

# ANNUAL REVIEW 2016

Our vision is to be  
Australia and New  
Zealand's most  
respected bank



National  
Australia  
Bank



Monica Meldrum and daughter Chloe,  
**Whole Kids**

# ABOUT THIS REPORT

Our 2016 Annual Review is an integrated report that allows us to demonstrate our commitment to create value for our stakeholders and provide details of our opportunities and challenges in realising value, as well as our strategies for the future.

## OUR COMMITMENT TO INTEGRATED REPORTING

We are committed to the principles of integrated reporting as it aligns with long-term value creation and the role we play as a bank in society.

We remain the only major Australian bank involved in the global Integrated Reporting (IR)Business Network, which aims to make corporate reporting more transparent and meaningful for stakeholders.

## HOW TO READ THIS REPORT

This report explains how we create and deliver value for our stakeholders in a sustainable way.

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*

The first section, **Our business**, provides a concise overview of NAB, the importance of our role as a bank in society and our significant contribution to the community through balancing the needs of our stakeholders.

Each of the following sections focuses on a specific element of value as described below:

**Our operating environment** describes the environment in which we operate and the challenges and opportunities that impact value creation.

**Our stakeholders** describes how we create value for our stakeholders and improve our business by working with them.

**Our strategy and foundations** outlines the objectives which will enable us to realise our vision. It includes a focus on our foundations

of maintaining strength in our balance sheet, risk management capability and technology platforms.

**Our people** describes how our values-aligned culture, with a focus on development, leadership and performance in a diverse and inclusive environment enables us to deliver on our strategy.

**Governance** describes how we protect and deliver sustainable value through strategic direction provided by the Board and maintaining a strong governance culture.

The report also includes financial summaries and information from NAB's 2016 Annual Financial Report and 2016 Full Year Results Announcement.

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# ABOUT THIS REPORT

## SCOPE AND CONTENT

All information included in this report refers to the year ended 30 September 2016, unless otherwise stated.

The content of this report is the result of extensive engagement with our customers, our people, shareholders, community and consumer advocacy organisations. A significant component of this stakeholder engagement is the materiality assessment which identifies the environmental, social and governance issues that are most likely to impact our business. The prioritised themes arising from the assessment undertaken in 2016 are listed below.

For more information on the materiality assessment, refer to page 16 of this report.



### VALUES-ALIGNED CULTURE

Clearly outlining and embedding our values and culture as a crucial part of executing our strategy and maintaining strong ethical conduct.



### TRANSPARENCY AND DISCLOSURE

Making sure we are transparent in our decisions and in the matters that impact our sustainability, profitability and stakeholders. Our disclosures are guided by the IR Framework, GRI G4 Guidelines, UN Global Compact and our annual materiality process.



### ENSURING CUSTOMER SECURITY

Investing in our technology, operations and people to ensure that our customer information is protected and customer data is used appropriately.



### RESPONSIBLE LENDING PRACTICES

Making sure we have the right policies and processes in place to offer our customers loans that suit their particular situation, and managing the environmental and social risks and impacts of our portfolio.



### IMPROVING THE CUSTOMER EXPERIENCE

Continuing to engage our customers, so we can understand, fulfil and exceed their expectations.



### GOOD GOVERNANCE PROCESSES

Successfully managing structures and policies to ensure our business is governed effectively. Effective leadership planning ensures the business has the capability, capacity and experience to preserve and create value.

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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*

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# 2016 AT A GLANCE

## A STRONGER, SIMPLER, CUSTOMER-FOCUSED NAB

For more than 150 years, we have been helping our customers buy their first home, start and grow their businesses and save for retirement. We know our role is to help people, businesses and the economy prosper and we have a huge responsibility to get it right for all our stakeholders.

### IN 2016, WE:

- ✓ Refreshed our organisational structure to drive the continued focus on our Australian and New Zealand businesses.
- ✓ Streamlined our superannuation business, merging five of our super funds into one to create Australia's largest retail super fund.
- ✓ Invested in technology to make it easier for our customers, including the roll-out of our Personal Banking Origination Platform (PBOP), the launch of our new mobile banking platform and the introduction of the NAB QuickBiz Loan.
- ✓ Completed a major divestment program, including the sale of 80% of NAB Wealth's life insurance business and the demerger and Initial Public Offering (IPO) of CYBG PLC (CYBG). This has tilted our portfolio towards business lines with higher returns where we have strong capability to compete.
- ✓ Deepened relationships in our priority segments, moving from third to first amongst major peers on priority segment NPS.<sup>1</sup>
- ✓ Maintained a strong capital, liquidity and funding position so we can continue to lend to our customers.

<sup>1</sup> Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetix Systems and Fred Reichheld. Priority segments Net Promoter Score (NPS) is a simple average of the NPS scores of five priority segments: Mortgage Customers, Debt Free, Micro Business (<\$1m), Small Business (\$1m-<\$5m) and Medium business (\$5m-<\$50m). The Priority Segment NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research as at 30 September 2016.



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# 2016 AT A GLANCE

▼ **14.3%**

cash return on equity<sup>1,2</sup>  
50 basis points decrease from 2015

**1,222,798**

volunteer hours contributed by our Australian employees since 2002

**61%**

**EMPLOYEE ENGAGEMENT SCORE<sup>1,5</sup>**

5 percentage point increase from 2015

**\$1.98**

dividend per share consistent with 2015

**449,844**

low-income Australians assisted with microfinance products and services since 2005<sup>3</sup>

**\$6.48bn**

cash earnings<sup>1,2</sup>

4.2% increase from 2015

**\$0.35bn**

net profit attributable to the owners of NAB<sup>4</sup>

94.4% decrease from 2015

**-14**

priority segments net promoter score<sup>6</sup>

improvement from -16 in 2015

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*

1 Information is presented on a continuing operations basis including prior period restatements.

2 Explanation and definition of cash earnings: Cash earnings is a non-IFRS key financial performance measure used by NAB, the investment community and NAB's Australian peers with similar business portfolios. NAB also uses cash earnings for its internal management reporting as it better reflects what NAB considers to be the underlying performance of the NAB Group. Cash earnings is calculated by excluding discontinued operations and certain other items which are included within the statutory net profit attributable to owners of NAB. Cash earnings does not purport to represent the cashflows, funding or liquidity position of the NAB Group, nor any amount represented on a cashflow statement. It is not a statutory financial measure, is not presented in accordance with Australian Accounting Standards and is not audited or reviewed in accordance with Australian Auditing Standards. NAB's audited financial statements, prepared in accordance with the Corporations Act 2001 (Cth) and Australian Accounting Standards, are set out in NAB's 2016 Annual Financial Report. A reconciliation of cash earnings to statutory net profit attributable to the owners of NAB is set out on page 33 of this 2016 Annual Review and a definition of cash earnings is set out in NAB's 2016 Full Year Results Announcement. Full detail on how cash earnings is defined, a discussion of non-cash earnings items and a full reconciliation of statutory net profit attributable to owners of NAB is set out on pages 2 to 8 of NAB's 2016 Full Year Results Announcement.

3 In partnership with Good Shepherd Microfinance.

4 Decrease in statutory net profit attributable to the owners of NAB is as a result of discontinued operations. Discontinued operations is defined in NAB's 2016 Full Year Results Announcement. For the September 2016 full year, discontinued operations primarily includes the loss on sale of 80% of NAB Wealth's life insurance business, the loss on demerger of CYBG PLC (CYBG) and costs pursuant to claims under the Conduct Indemnity Deed with CYBG.

5 Source: 'Speak Up, Step Up' survey conducted by Right Management.

6 Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. Priority segments Net Promoter Score (NPS) is a simple average of the NPS scores of five priority segments: Mortgage Customers, Debt Free, Micro Business (<\$1m), Small Business (\$1m-<\$5m) and Medium business (\$5m-<\$50m). The Priority Segment NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research as at 30 September 2016. Priority Segments NPS for 2015 has not been re-stated to include Debt Free customers.

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# CHAIRMAN'S MESSAGE

We are strongly motivated to be the most respected bank in Australia and New Zealand. To realise that vision, we have to make the bank simpler, with a stronger customer focus.

In the early part of 2016, we completed our plan to exit our UK banking business CYBG PLC (CYBG) through a demerger and Initial Public Offering. I thank shareholders for their overwhelming support in approving the demerger in January. NAB's exit from CYBG has allowed us to focus on our core businesses in Australia and New Zealand.

In October, we completed the sale of 80% of NAB Wealth's life insurance business to Nippon Life Insurance Company for \$2.4 billion.<sup>1</sup> The establishment of this stand-alone insurance business required us to separate it from our superannuation and investment businesses, which we have retained and simplified to create Australia's largest retail superannuation fund.

Full year cash earnings were \$6.48 billion, up 4% on last year.<sup>2</sup> The Board declared a final dividend of 99 cents per share fully franked. These dividends are generating income for our shareholders, and contributing to the superannuation savings of millions of Australians. Statutory net profit was \$352 million, a decrease on last year primarily resulting from discontinued operations.<sup>3</sup>

Australian Banking cash earnings were \$5.47 billion, increasing by \$371 million over the year, or 7%, driven by higher net operating income and a lower charge for bad and doubtful debts. NZ Banking local currency cash earnings rose 1.6% over the year to NZ\$836 million with improved revenue and lower bad and doubtful debt charges being key drivers, reflecting favourable economic conditions outside the dairy sector.

NAB Wealth cash earnings increased 13% to \$356 million reflecting stronger revenue and lower expenses.

## Contributing to a stronger Australia

2016 provided a reminder, to all of us in banking, of the importance of strong values and culture – and to explain why a strong and stable banking system is vital to our customers, to our shareholders and to the wider economy.

We are operating in a challenging economic environment. Global growth remains below historical averages, and is expected to be around 3% over the coming years. In Australia, the non-mining economy remains resilient, led by the services sector, but business investment is not strong. GDP growth is moderate at 3.3%. We forecast growth of 2.7% in 2017 and easing further to 2.6% in 2018 as LNG exports flatten off.<sup>4</sup>

NAB remains well-placed to meet upcoming regulatory change. We are responding to changes resulting from the Government's Financial System Inquiry and Basel III. Future regulatory change is likely.

In my first year as Chairman, I have stressed the need for nurturing a genuinely customer-focused culture – a focus which is clearly also in the best interests of our shareholders. The NAB Board accepts it has a responsibility to tackle conduct issues head-on if we are to successfully deliver for our customers, people and shareholders.

I have spent valuable time meeting our customers – from regional New South Wales, Queensland and the Northern Territory, to our capital cities – to understand what they expect from us. I have also taken the opportunity to engage with our customer-facing employees to see customers through their eyes, and make sure what they experience on a day-to-day basis is reflected in the governance decisions we make for the business.

For more than 150 years, we have helped our customers realise their aspirations and supported investment, employment and growth in the economy.

We are able to help improve the lives of Australians and New Zealanders through our business activity including: investing in new businesses; supporting job creation and economic growth; assisting people on low incomes to access finance; helping people to buy a new home; financing new roads, schools and hospitals; and supporting our agribusiness customers to manage their natural capital.

I am proud to be the Chairman of a business playing such an important role.

## Board renewal

This year, we welcomed Anne Loveridge, Doug McKay and Philip Chronican to the Board. Together, they bring a diverse range of skills and a wealth of experience. Their appointments deliver on our planned succession program and commitment to ensuring the range of skills on the Board remains relevant and supports the execution of our strategy.

In December 2015, our former Chairman Michael Chaney and Paul Rizzo retired from the Board. In December 2016, Danny Gilbert and Jillian Segal will retire from the Board after serving for 12 years. On behalf of the Board, I thank Michael, Paul, Danny and Jillian for their service.

In closing, I want to convey my deep appreciation to NAB's 35,000 people. They are the key to our success. I also want to thank our shareholders and customers for their support in my first year as Chairman of their company. We are a more customer-focused and stronger, simpler bank committed to delivering for you.



Ken Henry AC  
Chairman



KEN  
HENRY AC  
Chairman

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<sup>1</sup> \$0.2 billion by way of dividend.

<sup>2</sup> Refer to footnote 2 on page 6 of this 2016 Annual Review.

<sup>3</sup> Refer to footnote 4 on page 6 of this 2016 Annual Review.

<sup>4</sup> Internal - NAB Group Economics. Dates in economic forecasts relate to the relevant calendar year.

# CEO'S MESSAGE

2016 has been a huge year of change and delivery for NAB. With our major divestments now complete, we move into 2017 a new NAB – stronger, simpler and centred on our core businesses in Australia and New Zealand.

This is the first time in my 12 years in the bank that we have been able to focus totally on these businesses – and looking ahead, we have a clear plan for the future and the right team to deliver for our customers, our shareholders and through this, support the economy more broadly.

## Performance and results

In a continuing low-growth, low-rate environment we are disciplined in our approach to operational performance; maintaining a strong balance sheet, sound asset quality and capital position, and tight control of costs. Improving our return on equity remains a strong focus – and we are allocating capital towards higher returning segments, where we know we can win and where we have deep expertise.

In Business Banking, we saw improved momentum with margins broadly stable. Overall, we are largely holding or growing market share in our priority micro and small business segments. In medium business, we have a market-leading position supported by specialisation in important growth sectors including agribusiness and health.

In Personal Banking, higher funding costs and strong competition remain challenges. However, we are pleased to have restored home loan volume growth back to system levels, after significant changes in pricing and tightening of credit policies during the year.

Our sustained investment in serving customers better saw our Priority Segments Net Promoter Score (NPS) performance lift from third to first among the major banks. Our ambition though, is to reach a level of customer advocacy of which we can be proud, where the majority of customers would recommend us to their family or friends. We have quite some way to go to achieve this.

## Delivering for customers

We are proud to help nearly 10 million customers buy a home or renovate their property, start or grow their business and to save for retirement – some of the most important financial decisions in life.

For bankers, trust is the currency that matters the most. It starts with making banking simple, easy and reliable.

We are investing in ways to serve our customers better – such as the recently relaunched NAB mobile banking app and innovative small business solutions like the NAB QuickBiz Loan, which was developed in NAB Labs.

The rollout of our Personal Banking Origination Platform (PBOP) was completed across our retail network this year and is making it simpler to apply, and faster to approve, personal products for customers. We have also made over 100 changes to address customer “pain points”, identified through customer feedback and by listening to our bankers.

We have made it easier for customers to get assistance from our hardship team, NAB Assist, which now has the lowest proportion of Financial Ombudsman Service complaints in the industry.

We are taking action to build trust with customers and restore community confidence, both at NAB and across the banking sector more broadly through the Australian Bankers' Association.

We will continue to be open and transparent with how we run our business. If mistakes are made, we will identify and address them, we will apologise and we will remedy them with our customers.

