



National
Australia
Bank

CORPORATE GOVERNANCE **AT NAB**

2016 Corporate Governance Statement

2016 CORPORATE GOVERNANCE STATEMENT

NAB's vision is to be Australia and New Zealand's most respected bank. This vision guides and motivates everything done by the Board and executive leaders of the NAB Group. Aligned with this vision, NAB's corporate governance arrangements, Values and practices aim to nurture a strong culture that drives our people to deliver industry leading, sustainable outcomes for our customers and shareholders and to win the respect of our other stakeholders including regulators.

We will continue to work to realise our vision. We are especially concerned by the criticism that has been directed at Australian banks concerning the culture and conduct of some people within the banking industry. NAB's Board and senior management take these criticisms seriously and remain intently focused on these issues. Culture and conduct are our responsibility.

Our clear focus on customer experience and culture was reinforced during 2016. Changes were made to the organisational structure to create a simpler, more customer-focused organisation with strong cultural alignment.

NAB's corporate governance practices provide the foundations for effective decision making and accountability in strategy execution, as essential ingredients of long term sustainability. In 2016 NAB again ranked amongst global industry leaders in the Dow Jones Sustainability Index with a score of 95/100.

We are pleased to present our 2016 Corporate Governance Statement (Statement) which details our key governance arrangements and practices at NAB. This Statement has been approved by the Board of Directors (Board) of National Australia Bank Limited and is current as at 30 September 2016. NAB has complied in 2016 with the 3rd edition of the ASX Corporate Governance Principles and Recommendations.

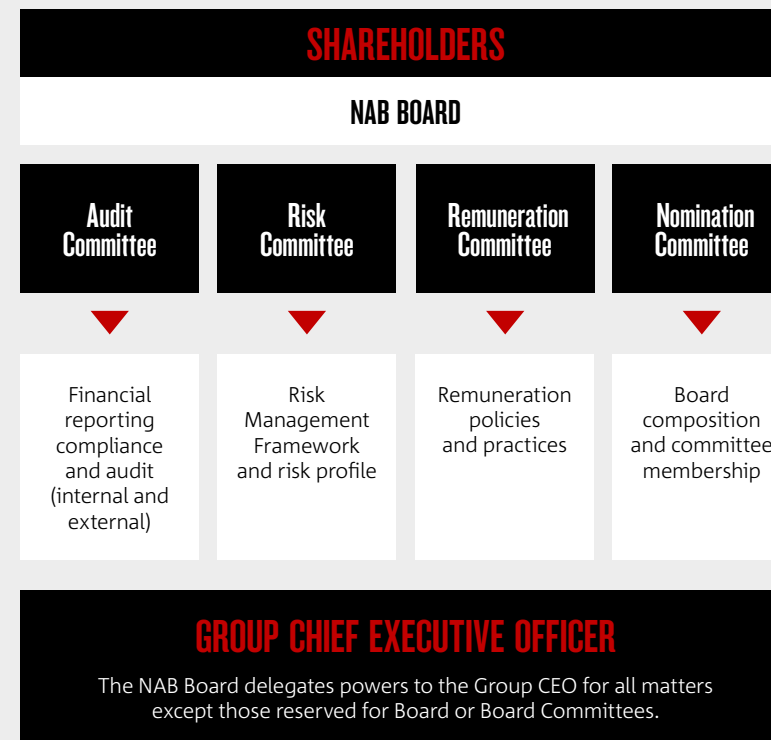
References in this Statement to 2016 mean the year ending 30 September 2016. Unless otherwise indicated, references to the NAB Group mean NAB Limited and its controlled entities, excluding CYBG PLC following the demerger of Clydesdale Bank and MLC Limited following the sale of 80% of NAB Wealth's life insurance business.

A summary of our diversity and inclusion initiatives and objectives follows this Statement and our Appendix 4G is available on our website at www.nab.com.au.

In connection with our financial statements for 2016, the Board has received a joint declaration from the Group Chief Executive Officer (Group CEO) and the Chief Financial Officer (CFO) that:

- in their opinion the financial records of NAB have been properly maintained in accordance with the Corporations Act 2001 (Cth);
- in their opinion the financial statements and notes comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of NAB; and
- their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Further information on NAB's material exposure to economic, environmental and social sustainability risks and how we manage or intend to manage those risks is set out in the Operating and Financial Review within the Report of the Directors, in the 2016 Annual Financial Report, our 2016 Annual Review and 2016 Dig Deeper paper.



BOARD OF DIRECTORS



Our Board provides overall strategic direction for the NAB Group, and represents and serves the interests of our shareholders through the creation of sustainable value.

Our Chairman is Dr Ken Henry AC, who has been a non-executive director of NAB since 2011 and Chairman since December 2015. As Chairman, he is responsible for leading the Board, ensuring that it operates to appropriate governance

standards and fulfils its obligations under the Board Charter. A copy of the Board Charter is available in the Corporate Governance section of our website.

Back row

PEEYUSH GUPTA

Non-executive director since 2014. Member of the Risk, Remuneration and Nomination Committees.

DOUG MCKAY

Non-executive director since 2016. Member of the Audit and Nomination Committees.

ANTHONY YUEN

Non-executive director since 2010. Member of the Risk, Audit and Nomination Committees.

DAVID ARMSTRONG

Non-executive director since 2014. Chair of the Risk Committee, member of the Audit and Nomination Committees.

JILLIAN SEGAL AM

Non-executive director since 2004. Member of the Risk, Remuneration and Nomination Committees.

DANIEL GILBERT AM

Non-executive director since 2004. Chair of the Remuneration Committee, member of the Nomination Committee.

Front row

ANNE LOVERIDGE

Non-executive director since 2015. Chair of the Audit Committee, member of the Nomination Committee.

ANDREW THORBURN

Managing Director and Group Chief Executive Officer since 2014.

GERALDINE MCBRIDE

Non-executive director since 2014. Member of the Nomination Committee.

KEN HENRY AC

Chairman since December 2015 and non-executive director since 2011. Chair of the Nomination Committee.

PHILIP CHRONICAN

Non-executive director since 2016. Member of the Risk, Remuneration and Nomination Committees.

