



NATIONAL AUSTRALIA BANK LIMITED

2016 Annual General Meeting

Adelaide, Australia

Friday, 16 December 2016

Chairman and Group CEO Addresses

National Australia Bank Chairman Dr Ken Henry

National Australia Bank has had a long and deep connection with communities in South Australia, going back some 150 years.

Last night, the Board had the opportunity to meet with a number of our local small business customers.

We value engagements like these. They provide an opportunity to hear directly from customers about the things the bank is doing well and some of the things we can do to improve the customer experience.

From the Board down, NAB is motivated by a deep interest in the aspirations of our customers.

We firmly believe that this focus is what will deliver strong, sustainable returns for our shareholders.

Performance

You, our shareholders, are the reason we are having this meeting today.

We are here to demonstrate how, on your behalf, we are building a stronger and more sustainable bank. We do not take your support for granted.

We know shareholders expect us to generate sufficient profits in order to be able to pay sustainable dividends.

Bank profitability has been the subject of political and public discourse this year.

Indeed, Australian banks are large and profitable businesses.

But this debate cannot be conducted without the voice of the millions of Australians who have some of their savings or superannuation invested in this company.

The debate must be balanced, constructive and honest.

An honest debate would recognise that strong banks are in the interests of both shareholders and customers, as well as the community.

In fact, close to 80% of our profits - \$5.1 billion this year – were returned to you, in dividend payments. The remainder is being reinvested, in ways that serve customers better, to grow the business in your interests.

This year, we reported cash earnings of \$6.48 billion, up 4% on last year.

We were pleased to be able to maintain your 2016 final dividend at 99c per share, fully franked, unchanged on the 2016 interim dividend and 2015 final dividend.

Our cash return on equity last year was 14.3%; we have closed the gap to our peers.

And we have strong balance sheet fundamentals, with a Common Equity Tier 1 capital ratio of 9.77%, above our target range of 8.75 – 9.25%, and sound asset quality.

We have called upon and received your support in the creation of the bank that NAB is today.

You have supported us in the largest capital raising in Australian corporate history in 2015, and in our exit from UK banking business CYBG PLC (CYBG).

You have supported us to finalise the sale of 80% of NAB Wealth's life insurance business to Nippon Life Insurance Company. As part of this, we have created Australia's largest retail superannuation fund.

I do understand that our shareholders have been disappointed with our share price over recent years.

We have made progress, with the second highest reported total shareholder return amongst peers over the last 12 months. I hope you will see that, through the intense focus of both the Board and management on dealing with lower returning legacy assets, we now have the foundations for a strong future centred on Australia and New Zealand.

For many NAB shareholders, I know it has been a long journey. I want to thank you for your support.

The external environment

In recent years, Australia has approached global economic and financial uncertainty from a position of strength; however, headwinds do persist.

While we expect the non-mining economy to grow moderately, led by the services sector, business investment has not yet picked up.

2016 has been characterised by unexpected political developments globally, rising risk, stubbornly low growth, and persistently low interest rates. We can allow the potential threats in these developments to overwhelm us, or we can seek out new opportunities.

The Australian population is growing strongly, at 300,000 to 400,000 people every year.

Some of our capital cities are growing in ways that are putting pressure on infrastructure, including increasing traffic congestion, and on housing affordability.

But not all the growth will be in existing cities.

It is likely, too, that over the next several decades we will see the emergence of new regional hubs, or even entire cities, that don't yet exist; connected by roads and railway lines that also don't presently exist; with new schools, new universities, new hospitals and new jobs.

One thing is clear: our population growth means that there is going to have to be significant infrastructure investment over the decades ahead.

And that means we are going to have to have a much more considered, forward-looking approach to planning.

With the right infrastructure investments, we can make Australian businesses more productive, Australian communities more liveable, and Australian citizens better equipped for the jobs of the future.

The Asian century also presents a vast array of opportunities. To make the most of the Asian century, our mindset has to be one of open engagement. And we must ensure that we have a population that is appropriately equipped: people with the right education, the right skills and the right capability.

Australia – and especially South Australia – has much to offer: world-class health and education; deep agricultural expertise and premium food and wine; and centres of innovation capable of developing the technologies of the future.

I stress, though, that these opportunities will not be harnessed unless they are supported by a coherent narrative of economic reform. And that includes a strong bipartisan commitment to a credible medium-term fiscal strategy.

At NAB, we are motivated by the prospect of playing a vital role in making the most of these new opportunities – not just for the Australia of today, but for our children and their children.

Customer & Community

While our activities are a reflection of local economic conditions, it is also the case that NAB's lending decisions help shape the economy.

NAB and the other major banks are large businesses, in both Australia and New Zealand.

The people of Australia and New Zealand expect that these large businesses will behave in ways that make a positive contribution to customers' lives, with quality products and services.

