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AUSTRALIA



NATIONAL AUSTRALIA BANK LIMITED 2017 ANNUAL GENERAL MEETING

**Sydney, Australia
Friday, 15 December 2017**

CHAIRMAN AND GROUP CEO ADDRESSES

NAB CHAIRMAN DR KEN HENRY

Good morning, ladies and gentlemen.

It is a great pleasure to be here in Sydney and I welcome all those here today as well as those who are watching the meeting online.

Performance

2017 marks another year of consistent delivery for NAB.

Cash earnings of \$6.64 billion were up 2.5% over the year, driven by strong performance across the bank – particularly in our business and private banking franchises.

We are pleased to have maintained your 2017 final dividend at 99c per share, fully franked, unchanged from the 2017 interim dividend and last year's dividend.

This year we returned \$5.3 billion – nearly 80% of our profits – to our shareholders, and the millions of Australians invested in us through their superannuation fund. Our bank belongs to you.

Improving our returns, and in a sustainable manner, has been a focus for your Board and for the NAB management team. This focus is recognition that our continued success is made possible because of your investments in NAB. Thank you for your support.

We have real momentum in executing our strategy, with total shareholder return the best amongst our peers across one, three and five year measures. We are now competitive with our peers on return on equity, having worked over the past three years to close the gap.

We aspire to have the highest return on equity of the major banks. This will require relentless focus on our customers. We want to do even better with the experiences they have with us and the products and services that we provide to them.

We continue to focus on the foundations of a strong bank, with asset quality sound and our Common Equity Tier 1 capital ratio at 10.1% - on track to meet APRA's unquestionably strong target in an orderly manner by 2020.

Our environment

This year, Australia recorded its 27th year of uninterrupted economic growth – a feat unmatched by any other advanced economy, ever. It demonstrates the resilience of the Australian economy. We have a lot going for us in this part of the world.

However, there are risks that need to be managed.

While a generation of Australians may have grown up having never lived through a recession, they are acutely aware of the challenges posed by stagnant real wage growth and high house prices, particularly in Sydney and Melbourne.

If we are to leave future generations with an inclusive and prosperous economy, our current economic resilience cannot be partnered with complacency. We must not take future success for granted.

We have to be prepared with answers for the challenges we face; even better if these answers convert challenges into opportunities. At NAB, we see huge opportunity for Australia.

Opportunities in how Australia manages structural change in the workforce – the way we educate our people, and identify the new skills that employers require.

Opportunities in harnessing our strong population and employment growth to position Australia for competitive integration in our region and the broader world.

Opportunities that arise from the sheer speed in which we now operate, as technology, human creativity and innovation transform lives.

At NAB, we see opportunity, not threat, in the fact that consumers are increasingly prepared to bypass traditional institutions once considered foundational to prosperity.

Change will happen in ways that do not exist today, and with a pace we have yet to adjust to. We are facing a future characterised by a number of very different possibilities. Agility will be key.

In such times, we have a role – as does any large business – in instilling confidence, especially by helping people deal with uncertainty.

Playing that role is challenging in an environment where community expectations have intensified and political interventions in markets, especially in our sector, have become the norm.

Earlier this month, with the chairs and chief executives of the other three major banks, Andrew and I asked the Australian Government to act to establish a properly constituted inquiry into the financial services sector, to put an end to the political jostling that has plagued our sector, so that we might begin to restore trust, respect and confidence in our industry.

We had reached a critical juncture – there was too much at stake, and the political turmoil and the uncertainty generated by it was impacting too heavily on our customers, our suppliers, our people and our shareholders. It was undermining confidence in Australia's financial system.

While we have consistently argued that further inquiries were unwarranted – and I continue to be of that view – the time had come for us to call for stability. And the Government responded by announcing a Royal Commission.