BOARD FUNCTIONS AND RESPONSIBILITIES

Our Board composition is driven by certain principles:

- The Board will be of an appropriate size to allow efficient decision making
- The Board must comprise a majority of independent non-executive directors
- The Board should consist of directors with a broad range of expertise, skills and experience from a diverse range of backgrounds, including sufficient skills and experience appropriate to NAB's business
- The Chairman must be an independent non-executive director, and must not have been an executive officer of NAB or the Group CEO in the last three years.

NAB has a Fit and Proper Policy that meets the requirements of APRA Prudential Standard CPS 520 and requires directors, certain senior management, and auditors of an authorised deposit-taking institution to be annually assessed to determine whether they have the appropriate skills, experience and knowledge to perform their role. They also need to be able to establish that they have acted with honesty and integrity.

Newly appointed directors must stand for election by shareholders at the next Annual General Meeting (AGM). Before each AGM, the Board assesses the performance of each director due to stand for re-election and election, and decides whether to recommend to shareholders that they vote in favour of the re-election or election of each relevant director.

Re-election of a director is undertaken in accordance with the NAB Constitution which requires that at each AGM, non-executive directors who have held office without re-election for at least three years, or beyond the third AGM following their appointment (whichever is longer) are required to retire from office and are eligible to stand for re-election.

Stakeholder interests

- Enhancing long-term shareholder returns, having regard to the interests of other stakeholders including our customers, our people and the communities in which we operate
- Maintaining a focus on consistent business performance, behaviour, transparency and accountability
- Reviewing and monitoring corporate governance and corporate responsibility

Strategy

- Reviewing, approving and monitoring corporate strategy and plans
- Making decisions concerning capital structure and dividend policy
- Reviewing, approving and monitoring major investment and strategic commitments

Culture and conduct

- Nurturing a strong culture to deliver sustainable outcomes
- Monitoring and influencing NAB's culture, reputation and ethical standards

Performance

- Reviewing business results
- Monitoring budgets

Integrity of external reporting

- Reviewing and monitoring, with the guidance of the Audit Committee, the processes, controls and procedures in place to maintain the integrity of accounting and financial records and statements
- Reviewing and monitoring our reporting to shareholders and regulators, including the provision of objective, comprehensive, factual and timely information to the markets in which NAB's securities are listed

Risk management and compliance

- Reviewing and monitoring, with the guidance of the Risk Committee, risk management, risk profile and processes for compliance with prudential regulations and standards and other regulatory requirements
- Overseeing processes for the maintenance of adequate credit quality
- Maintaining appropriate ongoing dialogue with principal regulators

Executive review and succession planning

- Approving key executive appointments and remuneration, and monitoring and reviewing executive succession planning and diversity
- Reviewing and monitoring the performance of the Group CEO and senior management

BOARD RENEWAL IN 2016

Given the complexity of our business and the highly regulated environment in which we operate, it is important to retain a core of directors with knowledge of the business while also bringing fresh perspectives to the Board.

The changes to the composition of the Board during the year form part of an orderly multi-year transition plan designed to maintain an appropriate mix of skills, experience and diversity on the Board at all times, and ensure the Board's continual effectiveness.

The following changes to the composition of the Board have occurred or are expected to occur by the end of calendar year 2016:

Retired directors (Dec 2015)	New directors	Expected to retire (Dec 2016)
Michael Chaney	Anne Loveridge (Dec 2015)	Danny Gilbert
Paul Rizzo	Doug McKay (Feb 2016)	Jillian Segal
	Philip Chronican (May 2016)	

As at the date of this Statement, the Board consists of 10 independent non-executive directors, including the Chairman, and one executive director being the Managing Director and Group CEO. After the above expected changes take place, it will consist of eight independent non-executive directors, including the Chairman, and the Group CEO. Further information on NAB's current directors, including their skills, expertise and experience, their date of appointment and the period they have been in office, is provided in the Report of the Directors within our 2016 Annual Financial Report.

The Board reserves certain powers for itself and has delegated authority and responsibility for day-to-day management of NAB to the Group CEO. These delegations are actively monitored and regularly reviewed and reconfirmed.

Board Skills Matrix

The Board's Nomination Committee undertakes an annual review of Board composition using a matrix to assess the skills and experience of each director and the combined capabilities of the Board. The results of the annual review are considered in the context of NAB's operations and strategy, and the need for diversity on the Board. They are incorporated into Board succession planning and the selection of new directors.

When a Board vacancy is anticipated, the Nomination Committee assesses the skills and experience required and then identifies suitable candidates, using external consultants as appropriate. The most suitable candidate is appointed by the Board after appropriate checks are undertaken, including a Fit and Proper assessment. NAB has formal letters of appointment for its directors, setting out the key terms and conditions of their appointment.

The adjacent skills matrix demonstrates alignment of the Board's responsibilities with the current skills mix. The Board believes this mix results in an appropriate set of experience and expertise, and a diverse range of views and perspectives for effective governance, oversight and strategic leadership of NAB.

SKILL CATEGORY	EXPLANATION
Business leadership and development	Successful career at senior executive level in a large and complex organisation
Strategy	Development and oversight of execution of strategic objectives
Financial services experience	Retail, corporate and investment banking, wealth and superannuation, Treasury, financial services advisory
Financial acumen	Accounting, internal and external reporting, audit, capital markets and funding, able to assess the effectiveness of financial controls
Risk management	Oversight of risk frameworks and practices which identify and manage key risks
Culture and conduct	Promotion and demonstration of NAB's Values as the basis of behaviour and decision making
People and remuneration	Oversight of NAB's remuneration policy and framework, including succession planning
Technology and digital	Development of and investment in IT infrastructure, adaptation to digital change and innovation
Corporate governance	Commitment to the highest standards and systems of governance
Legal and compliance	Oversight of operations and obligations in a highly complex and regulated environment

Director independence

All NAB directors are expected to bring independent and unfettered judgement to Board deliberations.

To be independent of management, a director must be free of any business or other association that could materially interfere with his or her ability to act in the best interests of NAB. A register of directors' material interests is maintained and regularly reviewed by each director. If a director is involved with another company or firm that may have dealings with NAB, those dealings must be at arm's length and on normal commercial terms.