## Our people

Culture is critical to building stronger relationships with our customers and our shareholders. Our five values of passion for customers, will to win, being bold, respect for people and doing the right thing, are core to how we lead and reward our 35,000 people – alongside demonstrated delivery of risk, financial and customer outcomes.

A strong focus on developing the capability of our leaders has seen employee engagement increase from 56% in 2015 to 61% in 2016, helping us achieve our goal of exceeding the Global High Performing Organisations Benchmark of 60%.<sup>1</sup>

This will be further enabled by the new organisational structure and Executive Leadership Team announced in July this year. With these changes Michaela Healey, Renee Roberts and Gavin Slater departed NAB – and I again thank them for the significant role they played making the bank what it is today.

To all of NAB's people, our customers and our shareholders – thank you for being part of our business in 2016. We are committed to continuing the pace of change, lifting performance and achieving our vision of being Australia and New Zealand's most respected bank.



**Andrew Thorburn**  
CEO



**ANDREW THORBURN**  
*Group CEO*

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# OUR BUSINESS

## NATIONAL AUSTRALIA BANK

We are a financial services business that serves nearly 10 million customers online, over the phone and through a network of more than 1,000 locations. Our business is made up of approximately 35,000 people, who are committed to delivering an easy, personal and supportive experience for customers.

## OUR VISION AND STRATEGY

Our vision is to be Australia and New Zealand’s most respected bank. To do this, we recently refreshed our strategy to adapt to the changing business environment. The three objectives by which we measure our performance are:

1. Our customers are advocates
2. Engaging our people
3. Generating attractive returns

We will achieve our objectives by delivering a great customer experience and deepening relationships in our priority segments of small and medium businesses, homeowners and investors.

We will do this while reshaping our business to perform and be known for great leadership, talent and people. Our five values of passion for customers, will to win, being bold, respect for people and doing the right thing will underpin everything we do.

Supporting our actions are our foundations of a strong balance sheet and a non-negotiable focus on managing risk and technology.

For more information on our strategy, refer to pages 17-25 of this report.

## OUR PORTFOLIO

### Australian Banking

In Australia, we connect with millions of customers every day, offering a range of banking products and services across retail, business, private, corporate and institutional banking, and wealth management.

We support our business customers – whether they are small and medium sized businesses or large global institutions – with innovative products and services,

and deep, specialist expertise in sectors like agribusiness, health and government, education and community.

Our personal banking customers can access our products and services through various channels including NAB branches, NAB Broker, nabtrade, UBank and online through [nab.com.au](http://nab.com.au).

Australian Banking also includes Fixed Income, Currencies and Commodities (FICC), Capital Financing, Asset Servicing, Treasury, and debt markets. Our international network extends to China, Hong Kong, India, Indonesia, Japan, Singapore, the US, the UK and Vietnam.

### NZ Banking

NZ Banking operates under the Bank of New Zealand (BNZ) brand. BNZ offers retail, business, agribusiness, corporate, markets and insurance services.<sup>1</sup>

### NAB Wealth

NAB Wealth provides customers with investment, superannuation, insurance and financial advice. It operates one of the largest financial planning networks in Australia, providing quality insights and expertise under brands including MLC, JBWere, JANA and Plum.

In October 2016, we completed the sale of 80% of NAB Wealth’s life insurance business to Nippon Life Insurance Company (Nippon Life). We also streamlined our superannuation business to create Australia’s largest retail superannuation fund, the MLC Super Fund in 2016.

2016 cash earnings <sup>2</sup>	A\$m
Australian Banking	5,472
NZ Banking	778
NAB Wealth	356
Corporate Functions and Other	1

This year we announced changes to the structure of our business, to enable us to meet our goal of a stronger, simpler and customer-focused business for our Australian and New Zealand customers.

This year, we helped more than 130,000 Australians buy a new home or renovate their existing home.

We service our borrowers with over \$300 billion in home lending and \$200 billion in business lending.

We helped over 21,000 customers get back on track following financial hardship this year.

We provided \$7.3bn in financing to address climate change & support an orderly transition to a low-carbon economy.

In 2016, we paid \$2.8 billion in Australian taxes.<sup>3</sup>

Our 582,000 shareholders will receive approximately 80% of our profits through dividend payments.

<sup>1</sup> BNZ markets numbers are included in Australian Banking for cash earnings purposes.  
<sup>2</sup> For an explanation of cash earnings, see footnote 2 on page 6 of this report.  
<sup>3</sup> Includes income tax, GST, FBT, payroll tax and other taxes borne by NAB.

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# OUR BUSINESS

## HOW WE CREATE VALUE

Every day, we seek to balance the needs of our stakeholders. By getting the balance right, we make a significant contribution to the community.

Banking has been an important and trusted part of society for centuries, connecting those who need access to credit with those who want a safe place to invest.

Our relevance as a bank today and in the future, and our ability to create long-term value, are interrelated and fundamentally dependent on the forms of capital available to us (six capital inputs listed below), what we do, and the value they deliver for stakeholders and for NAB.

The six forms of capital, identified by the International Integrated Reporting Council (IIRC), include:

- Financial Capital
- Human Capital
- Social and Relationship Capital
- Intellectual Capital
- Natural Capital
- Manufactured Capital

For definitions of each form of capital, refer to Glossary of terms on page 39 of this report.

WHAT WE DO	WHAT IT MEANS FOR NAB	WHAT IT MEANS FOR STAKEHOLDERS
We hold deposits for our customers.	Deposits enable us to fund lending activities and drive revenue growth.	We hold over \$390 billion in deposits for 4.5 million customers – safeguarding their investments and wealth, while growing returns.
We lend money to our customers.	Lending generates income for NAB.	Every month we lend over \$2 billion to business and more than \$4 billion to homeowners. NAB's Standard Variable Rate for home loans is currently the lowest it has been in more than 40 years.
We facilitate transactional banking for our customers.	We earn fee and commission income from transactional banking.	We are the only major bank to offer a transaction account with no monthly service fees to all customers.
We offer superannuation, investment advice and insurance to our customers.	We earn fee and administration income from these activities.	Superannuation solutions, retirement and insurance products and general investment advice help our customers protect and grow their wealth.
We offer risk mitigation products to help our customers manage their exposure to unexpected gains or losses.	NAB either retains the risk or transfers it to counterparties. Our traded markets activities include foreign exchange, commodities, interest rate, credit and equity instruments. We generate income from these activities.	Risk mitigation products enable our customers to manage their exposure to risk and, more broadly, contribute to the growth and stability of local businesses and communities.
We pay dividends to our shareholders.	Sustainable dividend distribution to our shareholders is the tangible outcome of a sound, healthy bank.	We contributed to the financial security of our shareholders this year through \$5.1 billion in dividend payments.
We invest in attracting and retaining great leadership, talent and people to deliver for our customers.	Our team executes our strategy and differentiates us through our values-aligned culture.	A capable, motivated and engaged team enables us to focus on execution while facing into the hard decisions to deliver a stronger bank and great customer experiences.
We actively invest in and support communities.	Our investment in the community strengthens relationships with our stakeholders, demonstrates our commitment to doing the right thing and underpins our social licence to operate.	Our Corporate Responsibility activities are embedded in core business to strengthen society by building financial resilience, social cohesion and environmental well-being.
We invest in our business operations including technology and digital capability and our branches, business hubs and offices.	Continued investment to support our business operations enables us to remain competitive.	Through investment, we can deliver great products and services to our customers and support the economy.
We pay taxes to governments.	The development and growth of the economies in which we operate supports our business growth.	We are Australia's fifth largest taxpayer, contributing to the growth of the economies and communities in which we operate.

Critical to our success is an effective risk management framework and proactive stakeholder engagement. For information on how we address risk identification, opportunities and challenges, refer to pages 12-14 of this report.

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# OUR OPERATING ENVIRONMENT

We operate in favourable Australian and New Zealand economic conditions. However, there is continued global uncertainty, characterised by a low growth outlook, record low interest rates and rising risks.

At the same time, changes to our regulatory settings continue to evolve to build confidence in the banking sector and make our banks unquestionably strong. The extra level of security to make the world's major banks safer, stronger and more stable to protect against any future financial shock has implications for the capital we hold. It requires a higher level of liquid assets and more stable and long term funding.

In 2016, the financial services industry faced heightened political scrutiny. We recognise and accept that there will be scrutiny on our business activities, and that we must build confidence and trust. If we are to deliver on our vision to be Australia and New Zealand's most respected bank, we need to operate in a way that meets the expectations of all our stakeholders. For more information on these, refer to our responding to stakeholder expectations on page 12 of this report.

## THE ECONOMIC ENVIRONMENT

### GLOBAL

Global economic growth remains at the sub-trend pace it has experienced since 2012. Advanced economy growth has been running at less than 1.5% year-on year.

Sub-trend global growth, coupled with below target inflation, is leading central banks to keep interest rates at historical lows in order to stimulate their economies.

Over the coming years, annual global growth is expected to remain below historical averages at around 3%. China and India are the key drivers of growth with only modest US and other East Asia growth expected, and softer conditions across Japan and Latin America.

### Australia

The Australian economy remains attractive by global standards. In the second quarter of 2016, the economy grew by 3.3% over the previous year – its fastest pace since 2012. The non-mining economy, particularly services, continues to be resilient. GDP growth is expected to be 2.8% in 2016, 2.7% in 2017, before easing to 2.6% in 2018 as the influence of commodity exports – including LNG – and housing construction fade.<sup>1</sup>

However, headwinds from the mining sector remain large, and weakness in Australia's income growth and government revenue present challenges. A shock to the Chinese economy remains a key risk to the Australian economy.

In 2016, the RBA reduced the official cash rate to 1.5%, a historical low. Given the lower growth outlook, we expected the RBA to respond to both low inflation rates and an uncertain labour market with more policy stimulus.

### New Zealand

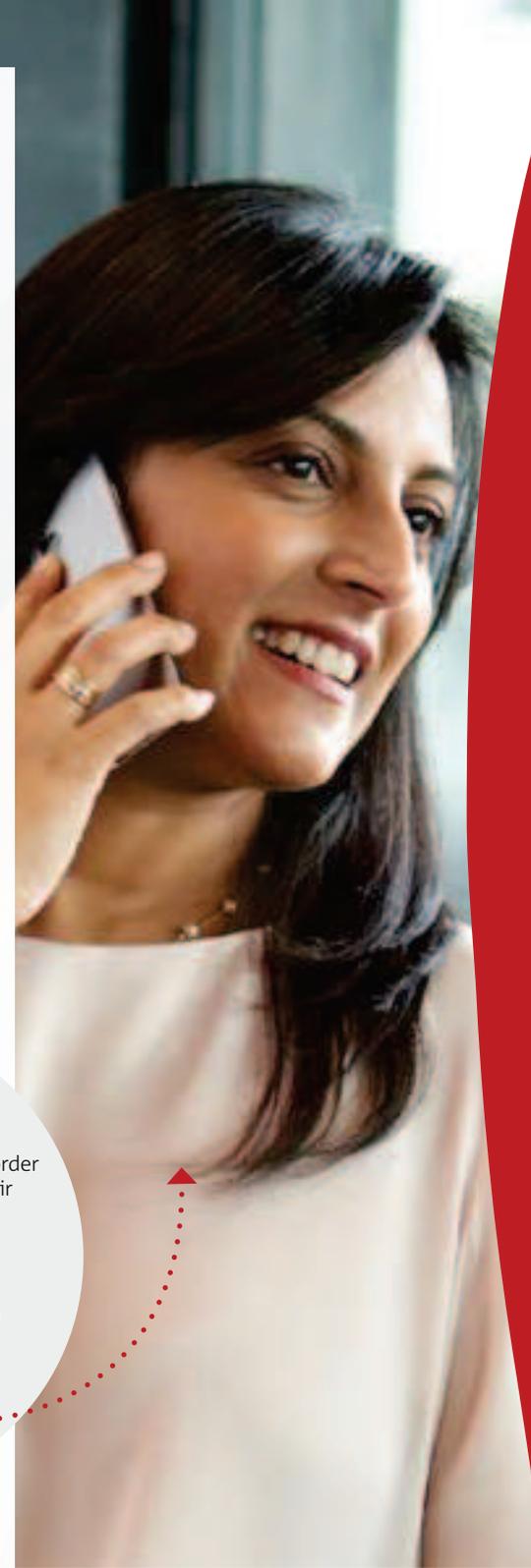
Latest economic indicators affirm the New Zealand economy has strong momentum and remains on a solid footing. GDP growth of at least 3.0% is forecast for both 2016 and 2017, up from 2.5% in 2015.

However, new loan-to-value restrictions may affect housing market activity and commodity prices are still well below their 2014 peak, notwithstanding some recent improvement which has led Fonterra to increase its 2016-17 farmgate milk price guidance.

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* .....

<sup>1</sup> All dates in 'Economic conditions' relate to the relevant calendar year.



# OUR OPERATING ENVIRONMENT

## RESPONDING TO CHALLENGES AND OPPORTUNITIES

We continuously manage opportunities and challenges, while balancing the needs of customers, people, shareholders and the community. Our key opportunities and challenges are outlined below.

### BUILDING TRUST IN THE FINANCIAL SERVICES INDUSTRY

In 2016, we faced heightened political scrutiny, including calls for a Royal Commission into the financial services sector. We are committed to being transparent and accountable to customers and building community confidence in banks.

#### How we are responding:

- In October, NAB Group CEO Andrew Thorburn and Chief Operating Officer Antony Cahill appeared before the House of Representatives Standing Committee on Economics to explain the decisions we make and how we balance the needs of our customers, shareholders and the broader community.
- We are committed to, and progressing, the package of industry initiatives announced by the Australian Bankers' Association (ABA), aimed at reinforcing the banking sector's standards of service, integrity, trust and ethics.
- Our executive leadership team was the first among our peers to sign up to the Banking and Finance Oath, which re-asserts the ethical foundation of the industry beyond regulation and compliance.
- We appointed Catherine Wolthuizen as an independent customer advocate for our small business and retail customers – to challenge us to continually do better and resolve customer complaints.

### KEY THEMES



### RESPONDING TO STAKEHOLDER EXPECTATIONS

Our vision is to be Australia and New Zealand's most respected bank, but we know that to get there, we need to do more. We are committed to being open and transparent with how we run our business.

#### How we are responding:

- In September, we provided an update on our Customer Response Initiative – our commitment to improve transparency and openness in financial planning for our Wealth advice customers. Since February 2015, we have paid \$6.5 million to 251 customers after resolving their claims for compensation.
- We dealt with our legacy assets, successfully completing the demerger and IPO of UK-based banking business CYBG, allowing us to focus back on our Australian and New Zealand customers.
- We co-operated with ASIC's industry-wide review into participants in the bank bill swap rate market. Following this review, ASIC commenced Federal Court proceedings against NAB and two other banks. ASIC's allegations against the banks include market manipulation and unconscionable conduct. We do not agree with ASIC's claims which means they will be settled by a court process.



