

Australia's NAB doubles compensation pot; dividend cut, capital raising possible

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Paulina Duran and Hans Lee



FILE PHOTO: The logo of the National Australia Bank is displayed outside the lender's headquarters building in central Sydney, Australia, Aug. 4, 2017.

(Reuters) - National Australia Bank Ltd (NAB) (NAB.AX) said on Wednesday it has almost doubled funds set aside to repay customers for overcharged fees to A\$2.09 billion (\$1.40 billion), raising expectations of further dividend cuts or a capital raising.

The increased charge follows a government-mandated inquiry which found misconduct at major Australian financial institutions, with NAB singled out over accusations that management had failed to accept responsibility for wrongdoing at the bank.

"We understand that shareholders will be rightly disappointed," acting CEO Philip Chronican said in a statement. "We also recognize the need to prioritize dealing with these past issues and fixing them for customers."

NAB's unexpectedly large charge gets the bad news out of the way before incoming chief executive Ross McEwan starts in December, but eats away at the capital levels of Australia's third-largest lender ahead of a January regulatory deadline to reach a core capital ratio of 10.5%.

"We had expected remediation costs to come at about A\$500 million, so this is worse and means NAB's capital position is also slightly worse than expected," said banking analyst Azib Khan at stockbroker Morgans Financial.

S&P Global Ratings said it expected NAB "will be able to maintain its capital strength by offsetting the cut in its earnings with a combination of a lower dividend payout and new capital issues."

NAB earlier this year cut its dividend for the first time in a decade, by 16%, to ensure compliance with regulatory requirements on the core capital ratio, which refers to funds set aside to weather an acute economic downturn.

However, its core capital ratio was 10.4% at June-end, just short of the target, meaning the new charge again puts pressure on the bank.

"NAB's (capital) ratio will now be running a finer line than we previously thought relative to APRA's 'unquestionably strong' benchmark of 10.5%," Khan wrote in a note to clients, referring to the Australian Prudential Regulation Authority.

EARNINGS HIT

NAB said the charge would reduce its cash earnings in the second half of fiscal 2019 by around A\$1.12 billion.

The bank said it decided to set aside an extra A\$1.18 billion mainly to cover a return of about 55% of ongoing advice fees received by its network of self-employed advisers from 2009 through 2018.

The charge will also cover the costs of NAB's remediation program, higher refund rates for mis-selling consumer credit insurance, and changes to the way it dealt with software costs in its accounting.

NAB's share price fell as much as 3.1% after the announcement in a broadly lower market before recovering slightly in afternoon trading to A\$28.90.

The bank said it would disclose the impact to its core capital ratio when it announces full-year earnings on Nov. 7.