Banks intermediate credit, provide a secure means of storing wealth and facilitate payments. These are the core services we provide to a well-functioning, modern economy. It is critical that we remain strong so we can lend to businesses as they start and as they grow, and to consumers as they buy their homes.

We rely on our offshore investors to provide sources of funding so that we might undertake these activities.

We cannot risk damaging the critical perception that we are strong, and able to deliver for our customers.

We are proud of the work our people do every day to back our customers. Throughout the work of the Royal Commission, our focus – as always – will remain on backing Australians.

Growing confidence

Strengthening the community's respect for banks is vital to our ability to deliver sustainable business performance. It requires an obsession with delivering for our customers and consistent demonstration of our values.

For NAB, our purpose is to back the bold who move Australia forward. This statement captures a view of ourselves that we have held for nearly 160 years.

Our people are motivated by the contributions they make to Australia – I see this across NAB every day. Our people understand that NAB plays an important role in society.

Our purpose is the basis of our culture at NAB.

When we live our purpose consistently, we are at our best. This is how we will build trust and earn respect.

With that in mind, and consistent with our approach to being transparent, I want to speak specifically to a number of issues which have featured in correspondence from shareholders and have been prominent in the public.

Some of you have queried whether executive remuneration in our industry is too high or is structured to incentivise the right behaviours and performance.

This year the Board Remuneration Committee commenced a review of our remuneration frameworks and practices, recognising your concerns. This remains a work in progress, but I wanted to assure you that we are committed to further transparency and simplicity.

On the quantum of remuneration itself, total statutory remuneration for NAB's senior executives declined in 2017, compared against last year. We need to take a number of factors into account in setting remuneration – particularly the balance between what you expect from us and our ability to attract the talent that supports our strategy.

While we have made some changes this year, as reflected in our remuneration report, we await final clarity on the Banking Executive Accountability Regime before making any further significant changes. We will build on this year's work as we consider further changes.

On conduct, there have been a number of instances over several years where we have not met the expectations of our shareholders, our customers and the broader community. We have high standards for our people and when these standards are not met, consequences are applied. We take accountability and we will learn from these experiences.

Our focus remains on creating a culture where our people can speak out, challenge and share their mistakes.

More recently there has been a focus on the responsibility banks have to protect their customers' money, and monitor suspicious transaction activity. I want to assure you that NAB takes its anti-money laundering obligations extremely seriously.

We always cooperate fully with AUSTRAC and other authorities, as part of a coordinated effort to protect Australians.

Shareholders will have noted that in our full year results and annual reporting suite we took a conservative approach and included in our contingent liabilities note reference to several AML matters. We did this because of heightened market and public interest in this topic.

We continue to invest to strengthen our compliance frameworks, systems and controls, which are also subject to regular independent assurance reviews.

Through this work, we will find weaknesses from time to time, and when we do we will report them to our regulators, act on them and fix them.

With regard to Intelligent Deposit Machines, AUSTRAC has advised us they have no issues with our approach. On the basis of the information available to us, we have no reason to expect we have any material issues with AUSTRAC or in meeting our obligations under the relevant legislation.

Our commitment is to continue to improve transparency across the issues we know matter to our customers and shareholders.

Our plan for NAB

Just as rapid technological advancement, digital disruption and continued political and global economic uncertainty are changing our economy, they are also impacting NAB.

In addressing that challenge, we are not taking a defensive posture; far from it. We won't be resisting any threats of new competition. Rather, in new forms of competition, we can see exciting new opportunities for us.

As we embrace change, we need to lift and accelerate delivery of our strategy. Our consistent, focused performance over the past three years means we are in a strong position to do so.

Andrew will speak further on how we are reshaping NAB, to become simpler and faster – and differentiate ourselves – for our customers.

Future Australia

I said to our shareholders last year, at this same meeting, that the opportunities of tomorrow cannot be harnessed unless they are supported by a coherent narrative of economic reform that represents the collective vision of our country.

Australians are capable of identifying that collective vision.

