident, knowledgeable investors and that number is growing in Australia.

However, we have decided that the remaining part of the business – the MLC business – that we will divest that. That will be better for NAB because we're a lot simpler and our returns will go up, we think, once we do that.

## RESHAPING OF WEALTH MANAGEMENT

### MORE FOCUSED WEALTH OFFERING

- High net worth customers supported by JBWere and NAB's Private Bank
- Self directed customers supported through nabtrade
- Explore on-going arrangement with MLC to provide NAB customers with continued access to advice

### INTEND TO PURSUE DIVESTMENT OF MLC<sup>(1)</sup>

- Commenced strategic review in mid 2017
- Focus on core strengths in banking consistent with simplification agenda
- Opportunity for MLC to set independent strategy and investment priorities
- Expect NAB ROE to increase on separation

### EXAMINING A BROAD RANGE OF EXIT OPTIONS, INCLUDING PUBLIC MARKETS

- Public market options include demerger and IPO
- Targeting listing of MLC by end of 2019 calendar year, subject to market conditions and Board, regulatory and other approvals
- Flexibility to consider trade sale

### MLC MARKET POSITION

- Trusted brand and history spanning over 130 years
- Over 1,200 financial advisers<sup>(2)</sup> (proprietary and aligned)
- Largest retail superannuation fund in Australia with FUM of \$78bn<sup>(3)</sup>
- Leading corporate superannuation provider by market share<sup>(4)</sup>
- Asset Management AUM of \$199bn
  - \$141bn in Portfolio Management
  - \$58bn in Investment Management
- ~3,300 staff<sup>(5)</sup>
- 1H18 pro-forma cash earnings of \$102m<sup>(5)</sup>

(1) Includes Advice, Platform & Superannuation and Asset Management businesses  
(2) Excludes JBWere and nabtrade  
(3) As at 31 March 2018  
(4) Source: Strategic Insight Market Overview as at 31 December 2017  
(5) Based on earnings from businesses expected to be divested



**Source:** <https://www.nab.com.au/content/dam/nabrwd/About-Us/shareholder-centre/documents/2018-half-year-results-investor-presentation.pdf>

And it will be better for MLC because it will be a smaller, independent business and more nimble. It's good some good platforms, it's got some opportunities for growth and I think separating it from NAB will enable them to go after that as well. So that's why we're doing it.

Now we have said that it's going to take us probably through till the end of 2019 to be able to conclude all that because it's quite complex but we've got a clear plan; we've announced it and now we need to get on with it.

**VT** – Andrew thank you so much for coming in to speak to me and to NAB shareholders on the nabtrade platform, really appreciate your time.

**AT** – Thank you Vishal, great to be with you.

**VT** – [Statement directed to viewers]. I hope you found that video informative. Now please remember, what we talked about today is just general information, it's not a recommendation to transact in NAB's shares, if that's something you wish to do, it's really important that you do your research and consider seeking financial advice so that you can get the help in making an investment decision that's right for your circumstances. My name is Vishal Teckchandani, and I'll see you next time. **END OF INTERVIEW.**