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# OUR OPERATING ENVIRONMENT

## CONSTANT TECHNOLOGICAL CHANGE & DIGITAL

The way people access their money and banking, is changing. Nowadays, we record more than 50 million internet banking logins across our digital platforms every month; of these about 70% are via mobile devices. We know we have to adapt. Competition is fierce not only from existing competitors but also new competitors, such as fintech companies looking for opportunities to capitalise on technology and data.

### How we are responding:

- We completed the rollout of our Personal Banking Origination Platform (PBOP) across our retail and call centre networks this year, improving the customer experience and reducing the processing time for personal loans and credit card applications.
- By 'disrupting from within' through NAB Labs and our \$50 million NAB Ventures fund, we're meeting new competition head-on and developing new offerings like NAB Pay and NAB PayTag, ProQuo, AirTax and NAB QuickBiz Loan to suit the changing needs of customers.

## AN EVOLVING REGULATORY FRAMEWORK

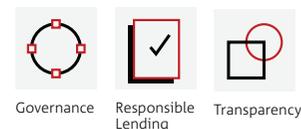
New global and domestic prudential regulation designed to further strengthen the banking sector is expected to have an impact on the way we operate. We may need to hold more stable deposits, longer term wholesale debt and more capital against our lending. While there is a cost associated with these changes – there is a greater cost in not having a strong, safe and stable banking system.

### How we are responding:

- Consistent with our strategy, we will continue to focus on balance sheet strength to enable the Group to respond to any upcoming regulatory change.
- We are responding to Basel III, the Net Stable Funding Ratio requirements, the Federal Government's Financial System Inquiry recommendations on financial system resilience and APRA's requirement to slow investor mortgage lending growth. We continue to monitor the international regulatory environment.

- In October, we launched our new mobile banking app which includes world-leading card transaction controls, to help customers conveniently and easily self-manage their cards.
- At times, we experience technology disruptions that can impact services. While we have seen a reduction in the number of technology incidents year-on-year, we remain focused on identifying and preventing future disruptions to improve the performance of services for customers.
- Across all our activities, we continue to actively manage our technology to ensure customer security.

## KEY THEMES



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# OUR OPERATING ENVIRONMENT

## DECLINING MARGINS & INCREASED COMPETITION

Most of our revenue is driven by our net interest margin – but net interest margins have been in gradual decline for the last 20 years. Banks now earn less than they used to for every dollar they lend. This has been driven on the funding side by regulation that is increasing our proportion of higher cost funding and a requirement to hold more capital. On the lending side it is driven by intense competition for borrowers and home loan rates reaching 50 year lows.

### How we are responding:

- Higher funding costs led to our decision to reprice our variable home loan interest rates in August, which reflected the responsibility we have to balance the competing needs of our borrowers, depositors and shareholders.

- To drive growth and returns for our shareholders, we focus on priority segments across the Australian Banking businesses where we have a clear competitive advantage such as agribusiness and health.
- New price discovery tools help our business bankers price more effectively and provide better visibility of market pricing.

## KEY THEMES



## LENDING IN A TRANSITIONING ECONOMY

Challenges remain as our economy moves from mining-led to services-driven. Asset quality remains sound and we continue to monitor exposures on an ongoing basis. In the housing market, increased supply of new apartments in some suburbs – including inner city locations – could shift some parts of the market into oversupply by the end of 2017.

### How we are responding:

- We continue to focus on balance sheet strength. Our strong capital, funding and liquidity positions provide us with confidence to respond to changing market and economic conditions.
- We continually monitor the performance of the local economy. Our responsible lending policies protect us against loss and protect customers from taking risks that could lead to financial hardship.

- The current situation in the New Zealand dairy industry remains challenging due to sustained weaker milk prices, which has resulted in an increase in loans classified as impaired no loss.
- As a direct purchaser of energy and through financing, we are committed to our role in helping Australia and New Zealand make an orderly transition to a low-carbon future.<sup>1</sup>



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<sup>1</sup> For further information, see our 2016 Dig Deeper report.

# OUR STAKEHOLDERS

## IMPROVING OUR BUSINESS THROUGH STAKEHOLDER ENGAGEMENT

Banking is about people and relationships. The relationships we have with our stakeholders are critical – for building the trust of our customers, creating a stronger business and improving the financial well-being of the community.

We have teams across the business dedicated to managing relationships with our stakeholders, so we can understand any areas of concern and address them in the most effective way. We also have key forums designed to bring in external perspectives including the Advisory Council on Corporate Responsibility and our Indigenous Advisory Group. Maintaining open and constructive relationships, where we continually engage with our stakeholders, is integral to our business and to our ongoing social licence to operate. Examples of how we have engaged with our stakeholders to improve our business are outlined in the table.

### KEY THEMES

<b>CUSTOMERS</b>	<p>We aim to always engage our customers in an easy, personal and supportive way. We want customers to be confident every time they deal with us, they're receiving the products and services that best suit their needs.</p> <p>Feedback from our customers helped us identify and fix over 100 'pain points' this year, positively impacting 4.6 million customers.</p>	 <p>Customer Experience</p>
<b>EMPLOYEES</b>	<p>Our people are key to delivering our strategy. We're committed to living a values-aligned culture, in a diverse and inclusive environment, while supporting great leaders, and building talent and capability.</p> <p>We have changed the way we manage performance. Our leaders now have monthly conversations with their people so they can better support their development and career aspirations.</p>	   <p>Culture Transparency Governance</p>
<b>SHAREHOLDERS/ INVESTORS</b>	<p>Our shareholders want us to focus on the areas of our business that generate consistent and robust returns, while keeping costs under control and maintaining sound asset quality.</p> <p>In a low growth economic environment, we are very deliberate in how we allocate capital in key segments, to generate maximum return on equity.</p>	  <p>Governance Transparency</p>
<b>GOVERNMENT/ REGULATORS</b>	<p>We continue to engage with our regulators and Parliament in an open and constructive manner, vitally important this year as our industry faced heightened scrutiny from all stakeholders.</p> <p>We have been open about the way we balance the needs of all stakeholders, including borrowers, depositors, investors and shareholders. We accepted an invitation to appear before the House of Representatives Standing Committee on Economics, which was an opportunity to discuss the decisions we make.</p>	   <p>Culture Governance Transparency</p>
<b>COMMUNITY PARTNERS AND ADVOCACY ORGANISATIONS</b>	<p>We engage with our community partners and advocacy organisations because we know we have a role in finding solutions to issues that affect the whole community – like climate change and improving financial resilience.</p> <p>In November 2015, we made five new climate change commitments, including to undertake \$18 billion of financing activities over seven years to September 2022. This year, we have provided an aggregate amount of \$7.3 billion towards this target.</p>	   <p>Responsible lending Culture Transparency</p>
<b>PARTNERS/ SUPPLIERS</b>	<p>Engaging with our partners helps us build a better business, while supporting more than 1,700 contracted suppliers who employ thousands of people.</p> <p>We have worked with our partners to improve their environmental, social and governance performance – more than 90% of our material suppliers are signatories to our Group Supplier Sustainability Principles.</p>	  <p>Governance Transparency</p>

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# OUR STAKEHOLDERS

## MATERIALITY ASSESSMENT

Each year, we conduct a formal 'materiality assessment' to help us understand the broader environmental, social and governance (ESG) themes that are important to our business and our stakeholders.

Our starting point is to review the ESG themes tested in our previous year's assessment. We then refine this selection by making sure that ESG themes raised through our feedback channels, or in external assessments of our performance during the year, are included in our assessment.

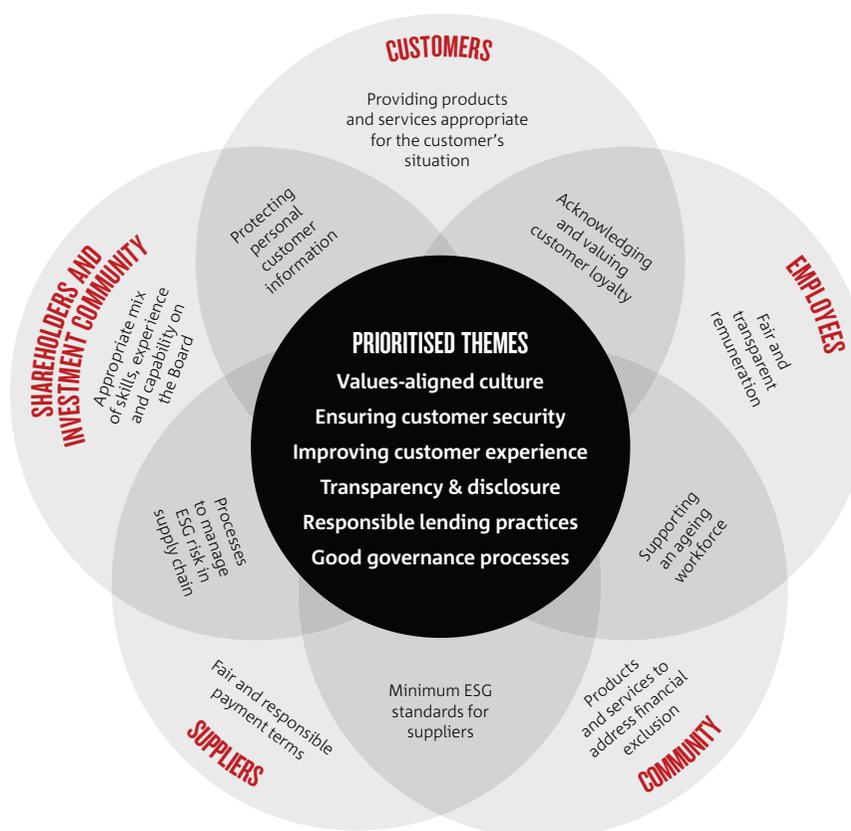
In 2016, we surveyed 2,300 people – who are customers, employees, suppliers and community partners in Australia and New Zealand – to assess their views of these themes. The results were then validated through focus groups, detailed one-on-one interviews with more than 30 senior executives and representatives of institutional investors, and through discussion at our Advisory Council on Corporate Responsibility. From there we identified priority themes we know our stakeholders want us to focus on. This helps guide the content we include in our annual reporting suite.

This year our stakeholders told us that having the right culture in the banking sector is of major importance to them. That's why we are committed to working in a way which is governed by trust, honesty, integrity and doing the right thing.

We have also seen continuing interest in the way we manage ESG risk through our lending practices and have increased our disclosure in response.

The adjacent diagram outlines the six prioritised themes for disclosure in 2016, as well as a selection of sub-themes alongside the stakeholder group to whom they were most important. This diagram is not an exhaustive list of all themes assessed through the materiality process.

Further information on our materiality assessment is available in our 2016 Dig Deeper report.



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# OUR STRATEGY AND FOUNDATIONS

## OUR STRATEGY

To realise our vision, the refreshed NAB strategy outlines three objectives to guide our execution and measure performance:

### 1. Our customers are advocates

We seek to turn our customers into advocates, aiming to have the highest Net Promoter Score amongst our peers in our priority customer segments. In 2016, our Priority Segments NPS moved from a majority rank of third to first amongst our peers. This was driven by an improvement in all Priority Segments, with the exception of Mortgage Customers. In 2017, we will continue to build on this progress and drive improvements in customer experiences across our businesses.

### 2. Engaging our people

We are creating a high performing culture through a team of engaged people with aligned values. As a result of this focus, employee engagement improved from 56% in 2015 to 61% for the September 2016 full year. The Group engagement score is now above the “Global High Performing Organisations Benchmark” (currently 60%).<sup>1</sup>

### 3. Generating attractive returns

In 2016, we generated an attractive return on equity for shareholders. We delivered a statutory return on equity (ROE) of 0.5%<sup>2</sup> in 2016. For the same period, our cash ROE for continuing operations was 14.3%, compared with cash ROE of 14.8% in 2015.

To keep delivering on these objectives, we focus on:

- Delivering a great customer experience.
- Deepening relationships in priority segments.
- Reshaping our business to perform.
- Being known for great leadership, talent and people.

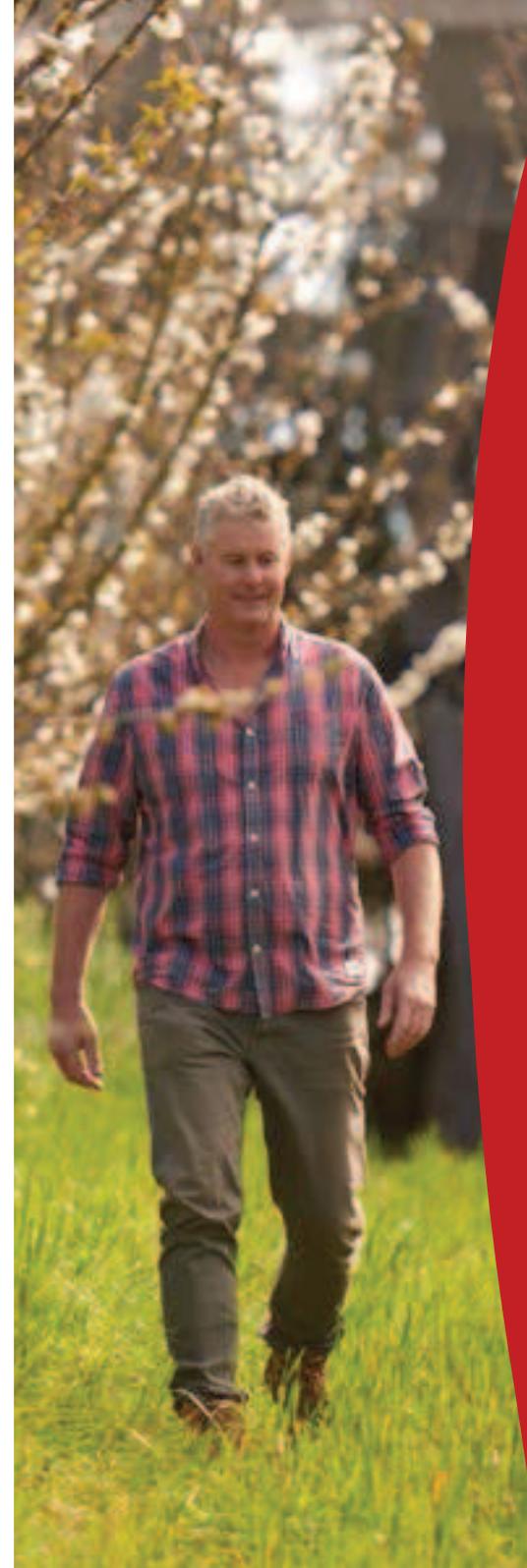
For more information on each of the above objectives, refer to pages 18-19 of this report.