When we surveyed consumers and businesses at the start of the year, Australians were clear they wanted to live in a country that was safe and secure, fair, inclusive, tolerant and free. They want a future Australia that supports healthy lives and is affordable, with continued access to, and protection of, our environment.

Businesses wanted a future Australia with thriving regions and affordable housing options that supported a growing population – and with policy and regulatory settings that made it easier to operate.

There is an important leadership role businesses can play in supporting a better future for all Australians. It requires a consistent focus on the long-term, and a preparedness to hold ourselves to account to deliver action that supports a prosperous Australia.

At NAB, we're doing this.

For example, we are financing the projects that help support an orderly transition to a low-carbon economy and help protect environmental amenity.

We have expanded our environmental financing commitment to \$55 billion by 2025. We are also committing to source 50% of NAB's Australian electricity demand from renewable energy projects by 2025.

This week we also said that NAB will no longer finance new thermal coal mining projects. Let me be clear, we will continue to support our existing customers across the mining and energy sectors and do what we can to help ensure Australians can continue to have access to secure, reliable and affordable energy.

But the world's transition to a low carbon future will necessarily feature less reliance on thermal coal, and we accept responsibility for the role we will play in this transition.

We are committed to taking a long-term view right across everything we do to help secure a better future for our customers.

Conclusion

I'm honoured to serve as the Chair of your bank. Your Board are accountable for the sound corporate governance of your company. We have the range of skills and experience necessary to guide NAB's strategy.

Today, as indicated in the Notice of Annual General Meeting, there are a number of directors up for re-election to the Board, including myself.

Last month I was pleased to welcome Ann Sherry to the Board. Ann is one of Australia's most respected corporate and community leaders and has extensive relevant experience.

As Chairman of your company, I feel proud each day of the work our people do to back our customers. I thank them for their dedication.

We have a clear plan for the future, one that is centred on our customers. We go into 2018 focused on becoming simpler and faster, on living our values every day and demonstrating how we can be better for the community.

NAB GROUP CEO MR ANDREW THORBURN

Thank you, Ken, and good morning to our shareholders.

Today I will outline how we are growing and changing our business so we can better deliver for our customers.

But first I would like to add my welcome to our shareholders, both in the room and online. This is your day and we look forward to engaging directly with you.

You have invested in our company and it's important you feel as confident as we do in our long-term plan.

Performance

I am proud of the performance delivered by our people over the past 12 months. We had a good year. The benefits of a simpler, more focused bank are clear. We can now invest in the future from a position of strength.

In terms of our 2017 full year results, all business units contributed strongly. Consumer Banking & Wealth earnings rose 4.3 per cent, Corporate & Institutional Banking earnings jumped 12.3 per cent and BNZ earnings lifted 8.9 per cent.

In our Business Bank, earnings rose 6.3 per cent and there is good momentum heading into 2018. Customer advocacy among medium business, as measured by the Net Promoter System, improved to +3. This is a market-leading position, up from third last year.

Costs have also been well-managed, with productivity savings of \$301 million this year. We have demonstrated our ability to grow earnings, while containing cost growth. We are also pleased with the work we have done to improve our return on equity.

Our focus on customers is showing good progress and our priority segments NPS has continued to improve. We are now at -10 and leading our peers on this measure. However we know there is much more to do to have more of our customers as advocates and we are committed to our goal of achieving positive NPS.

Operating environment

We are operating in an economy that overall is in good shape, with business conditions at record highs.

In general the balance sheets of our customers look good. Debt levels are manageable and they have the capacity to invest. In our conversations with small businesses, they have told us red tape, energy prices and the overall cost of living are holding back confidence.

To these companies we say 'don't wait – Australia needs you to invest, to help us all grow'.

Delivering for our customers

Through our determination to be better for our customers, we are breaking new ground.

One area this is happening is Customer Journeys, a fundamentally different way for us to work. We are looking at all the interactions our customers have with us in the moments that matter to them, such as starting a business or buying a home.