To assist in determining independence, each non-executive director is required to make an annual disclosure to the Board of all relevant information. The Board considers the independence of each director, taking into account the factors outlined in the ASX Corporate Governance Principles and Recommendations. The Board has determined for 2016 that all non-executive directors of the Company are independent.

To further assist in ensuring that the Board operates independently of management, non-executive directors meet in the absence of management at each scheduled Board and Committee meeting.

Director tenure is a factor taken into account by the Board in assessing the independence of a director but is not determinative. As a guide, most directors would not stand for re-election after serving 10 years on the Board, however the Board may determine that a director continues to bring valuable expertise, independent judgement and the ability to act in the best interests of NAB beyond the term of 10 years.

The Board is satisfied that each non-executive director who has served on the Board during 2016 has retained independence of character and judgement and has not formed associations with management or others that might compromise their ability to fulfil their role as an independent director.

Conflicts of interest

Directors are expected to avoid any action, position or interest that conflicts or appears to conflict with an interest of NAB. This is a matter for ongoing and active consideration by all directors, and any director who has a material personal interest in a matter relating to NAB's affairs must notify the other directors of that interest.

The Corporations Act and NAB's Constitution together require that a director who has a material personal interest in a matter being considered cannot be present at a meeting while the matter is being considered or vote on the matter, except in certain circumstances. Even though

the Corporations Act and the NAB Constitution allow some exceptions, when a potential conflict of interest arises, NAB's corporate governance standards dictate that the director concerned does not receive copies of the relevant Board papers and is not present at a meeting while such matters are considered. In this way the director takes no part in discussions and exercises no influence over the other members of the Board.

If a significant conflict of interest with a director exists and cannot be resolved, the director is expected to tender his or her resignation.

Director induction and continuing education

Each new director is provided with an orientation program which includes discussions with executives and management, briefings and workshops on NAB's strategic plans, risk management strategy and framework, significant financial, accounting and risk management matters, compliance programs, NAB's performance management structure, internal and external audit programs, Codes of Conduct, Values (which provide the foundation of the culture of the NAB Group) and directors' rights, duties and responsibilities.

Management periodically conducts additional presentations and tutorial sessions about the NAB Group's business, and the factors impacting, or likely to impact it. Continuing education is provided for the Board

through a combination of internal and external presentations, workshops with management and site visits and study tours. Directors are also encouraged to keep personally up-to-date on topical issues.

Board performance

Directors are expected to prepare adequately for, attend and participate in Board and Committee meetings and to attend site visits. The number of meetings held in 2016 and each director's attendance at them is set out in the Report of the Directors within our 2016 Annual Financial Report. Directors also meet with key regulators in various jurisdictions throughout the year.

The Board conducts an annual assessment of its performance and effectiveness, as well as of its Committees and individual directors. Each director participates in individual interviews with the Chairman. The performance of each Committee is initially discussed and reviewed within each Committee and is then subsequently reviewed as part of the Board's annual assessment.

External experts are engaged as required to review aspects of the Board's activities and to assist in a continuous improvement process to enhance its overall effectiveness. When external experts are engaged, the results of the evaluations are compiled to produce a quantitative and qualitative analysis and a written report is provided to the Chairman.

The external experts' reports disclosing the overall results, and the various issues for discussion and recommendations for initiatives, are presented to the Board for discussion.

This process is designed to assist the Board in fulfilling its functions and ensuring that it remains an effective decision-making body. The 2016 annual performance evaluation for the Board, its Committees and individual directors has taken place in accordance with this process.

Access to management and independent professional advice

Directors have complete and open access to management through the Chairman, Group CEO or Group Company Secretary. In addition to regular presentations by management to Board and Board Committee meetings, directors may seek briefings from management on specific matters. Where appropriate, the Board also seeks additional information by consulting with other NAB employees and external advisers.

Written guidelines entitle each director to seek independent professional advice at the Company's expense, with the prior approval of the Chairman. The Board can conduct or direct any investigation to fulfil its responsibilities and can retain, at the Company's expense, any legal, accounting or other services that it considers necessary from time to time to perform its duties.

DIRECTOR AND EXECUTIVE SHAREHOLDING REQUIREMENTS

The NAB Constitution requires that within six months of their appointment, a director must hold at least 2,000 fully paid ordinary NAB shares. The Board has also adopted an additional policy that non-executive directors' shareholdings should equal shares to the value of the non-executive director's annual base fee within five years of appointment. Details of directors' shareholdings in the Company are set out in the Report of the Directors within our 2016 Annual Financial Report.

There are minimum shareholding requirements for the Group CEO (two times fixed remuneration) and members of the Executive Leadership Team (an amount equal to each individual's fixed remuneration) which must be maintained during the term of their appointment. Newly appointed ELT members are required to accumulate the minimum shareholding requirement over a five year period from commencement.

Executive directors may receive shares, performance options and performance rights, as approved by shareholders. Non-executive directors do not receive any securities via incentive schemes.

Company secretaries

The Group Company Secretary provides advice and support to the Board, is responsible for managing NAB's corporate governance framework, and is accountable to the Board, through the Chairman, on all matters relating to the proper functioning of the Board and its Committees. The Group Company Secretary is responsible for advising the Board on governance matters and ensuring compliance with Board and Board Committee charters and procedures.

All Company Secretaries are appointed and removed by the Board. Further detail on each Company Secretary is provided in the Report of the Directors within our 2016 Annual Financial Report.

Senior executives

Information on the performance, evaluation and structure of remuneration for NAB's senior executives can be found in the Remuneration Report which forms part of the Report of the Directors within our 2016 Annual Financial Report.

Controlled entities

The activities of each company in the NAB Group are overseen by that company's own board of directors. The Board's confidence in the activities of its controlled entities stems from the quality of the chairs and directors on each of its subsidiary boards and their collective commitment to NAB's objectives. There is a standing invitation to NAB's directors to attend any board meeting of a major subsidiary board through consultation with the relevant Chairman. Such visits are undertaken to develop a broader understanding of NAB's total operations.

Doug McKay, a director on the NAB Board, is also the Chair of BNZ. Peeyush Gupta, a director on the NAB Board, is also the Chair of multiple wealth management entities within the NAB Group.