<b>Vision</b>	To be Australia and New Zealand’s most respected bank
<b>Objectives</b>	<ul style="list-style-type: none"> <li>• Turn our customers into advocates</li> <li>• Engage our people</li> <li>• Generate an attractive return on equity</li> </ul>
<b>Targets</b>	<ul style="list-style-type: none"> <li>• NPS – #1 vs major bank peers</li> <li>• TSR<sup>3</sup> – #1 vs major bank peers</li> <li>• ROE – #1 for ROE improvement vs major bank peers</li> <li>• Top quartile engagement of Australia and New Zealand companies</li> </ul>
<b>Execution</b>	<ul style="list-style-type: none"> <li>• Deliver a great customer experience</li> <li>• Deepen relationships in priority customer segments</li> <li>• Reshape our business to perform</li> <li>• Be known for great leadership, talent and people</li> </ul>
<b>Values</b>	Passion for customers, Will to win, Be bold, Respect for people, Do the right thing
<b>Foundations</b>	Strong balance sheet, Risk management, Technology

<sup>1</sup> Speak Up, Step Up survey conducted by Right Management. The 2015 engagement figure has been re-stated to exclude discontinued operations.

<sup>2</sup> The Group’s statutory return on equity (statutory ROE) was materially impacted by the demerger of CYBG and the sale of 80% of NAB Wealth’s life insurance business which are now treated as discontinued businesses for reporting.

<sup>3</sup> TSR = Total Shareholder Return as measured against Australian Financial Services firms in our 2016 Annual Financial Report.



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# OUR STRATEGY AND FOUNDATIONS

## DELIVERING A GREAT CUSTOMER EXPERIENCE

We are transforming our key 'customer journeys' to deliver a great customer experience, improve productivity, drive cultural change and create a more agile business.

### Customer journeys

A 'customer journey' is defined as the end-to-end experience we give our customers, in order to fulfil a specific customer need. We are transforming our key customer journeys across the organisation to deliver great customer experiences, drive cultural change and create a more agile organisation.

We started this transformation by optimising merchant acquiring on-boarding for our business customers. Our approach uses human-centred design, multi-disciplinary teams and digital enablement to deliver dramatically improved services. We found impressive results from the first experiment, with substantial improvements to customer turnaround times, sales conversion rates and customer satisfaction. In 2017, we will expand the program to transform several other customer journeys across the bank.

### Pain points

In 2016, we continued to address customer pain points, simplifying products, services and processes to improve customer experience. We delivered over 100 pain point fixes in 2016, contributing to the 4.6 million positively impacted customers since 2014. Some key pain points resolved in 2016 were:

- Simplified process for customers wanting to direct their superannuation contributions when they change employers.
- Improved search and filtering functions on the NAB Internet Banking platform.

### Innovating for customers

Focus on innovation is key to our strategy in delivering the best experience for our customers. We have continued to leverage a customer-led design methodology through our dedicated innovation hub, NAB Labs. In 2016, NAB Labs launched a number of customer-centric propositions to market, including:

- ProQuo – a digital marketplace, developed in partnership with Telstra, which allows small businesses to buy, sell and trade services.
- NAB QuickBiz Loan – quick online unsecured loans to small businesses.

In January, we launched a new mobile payment service NAB Pay, enabling customers to use their Android mobile phone to make purchases without the need for a physical card. We also recently launched the NAB PayTag, which is a sticker that can be attached to mobile devices to enable contactless payments linked to a Visa debit card. As part of our updated mobile banking app, customers can now sign a 'digital contract' for a credit card which will enable customers to use newly approved personal Visa credit cards through NAB Pay before the card arrives in the mail.

In February 2016, we launched NAB Ventures, a \$50 million innovation fund. Through commercial and equity investments, NAB Ventures will further accelerate innovation by delivering access to new innovative capability, technology, intellectual property and business models. As part of NAB Labs, NAB Ventures will look for opportunities to introduce its portfolio companies and their solutions to NAB and its vast network of customers and partners. In May 2016, NAB Ventures announced its first investment in a Sydney-based platform technology start-up.

We are investing in innovation to deliver better customer outcomes and positive social returns through impact investment. We are seeking to build the market through our Impact Investment Readiness Fund, designed to help social enterprises attract

further capital to achieve scale. To date, we have approved 14 grants, valued at \$1 million dollars. These grants have helped unlock an additional \$31 million in capital for recipients. We have also led a number of impact investment deals, including:

- Arranged and led \$300m Victorian Government Green Bond, the world's first Climate Bond Standard Certified Green Bond issued by a semi-government authority.
- The Nature Conservancy's Murray-Darling Basin Water Fund – Investment solution to provide secure water to agriculture while restoring culturally significant wetlands.

In recognition of the impact of financial hardship on our customers and our business, we are continuing to innovate within our dedicated financial hardship team, NAB Assist, to improve customer outcomes. In 2016, we provided financial hardship assistance to over 21,000 customers. 93% of customer accounts were back on track within 90 days of assistance. Through NAB Assist, we have realised approximately \$70 million in business savings through avoided defaults. Importantly, our customers come through this process with a positive relationship with NAB. This year, NPS for customers who have received financial hardship assistance has increased from +39 to +49.<sup>1</sup>

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<sup>1</sup> Figures relate to NAB Assist Customer Care customers for period from October 2015 to June 2016.

# OUR STRATEGY AND FOUNDATIONS

## DEEPENING RELATIONSHIPS IN PRIORITY SEGMENTS

This year, we announced changes to our organisational structure (effective 1 August 2016) to drive our continued focus on our Australian and New Zealand businesses. Our new structure will enable us to meet our goal of creating a simpler, more customer-focused business that delivers better outcomes for customers and shareholders.

We have updated our consumer priority segments to better understand our customers and their aspirations, resulting in the newly defined Home Owners and Investor segments. This will enable our employees to better serve our customers' banking and wealth needs.

We continue to enjoy strong competitive capabilities and perform well in the business banking market. We are focused on the small and medium business customer segments and our specialisation in the agribusiness and health sectors.

In support of our ongoing focus on Australian and New Zealand customers, we have continued to exit some non-core assets. During 2016, we took a number of significant actions, including:

- Successfully divesting from our UK based banking business CYBG through a demerger and IPO in February 2016.
- Completing the sale of 80% of NAB Wealth's life insurance business to Nippon Life Insurance Company in October 2016.

### We actively support our priority segments through a number of initiatives:

- The Village, our co-working space provided free for NAB business customers has more than 1,700 customers, with up to 150 people using its services daily.
- Natural Value is an initiative designed to better understand the value of healthy ecosystems for our business and customers. In 2016, we progressed a major research project with CSIRO and furthered initiatives to support our agribusiness customers better understand and manage their natural capital risks. We provided over \$92 million in discounted loans for renewable energy and energy efficient assets from June 2015 to date, with support from the Clean Energy Finance Corporation.

## RESHAPE OUR BUSINESS TO PERFORM

We continue to improve performance and execution by changing when we need to and transforming our processes for speed and reliability.

## DRIVE PERFORMANCE

In 2016, we established a broad-ranging productivity program to increase capital generation by using our resources more effectively.

Any benefits realised through deploying less capital, saving more on expenses and/or driving higher returns from our assets, will drive higher capital efficiency.

This year, we also continued to leverage the Performance Unit Framework to drive a more granular customer and ROE focus across the organisation. The Performance Unit Framework is an enterprise-wide platform that enables the tracking and assessment of performance at a more granular level.

### Executing change well

To continue improving how we manage changes impacting our customers, we introduced an agility program. It has allowed for a cultural shift in how we shape, lead and deliver value to our customers. Over the next year, we will review our delivery processes and systems to transition to agile methods of delivering quality, high value change outcomes.

### Transform processes for speed and reliability

The national rollout of our Personal Banking Origination Platform (PBOP) was completed in 2016, with delivery of the platform to over 8,000 bankers. The customer experience for both secured and unsecured consumer lending will be greatly enhanced with greater visibility of application progress, fewer touches and improved turnaround times.

We also streamlined our superannuation business, merging five of our super funds into one to create Australia's largest retail super fund. The MLC Super Fund will manage superannuation and retirement needs for more than a million Australians, making it easier for them to move between various products and features as their needs change throughout their lives.

## BE KNOWN FOR GREAT LEADERSHIP, TALENT AND PEOPLE

Performance is at the centre of everything we do and in line with our new people plan, we will:

- Identify and nurture talented people who will deliver great results for customers.
- Build great leaders to drive performance.
- Build the capability of our people so they can perform at a higher level and support a culture that drives high performance. Performance is measured using a balanced scorecard approach.

Our people enable us to achieve our objectives and bring our strategy to life.

For more information on our culture and human capital management, refer to pages 26-28 of this report.

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# OUR STRATEGY AND FOUNDATIONS

## OUR FOUNDATIONS – BALANCE SHEET STRENGTH

In 2016, we continued our focus on balance sheet strength. Our strong capital, funding and liquidity positions provide us with confidence to respond to changing market and regulatory conditions facing the finance sector in Australia and overseas.

This year, we have continued to access a diverse range of wholesale funding across senior, subordinated and secured debt markets, as well as the domestic retail hybrid market. The NAB Group raised \$36.4bn of term wholesale funding (excluding Additional Tier 1 (AT1)), increasing the proportion of our funding from stable sources as well as lengthening the maturity of our funding.

Over the 2016 financial year key structural metrics remained stable. We have maintained strong liquidity throughout the year. The 30 September 2016 quarterly average Liquidity Coverage Ratio (LCR) was 121%, above the APRA requirement of 100%. The NAB Group Net Stable Funding Ratio (NSFR) is greater than 100% as at September 2016 based on draft APRA rules. A minimum 100% NSFR compliance is required by 1 January 2018.

Our capital management strategy is focused on adequacy, efficiency and flexibility. We focus on holding capital in excess of our internal risk-based assessment of required capital, while meeting regulatory requirements, being in-line with our balance sheet risk appetite and ensuring shareholder and investor expectations are met.

On 8 February 2016, we exited our investment in UK-based banking business CYBG by demerging 75% of the CYBG shares to NAB shareholders. The remaining CYBG shares were divested by NAB under an institutional offer. The demerger and IPO lowered the Group's CET1 ratio by 60 basis points at March 2016.

On 3 October 2016, NAB Group completed the sale of 80% of NAB Wealth's life insurance business to Nippon Life Insurance Company. The transaction increased the Group's CET1 ratio by 45 basis points as at 30 September 2016.

NAB Group's Common Equity Tier 1 ratio (CET1) was 9.8% (APRA basis), above the target operating range of 8.75-9.25% and the Group remains well capitalised. The target operating range is regularly reviewed in the context of the external economic and regulatory outlook with the objective of maintaining balance sheet strength. On an internationally comparable basis the CET1 ratio was 14.0%.

NAB's Leverage Ratio was 5.7% on an APRA basis as at 30 September 2016.

The Group has also executed Additional Tier 1 and Tier 2 (T2) issuance of \$1.5bn and \$2.0bn respectively during the financial year ending September 2016.



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# OUR STRATEGY AND FOUNDATIONS

## OUR FOUNDATIONS – RISK MANAGEMENT

Maintaining our focus on risk and compliance is a non-negotiable in our vision to be Australia and New Zealand's most respected bank.

### IMPROVING EFFECTIVENESS OF RISK MANAGEMENT

2016 saw us continue to enhance our risk culture and strengthen our Risk Management Framework. We also focused on enabling our people – who are responsible for business risks of all types – to take the right risks, with the right controls, for the right return. Examples include building capabilities in credit, operational and compliance risk to make it easier for bankers to have the right conversations with customers, and improving the effectiveness of credit oversight to ensure we are doing the right thing by our customers.

#### Implementation of risksmart

In November 2015, we launched our risksmart system. By integrating and replacing a number of legacy systems, this new system makes it easier for our people to effectively manage operational risk and compliance with our legislative, regulatory and licensing obligations, as well as internal policies and procedures.

### Conduct and risk culture

Risk culture is a key focus area for our Board and management.

We have played an important role in recent steps by the Australia Bankers Association (ABA) to adopt comprehensive new measures as part of a six point plan to protect customer interests, increase transparency and accountability, and build trust and confidence in Australian banks.

This year, our Chairman, Chief Executive and Executive Leadership Team signed the Banking and Finance Oath which aims to re-assert the ethical foundation of the industry beyond regulation and compliance. We have commenced proactively writing to customers at risk of having received inappropriate advice and, where applicable, provided compensation. We have committed to respond to customer complaints within 45 days, added independence into the whistleblower and complaints processes (including appointing an independent customer advocate for wealth advice), and implemented a process to notify ASIC if an adviser has departed from our network where we have had compliance concerns about that adviser.

### Refining risk appetite

A number of enhancements have been implemented to further promote proactive risk management, ensure risk boundaries are clear and consistently applied, and provide greater Board and management visibility of the Group's risk profile relative to approved risk appetite.

### De-risking our credit portfolio

Our credit portfolio is in good shape as a result of our long term focus on de-risking our credit profile. Our bad and doubtful debts are stable and below long-term averages.

### Improving our customer experience

The next phase in the evolution of our risk management practices focuses on redoubling our efforts to put our customers at the heart of risk management at NAB.

To this end, we have launched a dedicated program called Customer First that drives simplification of risk processes and policies to benefit customers and our people.

We have already reduced the time for customers to get an answer on their loan applications. For mortgage lending applications, this involved removing pain points from the customer verification process in the mortgage application process. For business lending applications, this involved placing Credit Risk Managers in Business Fulfilment Centres to enable straight-through processing of applications.



# OUR STRATEGY AND FOUNDATIONS

## OUR MATERIAL RISK CATEGORIES

The adjacent table outlines the key categories of material risks to which we have our most significant risk exposures. These material risk categories are reviewed at a minimum annually, or as otherwise required due to changes in the internal or external environment in which we operate.

In 2016, defined benefit pension risk was removed as a material risk category with our exit from CYBG. We have added conduct risk as a material risk category to enable even more dedicated focus on the management and mitigation of the conduct related risks we face.