They expect that these businesses will benefit communities, in economic, social and environmental dimensions.

Well, NAB does. NAB does all of these things.

We are driven by the responsibility to provide a high quality service to nearly 10 million customers; savers who have nearly \$400 billion deposited with us; business owners to whom we lend more than \$2 billion a month, to start, run or grow their businesses; and home owners, including 130,000 people we helped to buy or renovate a property this year.

We are proud to employ 35,000 people, helping to support their families and the communities in which they live.

And we are proud to make a large contribution to the social fabric of Australia and New Zealand through the taxes we pay – about \$2.8 billion in 2016.

But every day, we strive to go further – to play a direct role in improving peoples' lives; for example, in enhancing the opportunities available to Indigenous Australians and supporting those affected by domestic violence.

Since 2005, we have assisted more than 440,000 people with low or no interest loans to buy essential items like cars and whitegoods, or start their own microenterprise.

I have spoken to people whose lives have been transformed by these programs.

Their stories are inspirational, and they make me proud of the people in NAB.

As the market leading business bank, our lending has a big impact on the shape of the Australian and New Zealand economies.

We are the leading arranger of finance for the development of major infrastructure across Australia – financing roads, hospitals and schools. These investments make an important contribution to national productivity and living standards.

We are playing a role in financing the projects that support Australia's transition to a low-carbon economy. We have provided \$4.9 billion in finance since 2003 for renewable energy projects, making us the leading arranger for the Australian renewable energy sector.

As Australia's largest agri bank, we are working to future-proof the sector by supporting customers to manage their natural capital. We know that different farming practices have different implications for biodiversity, productivity, farming resilience and sustainability.

I have spent some time on these topics today – in addressing you, our shareholders – because the NAB Board believes that if we are going to be able to provide sustainable returns for our shareholders then we must accept responsibility for explaining the impact we are having on the communities in which we operate.

We embrace this responsibility.

Conduct and culture

The community also has high expectations of the conduct and culture of Australia's four major banks – as it should.

I want to assure you that this Board has even higher expectations of the conduct and culture of NAB's people. We understand that we have a special responsibility for fostering a healthy organisational culture.

In a business as complex as NAB – with as many customers as we do have – things can and do go wrong. The important thing is that we respond appropriately when they do.

At NAB, values matter. Values guide every decision we make – including who we hire, how we reward people and who we promote.

When people don't live up to these values, if they breach NAB's Code of Conduct, there are direct consequences, which can include dismissal.

And our risk management framework ensures that the Board receives appropriate reporting and escalation of any issues that are identified.

That includes management regularly reporting on risk culture, material issues or risk events, and whistleblower disclosures.

When we have seen problems, we have addressed them, with considerable rigour and effort.

When our failures have resulted in losses for our customers, we have compensated them and we have apologised.

When we have become aware that we have failed to meet regulatory requirements, we have self-reported to the relevant regulators as necessary, and cooperated fully in remediation.

And we will continue to do so.

That is not to say that we accept every allegation of failure; where we don't agree, we will defend our company and our people, as we should.

Our objective is to build a culture of which all of you, as owners of the company, can be proud.

Our vision for your bank

In 2014, the Board endorsed a vision for NAB: to be the most respected bank in Australia and New Zealand.

This vision guides everything we do.

Respect, like trust, is something that has to be earned each and every day. There are various ways to assess progress, but there is probably no tougher measure of success than customer advocacy.

The Board has been monitoring customer advocacy scores across the organisation, at increasing levels of granularity, using the Net Promoter System – or NPS.

Yet we recognise that we cannot develop a sufficiently deep understanding of the business from the boardroom.

To understand the expectations and experiences of our people, our customers and the communities in which we operate, we have to engage directly.

This year, I have travelled to the Northern Territory, regional NSW, regional Queensland, many of our capital cities and some of our offices overseas. For the first time in NAB's history, in August, the Board met outside an Australian capital city – in Toowoomba.

On that occasion, and as we did on several other occasions throughout the year, directors engaged directly with our frontline employees and customers. We have taken a lot away from these engagements.

Your Board

For the first time in this Board's generation, the full Board of the National Australia Bank is on stage for our Annual General Meeting today. These are the people accountable for the overall governance and the culture of your Company.

Today, Danny Gilbert and Jillian Segal, the last of the 2004 'generation' of directors, retire. On behalf of the Board and the NAB Group, I want to thank them for their outstanding service over the last 12 years and the substantial contribution each of them has made to building the NAB Group.

The Board Nomination Committee has been working to a multi-year transition plan to ensure the continued effectiveness of the Board through an appropriate mix of skills, experience and diversity.

With Jillian and Danny departing, our non-executive director numbers will fall to eight, of whom only two are women. I am committed to ensuring that at least 30 per cent of the non-executive members of the Board are female.