In the 12 months since launch there have been 45 initiatives delivered to the benefit of four million customers and over 200,000 businesses.

Among the innovations delivered is the virtual banker for business customers. The Artificial Intelligence chatbot is an Australian first and has the capacity to answer close to 300 questions with 37,000 variations.

For our business customers we have completely overhauled our standard business contracts. These are market-leading in their simplicity.

We have extended our QuickBiz offering to provide fast, unsecured loans of up to \$100,000 to small businesses, the backbone of Australia's economy.

In home lending we have teamed with realestate.com.au in a world-first to make it possible for Australians to search, find and finance their dream home all in one location.

We have launched HICAPS Go, which allows healthcare patients to book, quote, claim and pay for health services from one simple app on their phone.

For retail customers we remain the only major bank to offer a fee-free transaction account.

As Ken noted earlier, the Government has now called a Royal Commission. We will participate and co-operate fully and our response will be led by our Chief Legal and Commercial Counsel Sharon Cook, supported by a dedicated and highly-capable team.

While we know it will be a costly and at times intrusive process, we are determined not to let it distract us from serving our customers better and delivering on our plans.

I do acknowledge we have not always met our standards or those of the community. We are committed to being open, transparent and accountable when mistakes are made.

It is by being better for our customers every day that will build trust with them.

Trust can also be strengthened through communities knowing we will be there when times are tough. That may be through our financial hardship program NAB Assist, or our partnership with Good Shepherd Microfinance that has assisted over 500,000 Australians on low incomes.

Last week we also announced our sponsorship of the Special Olympics in Adelaide next April. Banking at its core is about helping people and it's wonderful to be involved in important partnerships such as these.

Our accelerated plan

Our plan is clear as we work toward our vision of being Australia and New Zealand's most respected bank. Our purpose, to back the bold who move Australia forward, guides all our people every day.

We are taking a long-term view, and investing an estimated \$4.5 billion over the next three years to further improve our customers' experience, reshape our capabilities and grow our business. It is a record investment to make our bank fit and ready to lead into the future.

We will be deliberate about where we invest your money. This means continuing to innovate through NAB Labs, NAB Ventures and our leading digital bank UBank; developing new partnerships; and deepening our specialisation in fields such as agriculture, education, health and professional services.

At the same time we need to become a lot simpler. Across the company we are streamlining our systems and targeting a 15-20 per cent decrease in IT applications. We are also targeting a reduction in products of 50 per cent.

We will focus on the growth corridors in western Sydney and Melbourne. There is capacity to add branches, fund infrastructure and have more of our people there. We will go where our customers go.

For some time, our workforce has been changing, and a simpler bank is expected to lead to a net reduction of 4,000 roles over the next three years.

Through this we will treat people with care, honesty and respect and provide them with the tools and skills to be successful wherever their careers take them.

Your management team

Earlier this year we appointed Sharon Cook, Mike Baird and Patrick Wright as new members of our Executive. They join an already strong and experienced team.

We have also announced a switch in roles for Angie Mentis and Anthony Healy, with Angie to run BNZ and Anthony to return to Australia to head Business & Private Banking.

Developing great leaders, bankers, talent and a great culture is a core focus right across our business.

We are also determined to do more to advance gender equality. In addition to committing to gender pay equity, which is equal pay for work of equal value, we have committed to have between 40 and 60 per cent women at all levels of management by 2020.

Conclusion

We are entering into a new and exciting chapter for NAB. We will continue to grow and change to be better for our customers – and as a result be better for you.

So I say to our customers, thank you for banking with us. Our commitment is to continue to improve, and deliver better products and services for you every day.

Thank you to our people. You serve our customers with skill, pride and passion.

Finally, thank you to our shareholders for your support. This is your bank and we hope you are confident in the plan we have outlined.

We now look forward to your questions.