As an indigenous Australian, Marcus has a special commitment to reconciliation – and he works with his partner, Donna to create bespoke artworks for companies who share this passion. He loves places that feel wild, getting away from his home and his studio to enjoy the outdoors whenever he can.

Marcus Lee



BOARD COMMITTEES

To help carry out its responsibilities effectively, the Board has established the following Committees:

- Audit Committee
- Risk Committee
- Remuneration Committee
- Nomination Committee
- Information Technology Committee

The Board has adopted a charter for each Committee setting out its responsibilities and composition. Copies of these charters are available in the Corporate Governance section of our website. The Board receives a copy of the minutes of each Committee meeting and an annual report on Committee activities undertaken during the year. The qualifications of each Committee's members and the number of meetings they attended during 2016 are set out in the Report of the Directors within our 2016 Annual Financial Report.

The Board decided in September 2016 to stand down its Information Technology Committee, as the significant technology projects which it was established to monitor were largely complete.

	AUDIT COMMITTEE	RISK COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE
Membership as at 30 September 2016	Anne Loveridge * (Chair) David Armstrong Doug McKay Anthony Yuen	David Armstrong ** (Chair) Philip Chronican Peeyush Gupta Jillian Segal Anthony Yuen	Danny Gilbert (Chair) Philip Chronican Peeyush Gupta Jillian Segal	Ken Henry (Chair) David Armstrong Philip Chronican Danny Gilbert Peeyush Gupta Anne Loveridge Geraldine McBride Doug McKay Jillian Segal Anthony Yuen
Composition	Minimum three independent non-executive directors. NAB Chair cannot be a member One member must also be a member of the Risk Committee	Minimum three independent non-executive directors One member must also be a member of the Audit Committee One member must also be a member of the Remuneration Committee	Minimum three independent non-executive directors One member must also be a member of the Risk Committee	Minimum three independent non-executive directors

* Chairmanship of the Audit Committee passed from David Armstrong to Anne Loveridge in May 2016.

** Chairmanship of the Risk Committee passed from Ken Henry to David Armstrong in December 2015.

From time to time the Board also establishes sub-committees. A standing Capital and Funding Sub-Committee exercises delegated authority in relation to particular NAB capital and funding activities. This sub-committee consists of two members, being any one of the Group CFO, the Chair of the Audit Committee or the Chair of the Risk Committee, together with one other non-executive director (who may be the Chair of the Audit Committee or the Chair of the Risk Committee) depending on availability.

AUDIT COMMITTEE

The Audit Committee supports the Board by maintaining oversight of the NAB Group's internal control systems, compliance with applicable laws and regulations, and application of accounting policies and procedures designed to safeguard company assets and maintain integrity in external financial disclosure and reporting.

The Chair of the Audit Committee is not an auditor or accountant for the Company, does not perform 'field work' and is not an employee of NAB. Anne Loveridge is the current Chair of the Audit Committee.

The Audit Committee does not plan or conduct audits, or make determinations that NAB's financial statements and disclosures are complete and accurate. It relies in this regard on the information provided by management and the external auditor. It has the authority to conduct or direct any investigation required to fulfil its responsibilities and to retain, at the Company's expense, such legal, accounting or other advisers, consultants or experts as it considers necessary from time to time in the performance of its duties.

Certain individuals have the right to approach the Audit Committee without having to proceed via normal reporting line protocols. These individuals are the Group CEO; CFO; Executive General Manager, Group Finance & Development; Chief Risk Officer; General Counsel, Corporate; Executive General Manager, Internal Audit; the external auditor and the appointed Chief Actuary. Other employees may have access to the Audit Committee through the Whistleblower Protection Program as described in the Codes of Conduct section of this Statement.

External Audit

The Audit Committee is responsible for the selection, evaluation, compensation and, where appropriate, replacement of the external auditor (subject to shareholder approval where required). It meets with the external auditor, Ernst & Young, throughout the year to review the adequacy of the existing external audit arrangements with particular emphasis on effectiveness, performance and independence.

The Audit Committee ensures that the external audit engagement partner and lead review partner rotate off that role every five years or, if they have acted in that capacity for five out of the last seven successive financial years, observe a two year "cooling off" period following rotation. The Audit Committee and the Board may resolve to extend the five year period by not more than two successive years, subject to compliance with the Corporations Act.

The external auditor attends the AGM and is available to answer shareholder questions regarding aspects of the external audit and their report.

Details of all services provided by Ernst & Young and the fees paid or due and payable for those services are set out in the Report of the Directors and Note 38 'Remuneration of external auditor' within our 2016 Annual Financial Report.

Internal Audit

The Internal Audit function undertakes analysis and independent appraisal of the adequacy and effectiveness of NAB's risk management framework and internal control environment.

The Audit Committee is responsible for assessing whether the Internal Audit function is independent of management and is adequately resourced and funded. It also assesses the performance of the Executive General Manager, Internal Audit and may recommend to the Board the appointment and dismissal of this officer.

Internal Audit and External Audit operate, perform and report as separate, independent functions.



Joanne and Roger are busy renovating their very first home – adding personal touches to each room in the house. As keen cooks, their favourite part of every day is coming together in the kitchen. To cook, chat and enjoy good food.

Joanna Lee

AUDIT COMMITTEE

Audit Committee pre-approval policies and procedures

The Audit Committee has adopted a Group External Auditor Independence Policy which requires, among other things, pre-approval of all audit and non-audit services to be provided by the external auditor.

Under this policy the external auditor may only provide a service to NAB if:

- the external auditor is not prohibited from providing that service by auditor independence laws, rules and regulations;
- in the opinion of the Audit Committee the service does not otherwise impair the independence of the external auditor;
- in the opinion of the Audit Committee there is a compelling reason for the external auditor to provide the service; and
- the service is specifically pre-approved by the Audit Committee or its delegate.

NAB will not employ, or permit to serve as a member of a board of directors or similar management or governing body, any current or former partner, principal, shareholder or professional employee of the external auditor or their family members if, in doing so, the external auditor's independence would be impaired or perceived to be impaired.