MATERIAL RISK CATEGORY	THE RISK OF LOSS FROM
<b>Credit risk</b>	A counterparty or customer failing to meet their obligations to NAB in accordance with agreed terms.
<b>Operational risk</b>	Inadequate internal processes and controls, people and systems or external events – for example, business disruption, system failure, internal and external fraud, including cyber risk events.
<b>Compliance risk</b>	Failing to understand and comply with applicable laws, regulations, licence conditions, supervisory requirements, self-regulatory industry codes of conduct and voluntary initiatives, as well as internal policies, procedures and frameworks.
<b>Conduct risk</b>	Intentionally or unintentionally treating our customers unfairly and delivering negative outcomes for customers, clients, counterparties, investors, shareholders and the markets in which we operate.
<b>Balance sheet and liquidity risk</b>	NAB's banking book activities, including capital, funding, liquidity, interest rate, foreign exchange and equity.
<b>Market risk</b>	Adverse changes in fair value positions from NAB's trading book activities as a result of movements in foreign exchange and interest rates, volatilities and credit spreads.
<b>Regulatory risk</b>	Failing to identify and monitor changes in the regulatory environment, damaging NAB's relationship with its regulators, and failing to take the opportunity to help shape the development of emerging legislative framework and/or effectively implement the required changes.
<b>Strategic risk</b>	Strategic positioning, which is the strategic choices we make and their ongoing viability in response to, or anticipation of, changes in the environment, and strategic execution, which is associated with failing to execute the chosen strategy.
<b>Life insurance risk*</b>	Payments under life insurance policies exceed those anticipated in the premiums collected and underlying investment income earned.

\* The new life insurance partnership (sale of 80% of NAB Wealth's life insurance business) with Nippon Life Insurance Company will mean that, in 2017, life insurance risk is no longer a material risk to the Group.



# OUR STRATEGY AND FOUNDATIONS

## MANAGING ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RISK

Our ESG Risk Principles provide an overarching framework to integrate ESG risk considerations into our day-to-day decision-making, including operational risk (direct operations and procurement), credit risk and investment management due diligence and assessment processes.

Our customers, people, investors, shareholders and Non-Government Organisations (NGOs) have told us that effective management of ESG risk is important. This year, we have seen continued demand from investors and NGOs for disclosure of our ESG-related performance, in particular on climate risk exposure and human rights-related practices. In our annual materiality process, internal and external stakeholders identified a range of ESG risk issues on which they feel we should increase disclosures on. For more information, see page 16 of this report.

ESG risk data, information and analytics help inform our risk appetite for exposure to countries and industry sectors, as well as our appetite for business relationships with suppliers and customers.

In 2016, we undertook the following activities to further integrate ESG risk within our risk management framework:

### ENVIRONMENTAL

- Reviewed and updated our Group Environmental Management Policy, and established post-2016 environmental targets including a science-based Green House Gas (GHG) emissions reduction target (for more information, refer to our Dig Deeper report available at [nab.com.au](http://nab.com.au)).
- Continued to participate in the Portfolio Carbon Initiative – a joint initiative of the United Nations Environment Program Finance Initiative, World Resources Institute and 2°C Investing Initiative – and improved our disclosure of carbon risk exposure in our lending book. For more information, refer to our 2016 Full Year Investor Presentation and our 2016 Dig Deeper report.

### SOCIAL

- Developed a new Human Rights Policy, and integrated specific consideration of modern slavery into our Group Procurement Policy and Group Outsourcing and Offshoring Policy.
- Established new supplier sustainability targets for the period 2016 to 2020 (for more information, refer to our Dig Deeper report).
- Continued to implement our Improper Land Acquisition Policy Statement (for more information, refer to our Dig Deeper report).

### GOVERNANCE

- Our investment advisory business, JANA became a signatory to the Principles for Responsible Investment. In addition, JANA has continued to enhance its internal investment process in relation to ESG to ensure that they remain in line with best practice.
- Our Political Donations Policy was updated to reflect that we will no longer make political donations.
- We amended the BNZ credit policy to make it easier for bankers to identify and manage ESG risk.



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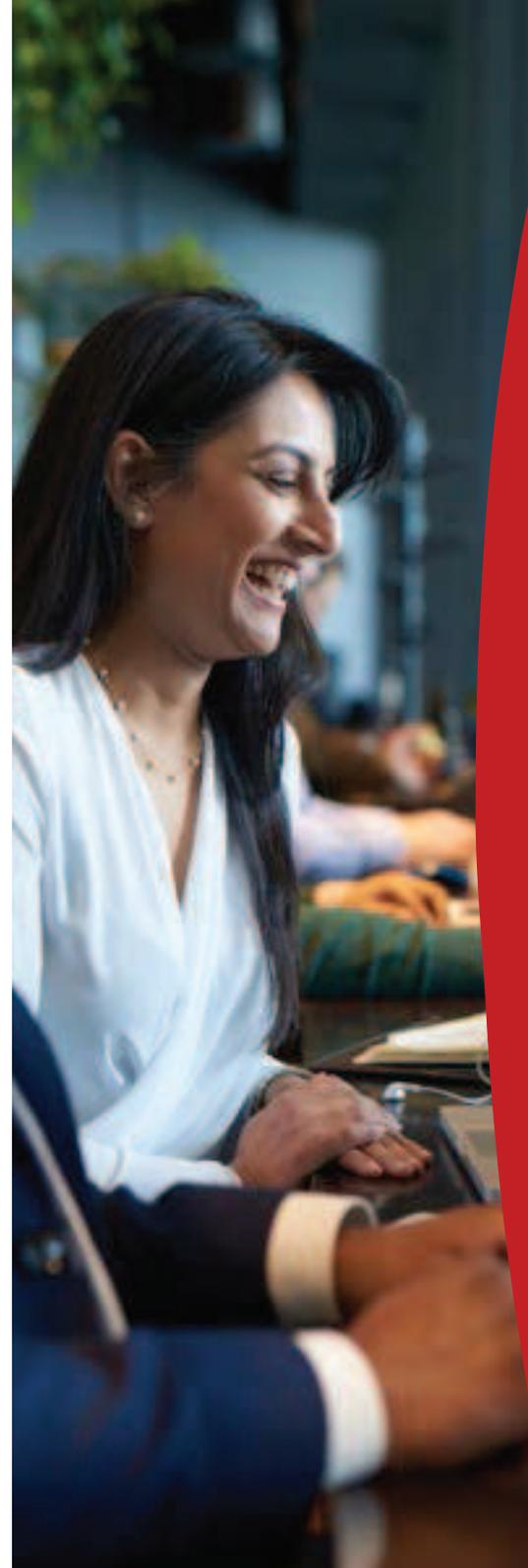
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# OUR STRATEGY AND FOUNDATIONS

## OUR FOUNDATIONS – TECHNOLOGY

### STRATEGY

In 2016, we continued to improve the customer experience by focusing on our technology priorities that support our business strategy, including:

- Delivering an improved technology experience for our customers and people by providing a simple, stable and reliable service. We continue to achieve reductions month-on-month of major technology incidents, with the overall number of critical and high customer impact incidents reduced by more than 30% in 2016, and by 50% over the past two years (refer to Figure 1). Our 'Always On' program, won the IT Service Management Forum 2016 Award for the most distinguished, outstanding team contribution within the service management industry during the past year.
- Continued updates to our technology platforms and services faster to better support our customers and people. In 2016, a key achievement was the national deployment of our Personal Banking Origination Platform, which will continue to be frequently refined based on feedback from our people and customers.
- Our commitment to simplify and make our technology environment more agile. This has helped deliver new product and service innovations to our customers while leveraging our core platforms. Our partnership with Xero, one of the fastest growing cloud accounting package in Australia, is making business easier for our small business customers by enabling them to quickly and easily set up and monitor transactions, via NAB Internet Banking.

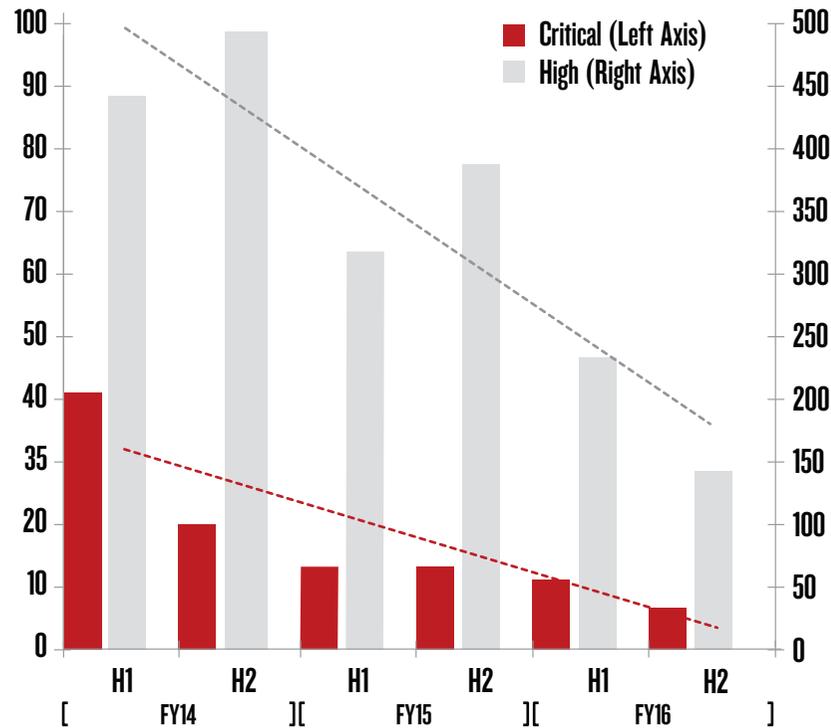


Figure 1: Year-on-Year Incident Reduction

### PBOP CASE STUDY

The rollout of the Personal Banking Origination Platform (PBOP) to over 8,000 bankers in branches, contact centres and fulfilment centres nationally this year, saw the completion of a major technology milestone.

Since the implementation of the platform, processes are being transformed to deliver a simpler, easier and personal banking experience.

The time it takes for personal loan customers to receive their money has been reduced by 59% and to order a credit card has been reduced by 50%. Customers can now submit more than 70% of home loan documents and 90% of personal loan documents online.



Transparency | Security | Customer experience

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# OUR STRATEGY AND FOUNDATIONS

## TECHNOLOGY

## PERFORMANCE

This year, we have seen a reduction in the number of technology outages year-on-year. We will continue to improve the performance of our services for our customers. When a technology incident occurs, our people work around the clock to bring services back online and to ensure our systems are stable. After all technology incidents, a thorough review takes place to identify the cause so we can prevent future disruptions. We also significantly invest in our technology and we're constantly updating our systems to improve services and ensure they are reliable for customers.

Following our recent upgrade to **nab.com.au**, the customer Net Promoter Score (NPS) for our website improved significantly from -10 to +25.<sup>1</sup> Additionally, our technology-enabled innovations developed and delivered in our innovation hub, NAB Labs, are also improving the customer experience. Our customers are now able to do more of their banking online including conditional approval for home loans, underpinned by the Personal Banking Origination Platform, which is transforming the customer experience.

We continue to see NPS improve and an increase in the number of customers using our digital platforms. Now, around 70% of internet banking logins are via mobile devices, with volumes growing by more than 300% over the past four years.

In January 2016, we launched NAB Pay which is available on compatible Android devices, and offers cardholders a quick and convenient way of making purchases by simply tapping their Android devices against a contactless terminal instead of using their physical card.

Improving our foundational infrastructure capabilities has been a major focus in recent years. We completed this renewal in 2016 through decommissioning our East Melbourne site and investing in new and scalable infrastructure at the new Deer Park data centre. We also simplified our foundations through supporting the demerger of CYBG and the sale of 80% of Wealth's life insurance business to Nippon Life Insurance Company.

Delivering our foundational technology capabilities means we are able to adopt and explore new and externally hosted technology offerings, products and services to continue to evolve the customer experience. It also allows us to continue to benefit from our global strategic partners' global capabilities, research and development investments in technology.

As we continue to see an increase in the number of customers who interact with us digitally, the security and privacy of our customers' data is paramount. That's why we continue to provide new security and privacy features to our customers including auto-blocking to help prevent fraudulent transactions from occurring via our NAB Internet Banking and NAB Connect channels.

## FUTURE FOCUS

### Looking forward, we will focus on:

- Continued customer-centric design and agile delivery.
- Increased digitisation of customer and employee experiences.
- Continued shift to standardised technology platforms.
- Leveraging data and insights to deliver a more connected customer experience.

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.

*Joanne Lee*



Transparency | Security | Customer experience

<sup>1</sup> Figures presented relate to the period January 2016 to September 2016.

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# OUR PEOPLE

To achieve our vision to be Australia and New Zealand’s most respected bank, we need a values-aligned culture, with high performing people supported by great leaders, who can deliver great customer experiences and respond to business challenges and opportunities. To achieve this, we have refreshed our people strategy.

## OUR CULTURE

NAB’s culture is shaped by our values. Our values reinforce that we care about how we do things – not just what we do. We are committed to building the trust of our customers and the community. We do this through an engaged team who live our five core values: passion for customers, will to win, be bold, respect for people and do the right thing. We know trust is the currency that matters the most.

### Building trust

We are taking numerous actions to support a values-aligned culture so we can continue to build trust with customers and the community. These actions include:

- Assessing all employees against a balanced scorecard, covering key deliverables such as customer, finance, risk, leadership and people outcomes.
- Changing how our people are rewarded. Under our new Enterprise Agreement that came into effect in October 2016, we have de-linked performance from fixed pay increases for Groups 1 and 2 employees (predominantly customer service and support employees). We no longer consider product sales targets when determining pay increases for Group 3 and 4 employees, who include many of our branch managers and business bankers.
- In Australia, 88% of our people are rewarded through an incentive structure that involves no direct product or sales targets including 2,300 tellers in our frontline retail team, who are not authorised to sell any lending products.
- Putting multiple safeguards in place. These include a disciplined training process, a requirement to demonstrate values, deferral of a portion of payment subject to forfeiture, assurance processes and conduct and compliance gateways.
- Communicating our values clearly. The most recent employee engagement survey shows that 87.6% of our people agree that their everyday work is guided by our values and they see our values demonstrated every day in their teams.

## Engagement

To promote a values-aligned culture and provide great service to customers we need an engaged workforce. Overall, we have significantly increased employee engagement from 56% in 2015<sup>1</sup> to 61% in 2016. The strongest driver of engagement for our people is their belief in our vision to be Australia and New Zealand’s most respected bank. With an increasingly engaged team, we now exceed the Global High Performing Organisations Benchmark of 60%.

## OUR WORKFORCE<sup>2</sup>

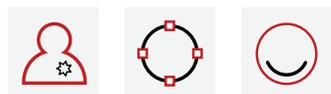
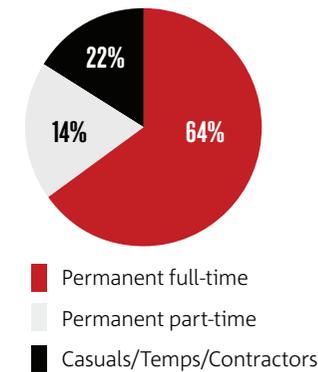
### OUR WORKFORCE PERCENTAGE, BY EMPLOYMENT LEVEL<sup>3</sup> AND GENDER



### OUR WORKFORCE PERCENTAGE, BY AGE AND GENDER

Age profile	Female	Male	Total
<25	3	3	6
25-34	18	15	33
35-44	16	14	30
45-54	11	10	21
55+	6	4	10

### OUR WORKFORCE, BY EMPLOYMENT TYPE



Culture | Governance | Customer experience

<sup>1</sup> Speak Up, Step Up survey conducted by Right Management. The 2015 engagement figure has been re-stated to exclude discontinued operations.  
<sup>2</sup> Data has been calculated based on total population as at 30 September 2016. It includes all members of the NAB Group, including 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.  
<sup>3</sup> Employment level represents the classification of employees based on the accountability and complexity of work.