We have an active search underway to identify suitable appointees to the Board and I am intending to make an announcement of a new director during 2017.

The composition of the Board's Committees will also change going forward:

- Anne Loveridge will succeed Danny as chair of the Remuneration Committee, bringing 30 years' experience in financial services, including holding similar accountabilities and experience in remuneration issues in her capacity as Deputy Chairman of PwC Australia.
- David Armstrong will chair the Audit Committee. David brings considerable audit experience as the signing partner at PwC on major bank audits.
- Philip Chronican, assuming he is duly elected at this meeting, will chair the Risk Committee. Throughout his career, Phil has held a wide-range of executive positions across bank functions. He will bring practical and deep risk management experience to the role.

Doug McKay, who is also standing for election at this meeting, chairs our New Zealand subsidiary, BNZ. Peeyush Gupta sits on the boards of a number of our wealth entities.

Anthony Yuen, who is standing for re-election today, and Geraldine McBride bring to the Board extensive and deep experience in banking, Asian business, technology and digital disruption.

On a more sombre note, I also want to take this opportunity to acknowledge the recent passing of our dear friend and colleague, John Waller. John retired from the Boards of NAB and BNZ last year. He made an enormous contribution to both organisations.

Conclusion

The Board of National Australia Bank is energised for the future.

You have a team of directors who are well-placed to guide the development of corporate strategy and to provide effective governance.

You have a team committed to do the right thing by our customers, and to do the right thing for our shareholders.

We are committed to strong values. We go into 2017 as the only major Australian bank whose entire Board and Executive Leadership Team has signed up to the Banking and Finance Oath.

All of us have taken this decision in an individual capacity. We have done so, because we have assessed that its emphasis on trust, integrity and ethical behaviour is consistent with our own personal values and what we want at NAB.

NAB has a clear plan and clear strategy. And we have the right management team to realise our vision of being Australia and New Zealand's most respected bank.

With our 35,000 dedicated NAB people, we are becoming a more customer focused and stronger, simpler bank committed to delivering for you.

I'll hand over now to your Group Chief Executive Officer Andrew Thorburn.

Thank you, Andrew.

National Australia Bank Group CEO Andrew Thorburn

Thank you, Ken, for that introduction.

I would like to add my welcome to our shareholders in the room today and, of course, those watching online.

We recognise that you have invested your money as owners in our company.

Our goal is to ensure you feel confident in how we are building a stronger and growing bank - and ultimately how we generate a sustainable and competitive return.

Today is an important day on our calendar - we have the opportunity to engage directly with those of you who are here with us. Our Board and Executive are keen to do this following the formal meeting.

We have been helping South Australians with their banking for more than 150 years.

We have a strong and broad-based business in the state, employing over 700 people, and with a competitive market share that we want to grow.

While the South Australia economy is undergoing a transition, it continues to adapt - and our client base is facing the future with the right mindset.

Indeed, our latest business survey shows that South Australia has a confidence rating above the state long run average, and better than other states in Australia.

The deal announced earlier this week with China Southern Airlines for direct flights from Adelaide to mainland China is a great vote of confidence in the state and will support new trade and business opportunities.

In my remarks today, I will cover three key areas:

- Our performance in 2016.
- Our focus on the business of banking.
- Our plans for the future.

Our Performance in 2016

For NAB, 2016 has been a significant year of delivery and performance.

At our last AGM in Perth I spoke about our plan for the year ahead – focusing on customers, staying disciplined, and completing our major divestments.

A year on, we have achieved what we said we would.

We have delivered a solid full year performance for the NAB Group with:

- a strong capital position, sound asset quality and improved stable funding;
- a cash return on equity of 14.3% - closing the gap to peers;
- momentum in Business Banking, with revenue and margins improving over the half;
- tight control of costs – with expenses down 1.9% over the second half; and

- higher customer advocacy.

We are now in a better position with a stronger core business.

We have achieved this through disciplined focus on our customers.

In particular, we remain Australia's No.1 Business Bank.

We have more bankers in more locations and our bankers have deep knowledge and understanding of industry segments such as Agri, Health, Education and Government.

Our people have shown what we can do when we are focused.

But there is more to do.

Looking ahead, both the Australian and New Zealand economies remain sound.

However, we must not be complacent.

We are in a low-growth environment, and we know the geopolitical and economic landscape will continue to change.

We also face challenges as our population increases, particularly in our larger cities.

Our business customers have been telling us for some time they need an environment that is simpler and easier to operate in.

This is so they can:

- compete nationally and globally;
- attract and develop talent; and
- spend less time on paperwork and more time with customers.

To do this they need improved infrastructure, further de-regulation and a commitment to lower taxes – particularly for small and medium businesses.