The Audit Committee may set an annual fee limit for each type of audit or non-audit service to be provided by the external auditor. Unless the Audit Committee approves otherwise, the fees paid to the external auditor for the provision of non-audit services in any financial year must not exceed the fees paid or due and payable to the external auditor for audit services in that year.

Details of the non-audit services provided by Ernst & Young to the NAB Group and the fees paid or due and payable for non-audit services are set out in the Report of the Directors and Note 38 'Remuneration of external auditor' within our 2016 Annual Financial Report.

The Audit Committee may delegate to one or more of its members or to management as it sees fit, the authority to approve services to be provided by the external auditor. The decision of any delegate to specifically pre-approve any audit or non-audit related service is presented to the Audit Committee on a quarterly basis. The Audit Committee has delegated the authority to pre-approve services to the Audit Committee Chair and certain members of management where the services meet specific requirements and fee limits.

Roles and responsibilities

As set out in the Audit Committee Charter, located in the Corporate Governance section of our website, including:

- Integrity of NAB's accounting and financial statements, and the financial, statutory and regulatory reporting processes
- Oversight and remuneration of the external auditor
- Monitoring and review of the Internal Audit function
- Compliance with accounting standards to give a true and fair view of NAB's financial position and performance
- Oversight of management in the preparation of NAB's financial statements and financial disclosures

Principal activities undertaken during 2016

The Audit Committee met 11 times during 2016 including two joint meetings with the Risk Committee. Attendance of Audit Committee members is set out in the Report of the Directors within our 2016 Annual Financial Report. Senior representatives from Ernst & Young and Internal Audit attended every scheduled meeting.

Key activities of the Audit Committee in 2016 included:

- Review of the scope of the 2016 audit plans of the external auditor and Internal Audit, and oversight of the audit work performed throughout the year
- Review of significant accounting, financial reporting and other issues raised by management, Internal Audit and the external auditor
- Review of the performance and independence of Internal Audit and the external auditor, together with their assurances that all applicable independence requirements were met
- Review and recommendations to the Board for the adoption of NAB's half-year and annual financial statements
- Conducting separate meetings, without the presence of management, with Internal Audit and key partners from the external auditor
- Consideration and recommendations to the Board on significant accounting policies and areas of accounting judgement including those relating to accounting for divestments, conduct risk related provisions and provisions for bad and doubtful debts
- Review of certifications and assurances from management in relation to the accuracy of NAB's financial statements and effective management of material business risks, and from management and Internal Audit on compliance with, and effectiveness of, the risk management framework
- Regular review of minutes and updates from major subsidiary board audit committee meetings

RISK COMMITTEE

The Risk Committee supports the Board by overseeing NAB's risk profile in the context of the Board approved risk appetite, and making recommendations concerning future risk appetite, and particular risks or risk management practices.

This includes reviewing (at least annually) management's plans for risk mitigation, monitoring the implementation and operation of the risk management framework and internal compliance and control systems, and stress testing the risk portfolio through scenario and sensitivity analysis.

The Board, through the Risk Committee, promotes awareness of a risk based culture within NAB and the establishment by management of an acceptable balance between risk and reward. David Armstrong is the current Chair of the Risk Committee.

The Chief Risk Officer attends every scheduled Risk Committee meeting to provide a report which includes updates on identified material risk categories, and meets regularly with the Risk Committee Chair outside the scheduled meeting program. The Chief Risk Officer regularly reviews NAB's capital and liquidity position with the Group Treasurer, and also attends presentations on topical issues by senior management as required.

The Chairs of each major subsidiary board risk committee met regularly in 2016 to discuss and share current issues and challenges. These meetings were chaired by the Chair of the Board Risk Committee. During the year, members of the Risk Committee also met with regulators in certain jurisdictions.

More comprehensive detail on NAB's risk oversight and management of its material business risks are available in the 2016 Annual Review and in the Corporate Governance section of our website.

Roles and responsibilities

As set out in the Risk Committee Charter, located in the Corporate Governance section of our website, including:

- Oversight of the risk profile of the NAB Group within the context of the Board approved risk appetite
- Making recommendations to the Board concerning current and future risk appetite and particular risks or risk management practices
- Review of management's plans for mitigation of material risks faced by the NAB Group
- Oversight of the implementation and operation of the NAB Group's risk management framework and compliance and control systems
- Oversight of stress testing of the NAB Group risk portfolio including scenario and sensitivity analysis
- Promotion of a risk based culture throughout NAB and of the establishment by management of a balance between risk and reward

Principal activities undertaken during 2016

The Risk Committee met 14 times during 2016 including two joint meetings with the Audit Committee and three joint meetings with the Remuneration Committee. Attendance of Risk Committee members is set out in the Report of the Directors within our 2016 Annual Financial Report. Senior representatives from Ernst & Young and Internal Audit were invited to attend every scheduled meeting.

Key activities of the Risk Committee included:

- Review of key risks and risk management framework and strategy as developed by management
- Review of NAB's internal capital adequacy assessment process
- Ongoing critical review of the credit portfolio, asset quality and provisioning
- Review the budget and headcount of the NAB Group's risk management function
- Review of NAB's 2016 risk appetite statement
- Review of declarations from management in relation to compliance with prudential standard obligations
- Review of declarations from management and assurances from Internal Audit in relation to the effectiveness of internal controls and the risk management framework
- Regular review of minutes and updates from major subsidiary board risk committee meetings

REMUNERATION COMMITTEE

The Remuneration Committee supports the Board by reviewing and assessing NAB's remuneration policies and practices, in the context of the regulatory environment and the enhancement of corporate and individual performance.

Danny Gilbert is the current Chair of the Remuneration Committee.

Recognising the increased focus and responsibilities associated with aligning remuneration and risks, during 2016 two members of the Remuneration Committee were also members of the Risk Committee. The Chief Risk Officer has a standing invitation to attend Remuneration Committee meetings and the Remuneration Committee Chair will specifically invite the Chief Risk Officer to attend meetings where matters specific to risk-adjusted reward measures are discussed.

Information in relation to NAB's remuneration framework including the remuneration strategy and policies and their relationship to the NAB Group's performance is in the Remuneration Report which is published within our 2016 Annual Financial Report. Details of the remuneration paid to Board members and senior executives who were key management personnel during 2016 are also provided in the Remuneration Report.

