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TRANSCRIPT

NAB FY26 Full Year Results Media Call

Andrew Irvine (AI): Thank you, Mark, and good morning, everyone. Thank you for going in. Look, I'll cover three themes today before taking your questions. Firstly, our customers and the state of the economy. Secondly, diving into NAB's results and thirdly, I'll have a conversation about the outlook.

Turning to the economy, Australians continue to show resilience in a slowing environment. This is caused by higher inflation, five cash rate rises, rising living costs, including fuel, and heightened global uncertainty. At the same time, changes to tax settings have required adjustments, including in the housing market and taken together, all these factors have weighed on customer confidence and non-business conditions.

Through this, NABS bankers are staying close to customers, and we're hearing things are getting tougher. Families are watching household budgets closely, and businesses are absorbing higher input costs. Despite these challenges, our financial year 2026 results reflect strong underlying profit growth, supported by higher volumes and stable margins. Underlying profit, excluding the large notable item announced that the half increased 6.9% and revenue grew 5.8%. Costs were up 4.5% and NIM also improved. We further strengthened our balance sheet this half, enabling us to continue growing and supporting customers in this more difficult environment.

The Board declared a final dividend of 85 cents per share, and this brings total dividends to $1.70 and returns billions of dollars to shareholders and to many Australians who own that share through their superannuation funds. NAB's customer-centric strategy is delivering. We've made progress on our three priorities of growing business banking, driving deposit growth, and strengthening proprietary home lending.

Our business-focused divisions are getting stronger and despite fierce competition, strategic disruption, and a challenging economic environment, across business and private banking and our corporate and institutional bank, NAB is the largest business lender in Australia, with customers ranging from small traders all the way to large corporates and institutions and taken together, these two divisions now account for approximately 75% of the bank's underlying profit. We're also the largest business lender in New Zealand with our BNZ franchise.

This year, our core business and private banking business grew lending balances by 10.5% and deposits by 6.1% and in our Corporate and Institutional Bank, we grew lending by 9% and deposits by 5.5% and pleasingly, we were recognised with market-leading customer advocacy scores. We're determined to keep growing and investing in these businesses. Turning to Personal Banking, we increased deposits by 7% and in Australian home lending, the proportion of new loans through our proprietary channels has now increased 53% in the second half, helping us manage through a changing market.

As we look forward to sustaining these results, NAB must adapt for today and for the long term. That's why we announced two weeks ago that we're simplifying our operating model, including reducing our workforce by up to 2,500 roles before September 2027. These are difficult decisions. They impact our colleagues and we are treating them with care, with dignity, and with respect. But at the same time, these actions are required to reduce duplication, to speed up our decision making, and to further strengthen our risk posture and direct our investment on what matters most to our customers.

These changes will better position that to respond to rising customer expectations, to more competition, and to a rapidly changing technological environment as well as help us navigate softening economies. Longer term, I remain optimistic about Australia's outlook. However, the actions we have taken reflect our expectation of a more challenging year ahead. NAB enters financial year '27 with good underlying momentum, clear strategic priority, and with an established leadership team. And as we simplify and strengthen our bank for the future, we're not losing focus on our customers. They are why we exist. Thank you again for joining today and I'll now take your question.

Journalist: Good morning, Andrew, and thank you for doing the call. Just looking at the sort of lifting credit impairment charges, I just had a question around trading conditions in the retail sector and we're obviously seeing David Jones heading towards administration and the governor of the RBA saying on Tuesday, you know, people felt like a recession sort of conditions. Just wondering if you might be able to sort of give us a little bit of a pulse on the economy. Andrew, do you think there's a risk of an actual recession emerging? Do you see consumer confidence falling from here and how will that feed into the discretionary retail sector?

AI: Thanks, James, for your question. Look, our view is that growth will slow next year, but our central case is that we will see growth of around 1%. I think we don't think a recession is the most likely scenario, but it's probably increased in terms of its probability of an occurrence. And we'll have to see, we don't yet know how the full impact of the five base rate changes will impact customers. So, you know, we'll have to look through that. Most customers have been able to absorb the changes and are showing resilience, but clearly there are pockets of challenge and we're looking after and talking to those customers as best we can. If I turn to your question around retail, what I would say is it's uneven. What we are seeing is that retailers that either focus on luxury or have a really strong proposition, do very well. Retailers that focus on value and delivering value to customers in this kind of cost of living environment are also doing very well. But if you're kind of stuck in no man's land a little bit with either a legacy business model or a proposition that doesn't quite hit the mark, those businesses are under very significant pressure. And I think you're seeing that play out live right now with some of the names that you mentioned. We also have unevenness geographically parts of the country like Western Australia and to some extent Queensland doing better than here in southeast Australia, particularly Victoria and New South Wales doing it a little bit tougher.