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# OUR PEOPLE

## DEVELOPMENT, LEADERSHIP AND PERFORMANCE

The success of our business is driven by our people. We focus on building capability, nurturing talent and having great leaders.

### Building capability

We ensure our people have the skills and experience to deliver for our customers now and into the future.

Our workforce must be agile and have the right skills and experience to meet the changing needs of our customers. To deliver a great customer experience, this year we have:

- Offered over 140 classroom and virtual classroom training courses to our people.
- Made over 600 unique e-learning offerings available.

In 2016, 79%<sup>1</sup> of our people felt they had access to training and development to do their jobs well.

As part of our refreshed people strategy we are now increasing the digital channel capabilities of our people to provide more efficient service to our customers.

### Nurturing talent

To achieve our strategy we must continue to develop our people to achieve their potential.

We continue to have a customised approach for our high potential leaders to help fast-track their transition into key business roles. As part of our refreshed people strategy, we are taking a broader and deeper approach to talent management to identify and benefit a greater number of our people as Key Talent across all levels of the business. This will be achieved by:

- Having a set criteria and using more evidence based, objective assessment criteria to identify 'key talent'.
- Accelerating Key Talent through tailored learning and on-the-job career development.
- Hiring the best talent through a robust employee value proposition and targeted recruitment strategies.

### Leadership

Great leaders are critical to build a values-aligned culture throughout the business.

We develop our leaders at all levels, with a particular focus on building the capabilities of our new leaders. Our refreshed people strategy introduces a series of leadership initiatives including a defined leadership framework, data to better manage leadership performance and targeted development for our leaders transitioning to the next level.

This year we piloted a 13-week development program to build the skills of some of our new leaders. The program focused on the fundamental requirements for leading and managing their people.

### Performance framework

We attract, retain and motivate our people through our performance and reward framework.

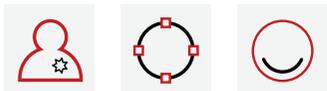
This year we:

- Introduced some key changes to our performance framework as part of our refreshed people strategy. Under the changes, people leaders are expected to manage performance every day so that people receive timely feedback and encouragement. Core to this change is the new simplified scorecard which provides clarity for our people on what is expected of them.
- Increased the frequency of performance conversations between people and their managers from quarterly to monthly to ensure that people are clear on how they are going and what they should be doing to perform strongly and develop. This has changed how we manage performance at NAB – as we continue to build a culture where our people are clear on what is expected of them and better supported to achieve it.
- Introduced and embedded a new market-based pay range methodology to simplify and better support our people leaders in making remuneration decisions. This was developed and agreed with one of our key stakeholders, the Finance Sector Union (FSU).

Our conduct and compliance requirements also form a central part of all performance conversations and related remuneration decisions. This year, we refreshed our conduct and compliance requirements so acceptable conduct is clearly defined, communicated and understood by our people. Effectively managing conduct and compliance requirements ensures that our value of 'do the right thing' is embedded in our culture. In 2016, we have seen an increase in the number of Code of Conduct breaches managed through our Workplace Relations team. This is primarily due to changes made to the Consequence Management Framework including:

- Ensuring all serious matters are referred to the central Workplace Relations team; and
- The increased awareness of our people leaders with respect to their responsibilities in managing conduct.

We continue to support the Australian Bankers' Association's independent review of product sales commissions and product-based payments and will consult with the FSU to implement recommended changes.



# OUR PEOPLE

## DIVERSITY AND INCLUSION

We encourage a culture that enables people to thrive, no matter their age, gender or unique differences.

To live our value of respecting others, diversity and inclusion is essential in our workplace. As we better understand the needs of our customers, it's important that our workforce reflects the customers we serve. Our work in this area focuses on inclusion, life stage and gender equality, enabled by great leadership and a flexible working environment.

At NAB we support diversity and inclusion through:

- Employee-led groups driving inclusion including NABility, Connecting Women and Pride@NAB.
- Targeted individual and group capability programs.
- Partnerships with community organisations.
- Ensuring our suppliers have a diverse workforce, through our supplier diversity program.

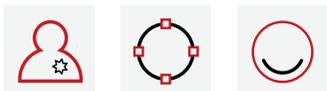
Our achievements reflect the progress we have made, including:

- Placing 7th in the 2016 Australian Workplace Equality Index.
- Our average gender pay gap continues to reduce and is now 25.6%, remaining below the current industry average of 29.8%.<sup>1</sup> This number is expected to continue reducing, as we increase the number of women in senior roles.
- 85.4% of employees reported they experience the culture at NAB as inclusive of them as a person.<sup>2</sup>
- Signing a ten year partnership with CareerTrackers, furthering our commitment to real jobs for Indigenous Australians. As at 30 September, more than 200 Indigenous Australians were employed in our business.

## Gender Equity Performance Indicators

% Proportion of women <sup>3</sup>	Employment level or program
38	NAB's Executive Management roles (against a 2016 target of 34%) <sup>4</sup>
30	NAB's Board roles <sup>5</sup>
39	NAB's Subsidiary Board roles <sup>6</sup>
54	NAB's Australian talent population <sup>7</sup>
43	2017 NAB Australian Graduate Program intake

<sup>1</sup> As reported through the Workplace Gender Equity Agency 2015 benchmark report.  
<sup>2</sup> Results taken from Annual Speak Up, Step Up survey, conducted by Right Management.  
<sup>3</sup> Data has been calculated based on total population as at 30 September 2016. It includes all members of the NAB Group, including 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.  
<sup>4</sup> 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%  
<sup>5</sup> 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.  
<sup>6</sup> NAB actively encourages women to join Group subsidiary boards and has a target of 35% by 2017.  
<sup>7</sup> 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.



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# BOARD OF DIRECTORS



Our Board continues to deliver a planned succession program that ensures the collective range of skills and expertise of directors is appropriate for the successful execution of our strategy, while retaining a deep knowledge and understanding of our business.

Key priorities of the Board continue to be the creation of long-term value for stakeholders,

and oversight of management to ensure a continuing high standard of accountability and integrity in line with our culture.

Ken Henry took on the role of Board Chairman in December 2015 following the retirement of Michael Chaney. At the same time, Paul Rizzo retired and Anne Loveridge was appointed. Two further director

appointments occurred this year: Doug McKay in February 2016 and Philip Chronican in May 2016. All appointments were made following consideration of suitable candidates by the Board's Nomination Committee. The Board's capability is strong, with a range of skills and experience in areas including

strategy and organisational leadership, banking and finance, audit and risk management and information technology.

For detailed information on the skills and experience of each director, see pages 18-20 of the 2016 Annual Financial Report.



Governance

Back row

## PEEYUSH GUPTA

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

## DOUG MCKAY

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

## 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. Retiring December 2016.

## DANIEL GILBERT AM

Non-executive director since 2004. Chairman of the Remuneration Committee. Member of the Nomination Committee. Retiring December 2016.

Front row

## ANNE LOVERIDGE

Non-executive director since December 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 a Non-executive director since 2011. Chair of the Nomination Committee.

## PHILIP CHRONICAN

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

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# EXECUTIVE LEADERSHIP TEAM



The Group Executive Leadership Team is driven by a responsibility to create more of what matters to our customers, people, shareholders and the community. Led by Group CEO Andrew Thorburn, the team is united in its shared commitment to consistently improving our products and services for customers and remaining transparent and accountable to our shareholders.

Each member of the Group Executive Leadership Team brings to the table a wealth of experience and expertise in the banking sector – coupled with the same core NAB values and integrity.

Changes to our Executive Leadership Team, effective August this year, will help us meet our goal of creating a simpler, more customer-focused business that delivers better outcomes for customers and shareholders.

For detailed information on the backgrounds and experience of each member of the Group Executive Leadership Team refer to our website [nab.com.au/about-us/our-business](http://nab.com.au/about-us/our-business).

Back row

**ANDREW HAGGER**

Chief Customer Officer  
Consumer Banking & Wealth

**ANTONY CAHILL**

Chief Operating Officer  
Customer Products & Services

**DAVID GALL**

Chief Risk Officer

**GARY LENNON**

Chief Financial Officer

Front row

**CATHRYN CARVER**

Acting Chief Customer Officer  
Corporate & Institutional

**ANGELA MENTIS**

Chief Customer Officer  
Business & Private

**ANTHONY HEALY**

Chief Executive Officer  
Bank of New Zealand

**ANDREW THORBURN**

Managing Director and  
Group CEO

**LORRAINE MURPHY**

Chief People Officer

**MATT LAWRENCE**

Acting Chief Technology  
& Operations Officer



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# GOVERNANCE

## GOVERNANCE

Our strong governance culture and framework underpins effective decision making and accountability across our business.

Effective governance practices and processes are vital to creating and delivering value to our customers and shareholders. They provide transparency and accountability, promote investor confidence and encourage innovation. Effective governance also ensures we get the right things done in the best possible way.

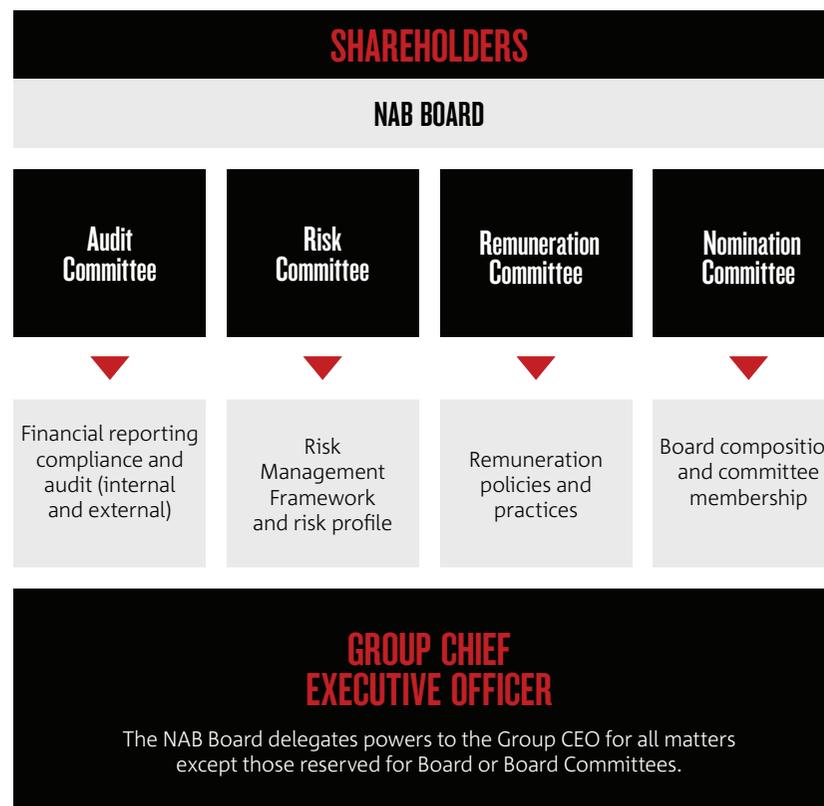
As part of our vision to be Australia and New Zealand's most respected bank, we set ourselves high standards in corporate governance and have complied in 2016 with the third edition of the ASX Corporate Governance Principles and Recommendations, which sets out governance practices for listed companies.

For more information on NAB's corporate governance arrangement and practices, refer to our 2016 Corporate Governance Statement, available at our website [nab.com.au](http://nab.com.au).

Our Board provides overall strategic direction for our business and represents the interests of our shareholders through the creation of sustainable value. The NAB Board is responsible for the governance of the NAB Group. The NAB Board is assisted by its committees, as shown in the adjacent diagram.

At a high level, the NAB Board's main responsibilities include overseeing and monitoring:

- Business performance.
- Strategic and operational planning.
- Risk management and compliance.
- Corporate governance.
- Financial management and integrity of external reporting.
- Succession planning and culture.



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# GOVERNANCE

## GOVERNANCE FRAMEWORK

NAB's corporate governance framework and approach includes the following:

- A highly skilled, diverse and independent Board.
- Strong, coordinated management.
- A robust risk management system.
- Compliance with external regulation and internal policies.
- Timely, comprehensive communication with stakeholders.
- Long-term genuine commitment to sustainability.

Authority is delegated by the NAB Board to the Group CEO, who is responsible for the day-to-day management of our business. The Group CEO further delegates authority to senior executives and management committees who are empowered to make certain decisions to specified levels, beyond which they must be escalated back to the NAB Board.

The governance framework, along with the specific delegations within it, are actively monitored and regularly reviewed and reconfirmed.

## EFFECTIVE LEADERSHIP

The NAB Board regularly reviews its composition to make sure that it consists of directors with a diverse range of skills, expertise and experience that are directly relevant to our business. The majority of NAB's directors are independent, non-

executive directors and all of them must have unquestionable integrity and good character. The Chairman is not a former executive of NAB and the role of Chairman and Group CEO are not exercised by the same person.

See the Board of Directors section on page 29 of this report for more details.

Our Board Nomination Committee annually considers the individual skills of each director, as well as the overall capability of the NAB Board. This ensures that the Board composition remains appropriate and effective. The NAB Board also conducts an annual assessment of the performance and effectiveness of the NAB Board as a whole, of each of its committees, and of individual directors.

## RESPONSIBLE REMUNERATION

We have built our remuneration policy around linking rewards to shareholder value, promoting long-term growth and attracting and retaining high-performing employees.

We create appropriate incentives through variable components of remuneration, which are based on individual and organisational performance and also include risk outcomes. We publish the remuneration of the Group CEO and our senior executives in our 2016 Annual Financial Report.

In April 2016, the Australian Bankers' Association announced a review of product sales commissions and product-based payments. This, along with meeting customer and community expectations, will inform reward strategy and frameworks going forward.

We are committed to ensuring the Group's performance and reward frameworks have the right measures and safeguards in place to support our customers.

## TRANSPARENT COMMUNICATION WITH OUR SHAREHOLDERS

We are committed to maintaining a level of disclosure that gives all of our shareholders timely and equal access to information.

We communicate this information in a number of ways including direct written communication, publication of all relevant NAB Group information on our website and the webcasting of significant market briefings and meetings, including the Annual General Meeting.