Roles and responsibilities

As set out in the Remuneration Committee Charter, located in the Corporate Governance section of our website, including:

- Review and recommendation of NAB's remuneration policy and strategy, including an annual assessment of the policy's effectiveness in supporting our business strategy and alignment with shareholder interests
- Compliance with applicable prudential standards and other regulatory requirements
- Consideration of recruitment, retention and termination policies and payments for senior executives
- Review and recommendation in relation to the design of incentive plans, remuneration of specified individuals and non-executive directors, and other remuneration matters

Principal activities undertaken during 2016

The Remuneration Committee met 13 times during 2016 including three joint meetings with the Risk Committee. One of these joint meetings was held as part of the review process for approval of incentive payments, to ensure that risk impacts had been taken into account in the allocation and calculation of short and long-term incentive payments. Attendance of Remuneration Committee members is set out in the Report of the Directors within our 2016 Annual Financial Report.

Key activities undertaken by the Remuneration Committee during the year included:

- Approval of the 2016 Remuneration Report
- Review and recommendation to the Board of the remuneration package for the Group CEO and other senior executives, including award values for the long-term incentive plan for 2016
- Review and recommendation to the Board on the incentives, including the long term incentive plan, payable to senior executives based on performance and risk criteria structured to increase shareholder value
- Review and recommendation to the Board of remuneration structures for categories of persons across NAB, as required by regulators
- Review and recommendation to the Board of non-executive director fees
- Monitoring global regulatory and legislative reform in relation to remuneration, market trends and stakeholder views on remuneration and reward in the financial services industry
- Meeting with regulators to discuss NAB's remuneration frameworks
- Monitoring executive director terminations across the NAB Group
- Oversight of superannuation guarantee obligations
- Review, approval and determination of vesting outcomes of employee equity plans and allocations, including the long-term incentive program
- Oversight of NAB's consequence management framework and management of underperformance and impact on remuneration outcomes
- Approval of remuneration of non-executive directors of subsidiary companies

The Australian Banking Association's review of product sales commissions and product-based payments announced in April 2016 and the Government's review of Australia's four major banks will inform reward strategy and frameworks going forward. NAB is committed to ensuring the Group's performance and reward frameworks have the right measures and safeguards in place to support our customers.

NOMINATION COMMITTEE

The Nomination Committee supports the Board by monitoring its size and composition, including succession planning for directors and senior management, evaluating Board, Committee and individual director performance, and overseeing the Board's professional development program.

Ken Henry is the current Chair of the Nomination Committee.

Roles and responsibilities

As set out in the Nomination Committee Charter, located in the Corporate Governance section of our website, including:

- Reviewing the size and composition of the Board, including succession plans, to maintain an appropriate collective mix of skills, diversity and expertise
- Making recommendations to the Board on the appointment, re-election and removal of directors
- Evaluating the performance of the Board at least annually
- Reviewing the professional development program provided to directors
- Ensuring adequate succession planning for senior management

Principal activities undertaken during 2016

The Nomination Committee met three times during 2016. Attendance of Nomination Committee members is set out in the Report of the Directors within our 2016 Annual Financial Report.

Key activities undertaken by the Nomination Committee during the year included:

- Assessment of the appropriate size and composition of the Board and its Committees
- Consideration of diversity, including gender diversity, in director succession planning
- Succession planning for non-executive directors, together with making recommendations to the Board on the appointment of directors
- Review of the methodology for the annual Board performance review
- Consideration of the collective skills of directors and senior management to determine whether collectively they have the full range of skills needed for the effective and prudent management of the NAB Group
- Succession planning for the Group CEO and executives reporting to the Group CEO and review of approach to senior management succession planning



Mock Orchards is a truly family owned and inspired business. Started by a mother who just wanted natural food options for her family, today, the bio-dynamic orchard has grown into a thriving business still run by her children (and grandchildren).

Mock Orchards

BEING ETHICAL AND RESPONSIBLE

Our five Values, together with our suite of policies and Codes, are the basis for how we behave and how we make decisions at NAB.

GREAT PEOPLE LIVING OUR VALUES

Passion for
CUSTOMERS

Will to
WIN

Be
BOLD

RESPECT
for
people

Do the
RIGHT
thing

Created by mum and dad team Monica and James, Whole Kids is all about providing real snacks for kids – food that's healthy, organic and (importantly) very yummy. It's the kind of work that often follows them home though, so they've set up work-free zones and screen-free time to help find the right balance.

Whole Kids

CODES OF CONDUCT

We maintain Codes of Conduct both in Australia and overseas, which require the observance by our people of strict ethical guidelines.

The Codes take into account not only our legal obligations but also the reasonable expectations of our stakeholders to maintain confidence in our integrity. They apply to all employees and directors of the NAB Group, and to everyone working on our behalf including contractors and consultants.

The Codes cover, among other things:

- Personal conduct
- Honesty, integrity and fairness
- Prevention of fraud and corruption
- Conflicts of interest and relations with customers and/or third party providers
- Confidentiality, access and disclosure

NAB also supports the Australian Bankers' Association 2004 Code of Banking Practice and is committed to the ABA's package of industry initiatives aimed at enhancing our customers' experience and reinforcing the banking sector's standards of service, integrity, trust and ethics.

Our Codes of Conduct are available in the Corporate Governance section of our website.

Escalation and Whistleblower protection

NAB does not tolerate fraud, corrupt conduct, bribery, adverse behaviour, legal or regulatory non-compliance, or questionable accounting and auditing by our employees, directors or officers. We have clear and established procedures and a culture that encourages the escalation of complaints and notification of incidents to management and the Board, ranging from escalation of daily business or management concerns, up to serious financial, cultural or reputational matters.

There is a choice of avenues for escalation of complaints or concerns, including general and confidential email alert addresses and telephone lines, as well as a comprehensive Whistleblower Protection Program for confidential reporting of unacceptable or undesirable conduct. The Whistleblower Protection Program complements normal communication channels between people leaders and employees, and allows disclosures to be made by employees to a protected disclosure officer, or if the matter is highly sensitive and the employee believes it more appropriate, directly to the Board's Audit Committee.