Journalist: Good morning, Andrew, and thanks for taking questions. Last half NAB had 0.08% of borrowers in negative equity. Today, that proportion is six times higher, with rising arrears concentrated in mortgages being repaid with business income. Is small business stress turning into a mortgage problem, especially if the bank braces for deteriorating economic conditions?

AI: Yeah, I think that's something we're watching closely, Jack. It is right to say that we've been watching our mortgage book, we've seen a little bit more stretch emerge in what I would call customers who use business income to service the home loans versus customers who are, you know, PAYG to service the income. So that's something I think we'll need to look at. So I think it probably is a fair assertion that some of our small business customers are a little bit more pressure, cash flow pressure. We know small businesses have been hit with input cost increases.

That's been quite inflationary. We know in some sectors, liquid fuel costs have pressured subsets of our customers as well. And our bankers are constantly having conversation with those customers around how we can help them get through these times. But in the scheme of things, the level of stress in Australian mortgages generally and in our mortgage book are still very low compared to both historical measures as well as the global benchmark.

Journalist: Hi, thanks for taking questions. Just wondering, you said obviously it'll be a challenging year ahead. Do you expect the pain to last much longer than that, and if it does, how do you think households and businesses can cope Do you think they're kind of already at the limit of what they can handle right now with the rate sitting where they go?

AI: Yeah, I mean, look, one of the central issues that we have as a nation is that despite how tough things are out there, we still are in a situation where demand is outstripping our productive capacity to supply that demand. In the long run, the best thing this nation and this country can do is to increase supply through productivity to drive economic outcomes and living standards. But in the short term, it's much harder to do that. And so the best lever you have to get inflation under control is to reduce demand. And that's precisely what the Reserve Bank has been seeking to do over the course of this year with those cash rate rises. Our house view right now is that this week's announcement is probably the last one. But we'll have to see as we go if inflation does come down. It's our view that we're going to see a bit of an uptick in unemployment. And I'm hopeful that this will be the end of the cash rate rises and that we'll start to see them fall maybe in winter of 2027. So from now until then, I think it is going to be harder for our customers. And all I can say to them is that we're going to continue to be there for you and help you through this.

Journalist: Hi, Andrew and everyone. Thanks for taking the questions. I noted in the report that NAB has outlined it's not fully compliant with the updated AML/CTF laws. and there's possible impairments coming through and enforcement. Can you help us understand a little bit more about what those might be and if NAB is taking action to prevent these enforcements coming through?

AI: Look, there's a lot of change in the ecosystem around financial crime with the Tranche 2 legislation that was introduced to Parliament earlier this year, as well as the scam prevention framework, and we're at the bank working very hard to be compliant with those changes. But we acknowledge that we still have work to do to ensure that we achieve compliance by the target date and we just wanted to ensure that we disclose that to our shareholders appropriately.

Journalist: Thank you, Andrew. You said WA is holding up better than New South Wales and Victoria. I was just wondering if you can expand on that a bit more and what are you seeing in your WA business customers that explains that resilience?

AI: Well, one thing that you do have in WA is much more nexus to metals, minerals, mining and energy. And so you still have relative strength in things like gold mining, iron ore, obviously energy, as I said, uranium, lithium. And so all those things do provide, I would say, tailwinds to the WA economy. There's also much less employment stress in that part of the market. And there's just, I think, more confidence both amongst consumers as well as amongst businesses.

Journalist: Hi, Andrew, thanks for hosting the call this morning. So as you mentioned, proprietary money lending at NAB has reached 63% in the second-half of the financial year. Just interested to know what the bank's proprietary strategy is moving forward, how the bank continue to grow and scale proprietary lending, what are its benefits, and also what will this mean for mortgage brokers?