## RISK GOVERNANCE

Maintaining an active focus on risk and compliance is non-negotiable and it underpins how we run our business. We identify and actively manage risk as part of a Group-wide 'risk management framework' for which the NAB Board is ultimately accountable.

The Risk Committee, which comprises non-executive independent directors, helps the NAB Board to carry out certain responsibilities within the Governance Framework.

For more information on our risk management, see pages 21-23 of this report.



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# OUR PERFORMANCE

## 2016 Group Financial Performance<sup>1</sup>

Results (\$m) <sup>2, 3, 4</sup>	2016	2015
Net interest income	12,930	12,498
Other operating income	4,503	4,507
<b>Net operating income</b>	<b>17,433</b>	17,005
Operating expenses	(7,438)	(7,278)
<b>Underlying profit</b>	<b>9,995</b>	9,727
Charge to provide for bad and doubtful debts	(800)	(748)
<b>Cash earnings before tax and distributions</b>	<b>9,195</b>	<b>8,979</b>
Income tax expense	(2,588)	(2,582)
<b>Cash earnings before distributions</b>	<b>6,607</b>	<b>6,397</b>
Distributions	(124)	(175)
<b>Cash earnings</b>	<b>6,483</b>	<b>6,222</b>
Non-cash earnings items (after tax):		
Distributions	124	175
Treasury shares	61	4
Fair value and hedge ineffectiveness	(126)	516
Life Insurance 20% share of profit	(39)	(37)
Amortisation of acquired intangible assets	(83)	(80)
<b>Net profit from continuing operations</b>	<b>6,420</b>	<b>6,800</b>
Net (loss) after tax for the period from discontinued operations <sup>5</sup>	(6,068)	(462)
<b>Net profit / (loss) attributable to owners of NAB<sup>6</sup></b>	<b>352</b>	<b>6,338</b>

<sup>1</sup> Refer to 'Glossary and definitions' on page 39 of this report, for definitions of the above financial metrics.

<sup>2</sup> Figures are in Australian dollars, unless otherwise stated.

<sup>3</sup> Information is presented on a continuing operations basis including prior period restatements. Refer to Glossary of terms on page 39 for definition of continuing operations and discontinued operations.

<sup>4</sup> NAB's audited financial statements, prepared in accordance with the Corporations Act 2001 (Cth) and Australian Accounting Standards, are set out in NAB's 2016 Annual Financial Report. A definition of cash earnings is set out in the Glossary of Terms on page 39 of this report. Full detail on how cash earnings is defined, a discussion of non-cash earnings items and a full reconciliation of statutory net profit attributable to owners of NAB is set out on pages 2 to 8 of NAB's 2016 Full Year Results Announcement.

<sup>5</sup> Discontinued operations is defined in the Glossary of Terms and for the September 2016 full year primarily includes the loss on sale of 80% of NAB Wealth's life insurance business, the loss on demerger of CYBG and costs pursuant to claims under the Conduct Indemnity Deed with CYBG.

Key Indicators <sup>2, 3, 4</sup>	2016	2015
Statutory earnings per share (cents) – basic	8.8	252.7
Statutory earnings per share (cents) – diluted	15.5	245.4
Cash earnings per share (cents) – basic	245.1	249.0
Cash earnings per share (cents) – diluted	235.3	242.1
Statutory return on equity	0.5%	15.2%
Cash return on equity (ROE)	14.3%	14.8%

## Profitability, performance and efficiency measures<sup>2, 3, 4</sup>

Dividend per share (cents)	198	198
Dividend payout ratio	80.8%	79.5%
Cash earnings on average assets	0.76%	0.72%
Banking cost to income (CTI) ratio	41.4%	41.2%
Net interest margin	1.88%	1.90%

## Capital

Common Equity Tier 1 ratio	9.77%	10.24%
Tier 1 ratio	12.19%	12.44%
Total capital ratio	14.14%	14.15%

## Asset quality<sup>2, 3, 4</sup>

90+ days past due and gross impaired assets to gross loans and acceptances	0.85%	0.63%
Specific provision to gross impaired assets <sup>7</sup>	38.3%	30.3%

## Other

Full Time Equivalent Employees (FTE) (spot)	34,263	33,894
---	--------	--------

<sup>6</sup> Refer to footnote 4 on page 6 of this 2016 Annual Review.

<sup>7</sup> Consists only of impaired assets where a specific provision has been raised and excludes \$785 million (NZ\$823 million), March 2016 \$522 million (NZ\$579 million), September 2015 nil of NZ dairy exposures currently assessed as no loss based on collective provision and security held.

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# OUR PERFORMANCE

2016 Group non-financial performance <sup>1,2</sup>	2016	2015
Net Promoter Score (Mortgage customers) – Australia <sup>3</sup>	-24	-18
Net Promoter Score (Micro business customers) – Australia <sup>3</sup>	-20	-18
Net Promoter Score (Small business customers) – Australia <sup>3</sup>	-11	-19
Net Promoter Score (Medium business customers) – Australia <sup>3</sup>	-8	-7
Net Promoter Score (Debt-free customers) – Australia <sup>3</sup>	-7	NA
Net Promoter Score (Priority segments) – Australia <sup>3</sup>	-14	-16
% change in customer complaints – Australia <sup>4</sup>	+9%	+17%
Number of branches and business banking centres <sup>5</sup>	1,017	1,044
Number of ATMs	3,472	3,518
% of customers that are active users of IB – Australia <sup>6</sup>	73%	74%
Number of microfinance loans written <sup>7</sup>	22,886	23,475
Value of microfinance loans written <sup>7</sup>	25.6	28.3
Cumulative number of low income Australians assisted with microfinance products/services <sup>7</sup>	449,844	394,277
Number of customers assisted experiencing financial hardship – Australia	21,303	20,174
NAB Group overall employee engagement score – Australia <sup>8</sup>	61	56
NAB 'Alignment to our values' score – Australia <sup>9</sup>	88	87
Number of breaches of our Code of Conduct – Australia <sup>10</sup>	1,138	870
% of women in total workforce <sup>11</sup>	54	55
% of women in 'Executive Management' <sup>11,12</sup>	38	32
% of women on NAB Group subsidiary Boards <sup>11</sup>	39	36

- 1 NAB Group non-financial performance table data is described in detail in our 2016 Dig Deeper report, available at nabgroup.com/annualreports. All figures are for the NAB Group as at 30 September, unless otherwise stated.
- 2 Information is presented on a continuing operations basis. Prior periods have been restated. Refer to Glossary of terms on page 39 for definition of continuing operations and discontinued operations.
- 3 Source: Roy Morgan Research 6 month moving AFI advocacy, DBM BFSM Research 6 month moving AFI advocacy. Priority Segments Net Promoter Score (NPS) is a simple average of the NPS scores of five priority segments: Mortgage Customers, Debt Free, Micro Business (<\$1m), Small Business (\$1m-\$5m), Medium Business (\$5m-\$50m). Net Promoter, Net Promoter Score and NPS are registered trademarks of Bain & Company Inc., Satmetrix Systems Inc. and Fred Reichheld. Priority Segments NPS for 2015 did not include Debt Free, and has not been re-stated to include this segment.
- 4 Reflects our ongoing commitment to encourage customer feedback and address customer concerns. For further information, refer to 2016 Dig Deeper report.
- 5 Definition of branches and business banking centres has been updated to total 'points of presence'. This has removed a small number of instances where locations were double-counted, for example where a business banking centre and branch shared an address. Historical data has been restated.
- 6 Definition of 'active' updated to refer to transacting within a 30-day period; calculation used for previous reports used a 60-day period. Historical figures have been re-stated.
- 7 Delivered in partnership with Good Shepherd Microfinance to Australian customers. Cumulative data has been collected since 2005.

2016 Group non-financial performance <sup>1,2</sup>	2016	2015
% of employees 50 years of age or over <sup>11,13</sup>	18	19
Return to work rate (%) for employees following primary carer's leave and any consecutive extended leave – Australia <sup>11</sup>	87	89
Number of Indigenous Australians employed <sup>11</sup>	207	210
Total employee turnover rate (%) <sup>11,14</sup>	12	11
Voluntary employee turnover rate (%) <sup>11,15</sup>	10	10
Retention rate (%) of high performing employees – Australia <sup>11,16</sup>	95	95
Absenteeism – Australia <sup>11,17</sup>	7.76	7.46
Community investment (\$m) <sup>18</sup>	48.8	54.4
Number of volunteer days completed	23,065	26,204
Value of volunteer days completed (\$m) <sup>19</sup>	8.9	10
Progress towards September 2022 \$18 bn clean energy financing commitment (\$bn)	7.3	Target established & defined
Gross greenhouse gas emissions (Scope 1, 2 and 3) (tCO <sub>2</sub> -e) <sup>20</sup>	231,599	276,584
% of material suppliers that are signatories to NAB Group Supplier Sustainability Principles	91	47

- 8 Speak, 'Step Up' survey conducted by Right Management in May 2016. The Right Model (E8) measures employee's commitment, advocacy, satisfaction and pride in both their job (four questions) and their organisation (four questions). Employees need to answer favourably to all eight items to be considered "engaged".
- 9 In 2016, the calculation of the 'Alignment to our values' score was simplified to measure positive response to: "My everyday work is guided by the organisation's values" and "The organisation's values are demonstrated every day in my team".
- 10 Code of Conduct breaches represent confirmed breaches managed through our Workplace Relations team. These breaches include categories such as conflicts of interest, privacy and confidentiality, legal and regulatory compliance (including discrimination and corruption) or issues such as inappropriate workplace behaviour and conduct inconsistent with NAB's values.
- 11 Data has been calculated based on total population as at 30 September 2016. It includes all members of the NAB Group, including 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.
- 12 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 or Executive Assistant) are not included in the data.
- 13 Total number of employees aged 50 and over as a percentage of headcount.
- 14 Number of all employees who exited NAB each year, as a percentage of the average permanent headcount for each respective year.
- 15 Number of all employees who voluntarily exited NAB each year, as a percentage of the average permanent headcount for each respective year.
- 16 The percentage of employees recognised as high performing during the previous performance period review process, that remain employed at 30 September of the following performance period. The performance measurement framework changed from a 5 point scale in 2014, to 3 point scale in 2015. This increased the total number of employees who were identified as high performing. Retention rates have remained stable.
- 17 Absenteeism represents the total number of unscheduled absence days divided by the average number of full-time equivalent employees (excluding casual employees). Past results have been revised upwards due to additional absences being recorded after the reporting period has ended. Current year results are also likely to be revised as additional absences are recorded in our system; any updates will be reflected in future reporting.
- 18 The 2016 reduction in investment was largely driven by lower employee volunteer participation and lower transaction fees from community customers forgone by NAB. For further information, see our 2016 Dig Deeper report.
- 19 Value of volunteer days is calculated by applying average daily salaries by employment level, to number of days completed by employment level.
- 20 Consolidated Scope 1, Scope 2 and selected Scope 3 GHG emissions (accounting for certified renewable electricity purchased in the UK and Australia) are for the environmental reporting year of 1 July – 30 June. See our 2016 Dig Deeper report for further information.

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# SHAREHOLDER INFORMATION

## 2016 ANNUAL REPORTING SUITE

You can view our 2016 Annual Reporting suite online at [nabgroup.com/annualreports](http://nabgroup.com/annualreports) or request a printed copy of our 2016 Annual Financial Report and 2016 Summary Review from the Share Registry either by email at [nabservices@computershare.com.au](mailto:nabservices@computershare.com.au) or by calling 1300 367 647 (within Australia) or +61 3 9415 4299 (from outside Australia). Current and extensive historical information is posted and maintained on the website at [nabgroup.com](http://nabgroup.com).

## HELPING CONVERT YOUR SHARES TO BENEFIT AUSTRALIAN CHARITIES

ShareGift Australia is a not-for-profit organisation that provides shareholders with a facility to sell and donate parcels of shares to charity, free of brokerage or other administration charges.

To date, ShareGift Australia has donated more than \$1.35 million to over 450 charities, helping to unlock a growing stream of funds for the Australian community. ShareGift Australia is proudly supported by National Australia Bank Limited and is endorsed by The ASX Group and the Australian Shareholders' Association.

For further information about ShareGift Australia visit [sharegiftaustralia.org.au](http://sharegiftaustralia.org.au) or call 1300 731 632.

## 2017 FINANCIAL CALENDAR<sup>1</sup>

### Half Year Results and Interim Dividend Announcement **Thursday, 4 May 2017**

National Australia Bank's Interim Dividend Payment (ASX CODE: NAB)

Ex-dividend date for Interim Dividend **Tuesday, 16 May 2017**

Record date for Interim Dividend **Wednesday, 17 May 2017**

Payment date for Interim Dividend **Wednesday, 5 July 2017**

### Full Year Results and Final Dividend Announcement **Thursday, 2 November 2017**

National Australia Bank's Final Dividend Payment (ASX CODE: NAB)

Ex-dividend date for Final Dividend **Thursday, 9 November 2017**

Record date for Final Dividend **Friday, 10 November 2017**

**Payment date for Final Dividend** **Wednesday, 13 December 2017**

**Annual General Meeting – to be held in Sydney** **Friday, 15 December 2017**

<sup>1</sup> If there are any changes to these dates, the Australian Securities Exchange will be notified accordingly.



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# SHAREHOLDER INFORMATION

## CONTACT DETAILS

### Principal Share Register

Computershare Investor Services Pty Limited  
Yarra Falls  
452 Johnston Street  
Abbotsford VIC 3067  
Australia

### Postal address

GPO Box 2333  
Melbourne VIC 3000  
Australia

**Local call:** 1300 367 647  
**F:** +61 3 9473 2500

### Outside Australia

**T:** +61 3 9415 4299  
**F:** +61 3 9473 2500  
**E:** nabservices@computershare.com.au  
**W:** nabgroup.com/shareholder

### United Kingdom Share Register

Computershare Investor Services plc  
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Bridgwater Road  
Bristol BS99 6ZZ  
United Kingdom  
**T:** +44 370 703 0197  
**F:** +44 370 703 6101

**E:** nabgroup@computershare.co.uk  
**W:** nabgroup.com/shareholder

### United States ADR Depository Transfer Agent and Registrar contact details for NAB ADR holders:

Deutsche Bank Shareholder Services  
American Stock Transfer & Trust Company  
Peck Slip Station  
PO Box 2050  
New York NY 10272-2050  
United States of America  
**Toll-free:** +1 866 706 0509  
**Direct dial:** +1 718 921 8137  
**E:** DB@amstock.com

### Contact details for ADR brokers and institutional investors:

**US T:** +1 212 250 9100  
**UK T:** +44 207 547 6500  
**E:** adr@db.com

### Registered office

National Australia Bank Limited  
Level 1  
800 Bourke Street  
Docklands VIC 3008  
Australia  
**T:** 1300 889 398

### Company Secretary

Louise Thomson  
National Australia Bank Limited  
Level 1  
800 Bourke Street  
Docklands VIC 3008  
Australia  
**T:** +61 3 8872 2461

Susanna lost her husband to cancer two years ago. And while it was a difficult time for her and her two daughters, she says it would've been a lot harder if she had financial pressures to worry about at the time as well. Looking back, she's grateful for the advice, and the support that she got from her Financial Planner and from her bank.