Our people are encouraged to raise any issue involving illegal, unacceptable or inappropriate behaviour or any issue they believe could have a material impact on our profitability, reputation, governance or regulatory compliance. NAB takes all reasonable steps to protect a person who discloses unacceptable or undesirable conduct, including disciplinary action potentially resulting in dismissal for any person taking reprisals against them.

Restrictions on trading in NAB securities

NAB's Group Securities Trading Policy restricts directors, officers and certain other employees from trading in NAB securities during certain specified blackout periods.

In addition, members of key management personnel and their closely related parties are prohibited from using derivatives or otherwise entering into hedging arrangements in relation to elements of their remuneration that are vested or which have vested but remain subject to forfeiture conditions. For more detail, refer to the Remuneration Report within our 2016 Annual Financial Report.

The Group Securities Trading Policy is available in the Corporate Governance section of our website.

Political donations

In May 2016 the Board determined that the payment of political donations should cease, with immediate effect Group-wide. The Group Political Donations Policy is available in the Corporate Governance section of our website.



CORPORATE RESPONSIBILITY

Our vision.

We want to be Australia and New Zealand's most respected bank.

HOW WE DO IT

Our Values guide the way we behave and the decisions we make, and we set ourselves apart by acting responsibly, inclusively and driving social innovation

Tackling the big issues

We're taking action on the issues that matter most to our customers and where we are best placed to make a difference

- ▶ Financial inclusion and resilience
- ▶ Social cohesion
- ▶ Environmental wellbeing

HOW WE'RE MAKING A DIFFERENCE



Helping our customers with more than money



Driving social innovation



Building a better business by responding to issues with new insights and ideas



Building financial resilience



Connecting and enabling our people

Further detail about NAB's Corporate Responsibility approach and initiatives can be found in the 2016 Annual Review and Dig Deeper publications, available on our website.

NAB also uses Corporate Responsibility stakeholder engagement forums to generate effective dialogue with stakeholders and to ensure that our understanding of material issues reflects current thinking. These forums comprise a range of experienced internal and external

advisors who provide strategic advice and feedback on NAB's Corporate Responsibility strategy, activities and stakeholder engagement, and on NAB's engagement with Aboriginal and Torres Strait Islander people and the Reconciliation Action Plan. Our Board is represented on these forums by Jillian Segal, who is a member of our Advisory Council on Corporate Responsibility, and Danny Gilbert, who is the Co-Chair of our Indigenous Advisory Group.

HOW WE COMMUNICATE

Communicating with shareholders

NAB values open and transparent communication with all our stakeholders, including shareholders, to whom we regularly communicate information in a range of ways including:

- Direct correspondence
- The AGM, Notice of Meeting and explanatory memoranda
- The Annual Financial Report
- The Summary Review and online Annual Review
- Our Financial Results Announcements
- Regular trading updates and other market/investor briefings
- Letters from the Chairman to inform shareholders of key matters of interest
- The Shareholder Centre and Media sections of our website which provide access to our announcements, media releases, financial reports, previous years' financial results and investor presentations
- Our Investor Relations mobile app which provides access to all relevant shareholder information on our website

All relevant information is published on our website and significant market briefings and meetings are webcast. NAB is committed to maintaining a level of disclosure that provides all investors with timely and equal access to information. To allow as many shareholders as possible to participate in the AGM, the location of the meeting rotates through Australian capital cities and it can be viewed online in the Shareholder Centre on our website.

At any time, including ahead of the AGM, shareholders are able to contact NAB or its share registrar, Computershare Investor Services Limited, by mail, telephone, email or online via the Computershare Investor Centre portal. Shareholders may choose to receive communications from, and send communications to, NAB and Computershare electronically.

Continuous disclosure

The Corporations Act and the ASX Listing Rules require NAB to promptly disclose to the market matters which could be expected to have a material effect on the price or value of our securities. Further, our policy is to inform shareholders of all major developments that impact us.

We manage our compliance with the continuous disclosure obligations of the ASX through the application of our detailed Group Disclosure and External Communication Policy, supplemented by guidelines and procedures,

which together maintain the market integrity and market efficiency of our securities and attribute accountability for compliance at a senior executive level. All material matters which may potentially require disclosure are promptly reported to a Disclosure Committee of NAB executives, who may refer matters to other senior executives or to the Board, to make an assessment and determination as to disclosure.

Where appropriate the Board is consulted on the most significant or material disclosures. All members of the Executive Leadership Team are responsible for reporting matters qualifying for disclosure to the General Counsel, Corporate and/or the Group Company Secretary. Routine administrative announcements are made by the Group Company Secretary without requiring approval from the Disclosure Committee. The Disclosure Committee reports annually to the Board on activities and decisions taken throughout the year.

The Group Disclosure and External Communications Policy is available in the Corporate Governance section of our website.

DIVERSITY AND INCLUSION

NAB is committed to creating and maintaining an inclusive culture and diverse workforce that is representative of our customers and the communities in which we operate, where individual differences are highly valued and respected.

Our Diversity and Inclusion Strategy for 2015-2017 is aligned with our business strategy to ensure the changing needs and expectations of customers and shareholders are acknowledged. The strategic imperatives of the strategy are inclusion, life stage and gender equity, which are underpinned by two key enablers: leadership and flexibility.

The Executive Leadership Team has direct accountability for execution of this strategy, and continues to focus on promoting the right values to support a workforce in which employees feel empowered and encouraged to perform at their very best. NAB's Board receives regular updates on diversity and inclusion from our senior executives.

Gender diversity continues to be a key priority for the NAB Group and we remain committed to building strong female representation at all levels, including executive management. NAB has complied with its reporting requirements under the Workplace Gender Equality Act 2012 (Cth) for the period from 1 April 2015 to 31 March 2016. NAB has also met the minimum standards in relation to specified gender equality indicators, as set out in the Workplace Gender Equality (Minimum Standards) Instrument 2014.

In November 2015, NAB achieved the 2015 Workplace Gender Equality Agency Employer of Choice for Gender Equality citation. We are proud to achieve this recognition as a demonstration of our continued drive and commitment to achieving gender equality.