This requires leadership, greater collaboration amongst political and business leaders - and a national mindset of action.

The benefits are obvious – economic growth, more opportunities for businesses and more jobs.

The Business of Banking

In 2014, our Board approved our vision to be Australia & New Zealand's most respected bank.

This means focusing on creating a culture that always delivers for our customers – and for the community more broadly.

At the heart of banking is people:

- You, our 582,000 shareholders.
- Close to 10 million customers who choose to bank with us.
- And of course our team of 35,000 people.

There is, rightly, a strong focus on how banks can be better for customers, which is a big driver of our reputation. From my first days as CEO of NAB, I have said our “future success will be defined by our culture and the leadership we deliver for our people and our customers”.

That means helping customers make good decisions with money, and offering innovative new products and services.

It means supporting them through the hard times – as we have seen through recent storms here in South Australia and in the earthquakes in New Zealand.

And it means being easy to deal with and fixing problems when we find them.

Recent changes in regulation should give Australians greater confidence in their banks.

However, real and lasting change needs to be led by our industry – and this is happening.

Through the Australian Bankers’ Association, or ABA, we are working hard to address the real issues that exist for customers. Listening and acting.

At NAB we have five important values – a passion for customers, a will to win, being bold, a respect for people and doing the right thing.

These are core to how we make our decisions, how we lead and how we reward our people.

We have appointed independent customer advocates in our Wealth business, and for our retail and small business customers.

This is to make it easier for customers when things go wrong.

We have also made it easier for customers to get assistance from our hardship team, NAB Assist.

Our Financial Ombudsman Service hardship complaints are now the lowest in the industry.

Banking can be complex – but it is also as simple as getting the basics right.

In working to build respect, we must also face into the important and ongoing conversation about the profitability of banks and the decisions we make.

Our 582,000 shareholders rely on our dividends as an important source of income.

This year, we paid \$5.1 billion in dividends to our shareholders. More than 95% are Australians and the majority are working families or retirees, who either receive dividends directly or indirectly through their super fund.

In South Australia, over 35,000 shareholders were paid about \$170 million in dividends.

Meeting the needs of all our stakeholders is a delicate balance – and requires difficult decisions but decisions we are committed to making fairly and explaining openly and clearly.

Our Plans for the Future

At NAB, our commitment is not just to make the bank competitive again – but to return us to a true position of leadership.

We have a clear plan, which has a number of key elements.

We want to deliver a great customer experience. That starts with getting the basics right, consistently.

We know customers want banking to be simple, easy and personal.

All our people strive to do this every day. We listen to customers, ask for feedback and respond so we can find new ways to improve.

As an example, we've made more than 100 changes to our products and systems this year to remove what we call customer "pain points".

We want to deepen our relationship with customers.

We are investing where we have competitive advantage and know we can win.

The success of this will be measured by the advocacy of our customers – and whether they will recommend us to their family and friends.

The measure of advocacy – Net Promoter System, or NPS – is becoming embedded in our organisation.

In our operating rhythm, in how we are rewarding our people and ultimately in our culture.

But we all know there is more to do to achieve a level of advocacy that is leading and we can be proud of.

We will continue to reshape our business to perform.

That means delivering at the speed and in ways our customers expect – and changing the mindset of a 150-year-old bank so that we adapt quicker and embrace disruption.

This will also drive productivity – which all companies must do, and you, as our shareholders, expect.

This year we will invest more than \$1 billion back into our business – mainly in our technology and digital services.

Our branches and business centres are – and always will be - an important way to serve customers.

But, our customers are interacting with us in different ways and we need to change with them.

There are now more than 50 million logins to NAB internet banking each month – 70% of those from mobile devices.

In fact, we say that our busiest branch is now mobile - it's a bus or a train.

So recently, we relaunched our mobile app – offering our customers more control over their money and market-leading functionality.

This year we also launched QuickBiz Loans of up to \$50,000 for small business customers. They can apply online and receive a decision within minutes, with the money deposited into their accounts in as little as 24 hours.

To deliver all this for our customers, we will continue to invest in our people – in leadership, capability and skills. Our bankers are developing new skills to meet customers' changing needs, and to do new things in different ways.

And we know our leaders will need to inspire people in difficult times, and role model accountability and performance.

Ultimately, it is our people who will make the difference.

Conclusion

Thank you for listening today, and for your interest in our company, and your support of what we are doing. We face some of the most challenging times, but we face that future with confidence and determination.

NAB has a great business in Australia and New Zealand.

We have people who are skilled, passionate, and really want to help our customers make some of the most important decisions of their lives.

We undertake that with care, consider it a privilege and have the desire to do the right thing.

It is through our people serving our customers consistently, constantly improving, and doing it better than others - that you as shareholders will be rewarded for your investment in NAB.

Thank you, and we look forward to your questions.