AI: Yeah, look, one of the things that we've seen in the mortgage market, and it's been exacerbated since the federal budget, has been that system returns have been under material pressure, and as a bank, we want to make sure that we're deploying our capital to get a fair return for our shareholders. We're finding that that's harder to do in the broker market. So we're, I would say, being very economically rational in the flow that we want to book on our balance sheet and the

flow that we don't. And there still is good flow in the broker market that we're choosing to compete for, generally in lower LVR bands and that larger size ticket. But beyond that, we are choosing to compete more aggressively in our proprietary business because we can get better economic outcomes there. And that's working for us.

Journalist: Andrew, just wondering whether or not you might have any response to the US election results that we saw come through yesterday afternoon. Is there any impact you think this might have on the Australian sort of economy at its first read, particularly even in the data centre sort of construction space, if we see the democratic side of politics sort of clamp down in that area over there or any other observations come to mind?

AI: Yeah, I think we still need to see how it all plays out. Obviously, the election results were overnight. The first thing I'll always say is, isn't democracy a wonderful thing? And the American people have spoken today, and we'll see what that does to the last two years of the Trump administration. I suspect we're going to see more partisan politics over there and more fiery political debate.

So, I think that's the certainty. To your question around data centres, I think that has been a central topic for markets and for market confidence will be more Democratic. And it's frankly not in the Congress that it matters. It's more in the governorship. So many of the state governorships are bigger drivers of data centre approvals. So it's more of a state matter.

What I would say again there is that in many of the states that Democrats won, those are actually very Republican states. And so, I do expect that those Democratic leaders will be thoughtful about ensuring that they lead from the centre. And so, I don't think you're going to see too much of a whipsaw away from current policy settings. But obviously, anything that you see in America can translate back here. And we are seeing a bit more emergence of a populist kind of anti-data centre perspective driven by concerns around electricity and water shortages as these data centres filled out.

Journalist: You've also just in the results made a mention to strategic broker relationships. I'm just interested to understand what that looks like and describe I guess what kind of types of brokers that you're looking for like moving forward and what particular areas you want to kind of work on particularly with mortgage brokers as you expand your proprietary channel as well?

AI: Yeah, absolutely. I'm happy to elaborate a bit more on that. So, we've done a fair bit of work to look at the flow and the volumes that we get from the broker channel. And what we've done is we've identified a number of brokers that are providing us with more of the flow that we would want to book. And so, what we're going to do is we're going to work more effectively with those brokers, provide them with more distinctive service and speed so that we basically will become hopefully the preferred bank for that subset of brokers. And that's much easier to do when you focus on 5% to 10% of brokers than it is on the whole broker community. And so we're really going to lean in on providing those subset of brokers with the best possible banking experience. And we think that will work for us.

Journalist: Oh, yeah. Hi, Andrew. And thanks for taking the question. I just wanted to get you to elaborate a little bit more about the mention of the single AI platform in the results and the increased use of agentic AI and business-led squads to identify AI opportunities. Obviously, AI is a little bit of a vexed issue for banks because there are concerns about agents. potentially penetrating bank systems and doing, you know, acting out. But also there's a great opportunity there for productivity gains and efficiencies.

AI: Yeah. I've been clear many times that, you know, I think AI is going to be one of the most consequential technology revolutions that we've had in humanity, frankly. And it will be as

consequential as the steam engine, as electricity, and as the computer. It's in that scale of impact for us. And that will be the case at our bank as well.

We have now deployed an AI solution that we've branded Ruby to our internal colleagues. And so over 40,000 of our colleagues will have access to Ruby, and that's built on an Anthropic platform that we're very excited about. And it will be broadly available to those colleagues for personal productivity.

The 50 business squads are different. They are 50 use cases where we see significant customer, colleague, or shareholder value to prosecute. And those would align very well with our three big business priorities of growing business banking, growing deposits, and growing proprietary home lending. And we're leaning in hard and deploying capability there. A good example would be helping our business bankers write credit memos and speed up that process very, very significantly. The bankers are still very highly accountable for that credit application, but they can leverage the power of Ruby and the AI tooling that will be offered to them.

So, what I would say is that I think for at least the near term, the primary use case is going to be what I would call augmentation use cases, where we're augmenting our human capital and our colleagues versus automating work. As you say, as a bank and as a highly regulated entity, we have to get it 100% right with AI. And so for now, having augmentation use cases where humans are still completely accountable is going to be very important before I'm comfortable with more automation use cases. And it's the automation use cases that will have a bigger impact on our workforce, I would expect.