NAB is committed to meeting our regulatory requirements with respect to diversity and inclusion, and makes the following disclosures

in relation to the ASX Corporate Governance Principles and Recommendations relating to diversity for 2016:

Diversity and Inclusion Policy (Recommendation 1.5a and 1.5b)

The Group Diversity and Inclusion Policy is available in the Corporate Governance section of our website.

Measurable objectives and progress (Recommendation 1.5c)

Our measurable objectives for achieving gender diversity – which have been set by the Board in accordance with the Group Diversity and Inclusion Policy – and our progress towards achieving them, are set out below:

	FY15 ACTUAL FEMALE REPRESENTATION (AS AT 30 SEP 2015)	FY16 TARGET FEMALE REPRESENTATION	FY16 ACTUAL FEMALE REPRESENTATION ¹ (AS AT 30 SEP 2016)	FY17 TARGET FEMALE REPRESENTATION
NAB Board – including executive directors	20%	–	27%	–
NAB Board – non-executive directors ²	22%	–	30%	30%
NAB Group subsidiary Boards	36%	–	39%	35%
Executive management ³	32%	34%	38%	35%
Australian talent population ⁴	–	50%	54%	50%
Australian graduate program intake ⁵	55%	50%	43%	50%
Whole organisation	57%	–	54% ⁶	–

¹ Data has been calculated based on the total permanent population as at 30 September. It includes all employees of NAB Group, plus employees that have since transferred from NAB Wealth to MLC Limited as part of the sale of 80% of NAB Wealth's life insurance business.

² The target is to increase the number of female non-executive directors on the NAB Board as vacancies and circumstances allow, with the aim of achieving representation of at least 30% by 2017.

³ Executive Management positions (also known as senior executive positions) are those held by Executive Leadership Team members, Executive Leadership Team members' direct reports and their direct reports. Support roles reporting in to these roles (for example, Executive Manager and Executive Assistant) are not included in the data. As at 30 September 2016, the proportion of females reporting directly to the Group CEO on the Group Executive Leadership Team was 33%.

⁴ The Australian Talent population includes all employees who were identified against evidence based criteria as high potential employees. In previous years we reported female participation in talent on a different basis, being the number of employees participating in our core Australian Talent programs.

⁵ As at 30 September 2016, 43% of the graduates who have accepted positions in NAB's 2017 Australian graduate program are women.

⁶ The decrease year-on-year is due to the divestment of CYBG.

DIVERSITY AND INCLUSION

The Group's gender diversity initiatives and awards during the 2016 financial year include:

- **Male Champions of Change:** the Group CEO, Andrew Thorburn is a member of the Victorian coalition of the Male Champions of Change strategy. This group consists of Victorian-based leaders of global, national and iconic local organisations who have committed to step up beside women to advance gender equality in their organisations and the community.
- **Panel Pledge:** our senior leaders have pledged that, whenever NAB is invited to be involved in or sponsor a panel or conference, we will inquire about the organiser's efforts to ensure women are represented.
- **Talent Acquisition:** NAB strives to ensure that a mix of men and women are short-listed for all management roles, and that hiring decisions are made by interview panels comprised of both men and women where possible.
- **Realise and Senior Realise program:** NAB offers a range of learning and development programs in Australia and New Zealand including the 'Realise' and 'Senior Realise' programs, which aim to further equip female employees with the skills, knowledge and tools to transition into senior and executive management roles. To support regional Australian employees and offshore employees in Asia, London and New York, NAB also offers virtual Realise and Senior Realise programs.

For the fourth year running, a tailored program has been extended to not-for-profit and business customers with limited access to development programs.

- **NAB Board Ready program:** women in management positions are actively encouraged to join NAB subsidiary boards via the NAB Board Ready program, which is designed to educate and prepare women in senior positions to become directors of NAB Group companies. The program focuses on building competence and confidence by providing the training and development needed for women to successfully pursue positions on NAB subsidiary boards as well as external not-for-profit boards. Catalyst, a global organisation that supports the advancement of women, has recognised NAB for this program.

In addition, the Group's broader diversity and inclusion initiatives during the 2016 financial year include:

- **Australian Workplace Equality Index Awards (AWEI):** the AWEI provides a national benchmark on LGBTI workplace inclusion which is designed to gauge the overall impact of inclusion initiatives on organisational culture. In 2016, NAB placed 7th Australia-wide.
- **Accessibility Action Plan (AAP) 2015 – 2016:** the AAP outlines NAB's commitment to improving accessibility for our employees, customers and the community and focuses on providing long-term, sustainable results.
- **Champions for Change (CFC):** BNZ CEO Anthony Healy is a founding co-chair of CFC, launched in New Zealand in November 2015. This initiative brings together a group of New Zealand CEOs and Chairs from across the public and private sectors who are committed to raising the value of diversity and inclusion within their organisations and implement strategies to actively promote the concept amongst peers.
- **Diversity Council Australia – Future Flex:** NAB reinforced its commitment to flexible working by co-sponsoring the Diversity Council Australia's Future Flex research project. The research project aims to provide organisations with practical tools to mainstream flexibility within their organisations.
- **Ethnic Business Awards 2016:** these awards continue to celebrate diversity and multiculturalism in the Australian business community. NAB is proud to be the founding partner of the Ethnic Business Awards and a major sponsor again in 2016.
- **Reconciliation Action Plan:** since our first RAP was released in 2008, the Group has worked hard to lift its Indigenous engagement through a long term partnership approach. The 2015-17 RAP celebrated seven years of achievements in employment, financial inclusion, business partnerships and lifting cultural

understanding – establishing three years of targets through to 2017. NAB employs more than 200 Indigenous Australians and since 2008 we have provided more than 25,000 Indigenous Australians with access to over \$20 million in safe, affordable microfinance products and services in partnership with Good Shepherd Microfinance. NAB is a strong supporter of Indigenous business, backing Indigenous customers and including Indigenous suppliers in our supply chain. NAB's most recent RAP has continued to be awarded elite 'Elevate' status, recognising the transparent and accountable approach to disclosure.

MindTribes improves operational performance through cultural training and coaching, so cross border teams can achieve more. With their success, husband and wife team Div and Vick were seeking a way to give back. So when their 9 year old daughter suggested giving to 'Because I am a Girl', they were on board – and now donate 10% of sales to the international charity.

MindTribes