*Susanna,  
Leah & Chloe*

### Corporate Responsibility

Postal address:  
Corporate Responsibility  
National Australia Bank Limited  
800 Bourke Street  
Docklands VIC 3008  
Australia  
**E:** corporate.responsibility@nab.com.au

### Auditor

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8 Exhibition Street  
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# ASSURANCE REPORT



## Independent Limited Assurance Report in relation to National Australia Bank Limited's 2016 Annual Review

To the Management and Directors of National Australia Bank Limited ('NAB'),

### Our Conclusion

Based on our limited assurance procedures, nothing has come to our attention that causes us to believe that:

- ▶ NAB has not included its material sustainability issues and that the associated Performance Metrics and Disclosures are not complete in its 2016 Annual Review ('the Report'), and
- ▶ The Performance Metrics and Disclosures detailed above, have not been reported and presented fairly, in all material respects, in accordance with the Criteria as presented below.

### Subject Matter

The subject matter for our limited assurance engagement for the year ended 30 September 2016 is NAB's reporting of its material sustainability issues and associated Performance Metrics and Disclosures in the Report.

The Performance Metrics and Disclosures for the year ended 30 September 2016 are comprised of:

- ▶ 25 key non-financial metrics<sup>1</sup> and the performance disclosures included in the Report related to these key metrics, and
- ▶ The financial metrics included in the Report in the Group Financial Performance table on page 33 of the Report.

Our assurance did not include:

- ▶ Data sets, statements, information, management's forward looking statements, systems or approaches relating to areas other than Performance Metrics and Disclosures selected
- ▶ Any comparisons made against historical data. For metrics expressed as a cumulative total, our assurance included testing of the 2016 data, and the summation of prior year data<sup>2</sup> only.

### Criteria

The following criteria have been applied to the Report and Performance Metrics and Disclosures described above:

- ▶ Global Reporting Initiative G4 Sustainability Reporting Guidelines principles of materiality and completeness
- ▶ NAB's reported criteria for the key non-financial metrics detailed within the Report
- ▶ NAB's accounting policies as defined in NAB's AFR and financial reporting policies and principles as defined in NAB's 2016 Results Announcement as detailed online at [www.nabgroup.com](http://www.nabgroup.com) (together 'the Criteria').

### The Responsibility of Management

NAB's management is responsible for the preparation and presentation of the Performance Metrics and Disclosures in the Report in accordance with the above Criteria, and is also responsible for the selection of methods used in the Criteria. No conclusion is expressed as to whether the selected methods used are appropriate for the purpose described above. Further, NAB's management is responsible for establishing and maintaining internal controls relevant to the preparation and presentation of the performance metrics and disclosures that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate criteria; maintaining adequate records and making estimates that are reasonable in the circumstances.

### Assurance Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion in accordance with the terms of reference for this sustainability assurance engagement as agreed with NAB, and in accordance with the International Federation of Accountants' *International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ('ISAE 3000'). Our responsibility is also to express a limited assurance conclusion based on our financial metric assurance engagement in accordance with *Auditing Standard on Review Engagements ASRE 2405 Review of Historical Financial Information Other than a Financial Report*.

Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance. The procedures performed depend on the assurance practitioner's judgement including the risk of material misstatement of Performance Metrics and Disclosures, whether due to fraud or error. While we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our engagement was not designed to provide assurance on internal controls.

Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems, which would have been performed under a reasonable assurance engagement.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our limited assurance conclusions.

### Work Performed

In order to form our conclusions our assurance procedures included, but were not limited to:

- ▶ Interviews with NAB executive management and other key personnel relating to NAB's identification and inclusion of material issues in the Annual Review in line with the materiality and completeness principles
- ▶ A media and peer review to check NAB included and reported its material issues in line with the materiality and completeness principles
- ▶ For key non-financial metrics provided by third parties, checked the metrics had been correctly transcribed
- ▶ For the other non-financial and financial performance metrics, checked for the correct application of criteria and methodologies, undertook analytical reviews, identified and tested assumptions supporting calculations, tested a sample of underlying source information, assessed the reliability of specific non-financial performance information and checked the performance disclosures
- ▶ Checked the clerical accuracy of financial metrics and where applicable agreed financial metrics to core financial systems and the 2016 Results Announcement.

Further details can be found in the full independent assurance report at <http://digdeeper.nab.com.au/content-index-and-assurance>.

### Use of our Report

We disclaim any assumption of responsibility for any reliance on this assurance statement or on the Performance Metrics and Disclosures to which it relates, to any person other than management and directors of NAB, or for any purpose other than that for which it was prepared.

### Independence, Competence and Experience

In conducting our engagement we have met the independence requirements of the APES 110 *Code of Ethics for Professional Accountants*. We have the required competencies and experience to conduct this assurance engagement.

### Electronic Presentation of Information

Our engagement included web-based information that was available via web links as of the date of this statement. We provide no assurance over changes to the content of the Report after the date of this assurance statement.

Ernst & Young  
Melbourne, Australia  
14 November 2016

Terence Jeyaretnam  
Partner

<sup>1</sup> The selected sustainability disclosures for inclusion in the scope were determined based on the outcomes of NAB's materiality review. A list of the 25 key non-financial metrics can be found at <http://digdeeper.nab.com.au/content-index-and-assurance>.

<sup>2</sup> For the 'cumulative number of volunteer hours' metrics, EY has previously provided limited assurance over the data from 2011 to 2015.

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# ADDITIONAL INFORMATION

## BEING ACCOUNTABLE

NAB's 2016 Annual Review Steering Committee is responsible for ensuring the integrity of NAB's integrated report (the 2016 Annual Review). The Steering Committee is comprised of representatives from key business functions including Investor Relations, Finance and Corporate Affairs. Other business functions including Strategy, Governance, Risk, Legal, Treasury, People and Technology have collectively contributed to the preparation of the 2016 Annual Review. The Steering Committee concludes that the 2016 Annual Review has been developed with due consideration of the IIRC Integrated Reporting framework.

## UNDERSTANDING THIS REPORT

This document is not a concise report prepared under section 314(2) of the *Corporations Act 2001* (Cth). NAB has not prepared a concise report for the 2016 financial year. All figures quoted are in Australian dollars unless otherwise stated.

A reference to '\$' is to an amount in Australian dollars. References to 'NAB' or the 'Company' are to National Australia Bank Limited ABN 12 004 044 937.

The 'NAB Group' refers to NAB and its controlled entities. All references are as at 30 September 2016 except where stated otherwise. Any references to changes (including an increase or decrease) relate to the previous year, unless otherwise stated.

Unless otherwise stated, information in this document is presented on a cash earnings basis. Cash earnings is a non-IFRS key financial performance measure used by NAB, the investment community and NAB's Australian peers with similar business portfolios.

## 2016 ANNUAL FINANCIAL REPORT

The NAB Group's audited financial statements, prepared in accordance with the *Corporations Act 2001* (Cth) and Australian Accounting Standards, are published in our 2016 Annual Financial Report, which is available in hard copy on request and can be viewed at [nabgroup.com/annualreports](http://nabgroup.com/annualreports) from 14 November 2016.

Additional Corporate Responsibility information is available in our 2016 Dig Deeper report, available online from 14 November 2016. The report provides detailed information for analysts and other stakeholders on our Corporate Responsibility performance, including historic trends and application of the Global Reporting Initiatives G4 guidelines.

## LITIGATION

Entities within the NAB Group are defendants from time to time in legal proceedings. There are contingent liabilities in respect of claims, potential claims and court proceedings, against NAB Group companies. Where appropriate, provisions have been made.

## FORWARD-LOOKING STATEMENTS

This document contains certain forward looking statements. The words 'anticipate', 'believe', 'expect', 'project', 'estimate', 'likely', 'intend', 'should', 'could', 'may', 'target', 'plan' and other similar expressions are intended to identify forward looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward looking statements.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the NAB Group, which may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements.

Further information on important factors that could cause actual results to differ materially from those projected in such statements is contained on pages 10–17 of our 2016 Annual Financial Report under 'Disclosure on Risk Factors'.

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## GLOSSARY OF TERMS

### APRA

Australian Prudential Regulation Authority.

### ASIC

Australian Securities and Investments Commission.

### Banking cost to income ratio (CTI)

Represents banking operating expenses (before inter-segment eliminations) as a percentage of banking operating revenue (before inter-segment eliminations).

### Basel III

Basel III is a global regulatory framework designed to increase the resilience of banks and banking systems and is effective for Australian Banks from 1 January 2013.

### Cash earnings

Cash earnings is defined as net profit attributable to owners of the NAB, excluding discontinued operations, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. In September 2016 cash earnings have been adjusted for the following:

- Distributions
- Treasury shares
- Fair value and hedge ineffectiveness
- Life insurance 20% share of profit
- Amortisation of acquired intangible assets

### Cash earnings per share – basic

Calculated as cash earnings adjusted for distributions on other equity instruments, divided by the weighted average number of ordinary shares adjusted to include treasury shares held by a controlled entity of the Group and employee share scheme trust.

### Cash earnings per share – diluted

Calculated as cash earnings adjusted for distributions on other equity instruments and interest expense on dilutive potential ordinary shares. This adjusted cash earnings is divided by the weighted average number of ordinary shares, adjusted to include treasury shares held by a controlled entity of the Group, employee share scheme trust and dilutive potential ordinary shares.

### Cash return on equity (RoE)

Calculated as cash earnings (annualised) divided by average shareholders' equity, excluding non-controlling interests and other equity instruments and adjusted for treasury shares..

### Common Equity Tier 1 (CET1) capital

Common Equity Tier 1 (CET1) capital is recognised as the highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominately comprised of common shares; retained earnings; undistributed current year earnings; as well as other elements as defined under APS111 – Capital Adequacy: Measurement of Capital.

### Common Equity Tier 1 ratio

Common Equity Tier 1 as defined by APRA divided by risk weighted assets.

### Company

'Company' or 'NAB' means National Australia Bank Limited ABN 12 004 044 937.

### Continuing operations

Continuing operations are the components of the Group which are not discontinued operations.

### Core assets

Represents gross loans and advances including acceptances, financial assets at fair value, and other debt instruments at amortised cost (classified in comparative periods as investments held to maturity)..

### Customer deposits

Interest bearing, non-interest bearing and term deposits (includes retail and corporate deposits).

### Discontinued operations

Discontinued operations in the September 2016 full year primarily includes the loss on sale of 80% of NAB Wealth's life insurance business, the loss on demerger of CYBG and costs pursuant to claims under the Conduct Indemnity Deed with CYBG.

### Distributions

Payments to holders of other equity instrument issues such as National Income Securities, Trust Preferred Securities, Trust Preferred Securities and National Capital Instruments.

### Dividend payout ratio

Dividends paid on ordinary shares divided by cash earnings per share.

### Earnings per share

Basic and diluted earnings per share calculated in accordance with the requirements of AASB 133 Earnings per Share.

### Fair value and hedge ineffectiveness

Represents volatility attributable to the Group's application of the fair value option, ineffectiveness from designated accounting and economic hedge relationships and economic hedges of significant approved funding activities where hedge accounting has not been applied.

### Financial capital

The pool of funds that is available to an organisation for use in the production of goods or the provision of services and obtained through financing, such as debt, equity or grants, or generated through operations or investments.

### Financial year

Year ended 30 September 2016.

### Full-time equivalent employees (FTEs)

Includes all full-time staff, part-time, fixed term and casual staff equivalents, as well as agency temps and external contractors either self-employed or employed by a third party agency. Note: This does not include consultants, IT professional services, outsourced service providers and non-executive directors.

### Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is the market value of the finished goods and services produced within a country in a given period of time.

### Human capital

People's competencies, capabilities and experiences, and their motivations to innovate, including their alignment with and support for an organisation's governance framework, risk management approach and ethical values. People's ability to understand, develop and implement an organisation's strategy and loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.

### Impaired assets

Consist of:

- Retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue;
- Non-retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest, and
- Impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.

Unsecured portfolio managed facilities are also classified as impaired assets when they become 180 days past due (if not written off).

### Insurance

Includes the provision of personal and group insurance by NAB Wealth.

### Intellectual capital

Organisational knowledge-based intangibles, including: intellectual property such as copyrights, software, rights and licenses and organisational capital such as tacit knowledge, system procedures and protocols.

### Life Insurance 20% Share of Profit

Life insurance 20% share of profit represents the earnings associated with the 20% retained stake after the sale of 80% of NAB Wealth's life insurance business to Nippon Life.

### Manufactured capital

Manufactured physical objects (as distinct from natural physical objects) that are available to an organisation for use in the production of goods or the provision of services, such as buildings, equipment and infrastructure.

### NAB

'NAB' or the 'Company' means National Australia Bank Limited ABN 12 004 044 937.

### Group

NAB and its controlled entities.

### Natural capital

All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current and future prosperity of an organisation. It includes air, water, land, biodiversity and eco-systems health.

### Net interest margin (NIM)

Net interest income as a percentage of average interest earning assets.

### Net profit attributable to non-controlling interest

Reflects the allocation of profit to non-controlling interests in the Group.

### Net profit attributable to owners of NAB

Represents the Group's statutory profit / (loss) after tax and reflects the amount of net profit / (loss) that is attributable to owners.

### Social and relationship capital

The institutions and the relationships within and between communities, groups of stakeholders and other networks and the ability to share information to enhance individual and collective well-being.

### Tier 1 capital

Tier 1 capital comprises Common Equity Tier 1 (CET1) capital and instruments issued by the Group that meet the criteria for inclusion as Additional Tier 1 capital set out in APS111 – Capital Adequacy: Measurement of Capital.

### Tier 2 capital

Tier 2 capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses; as set out in APS111 – Capital Adequacy: Measurement of Capital.

### Total capital ratio

Total capital ratio is the sum of Tier 1 capital and Tier 2 capital, as defined by APRA, divided by risk-weighted assets.

### Treasury shares

Shares in the NAB held in the Group's consolidated investments businesses (up to the Successor Fund Merger on 1 July 2016) and in trust by a controlled entity of the Group to meet the requirements of employee incentive schemes. The unrealised mark-to-market movements arising from changes in the share price, dividend income and realised profit and losses arising from the sale of shares held by the Group's consolidated investment business are eliminated for statutory reporting purposes.

### Weighted average number of ordinary shares

Calculated in accordance with the requirements of AASB 133 'Earnings per share'

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