

ANNUAL REVIEW 2018

Market Lane Coffee

"Our goal was always to stay very hands on and that's meant we've had to make that a priority, to stay very involved and have a big input into everything."

CLICK TO BEGIN

Jason Scheltus

Fleur Studd

Market Lane Coffee
NAB customer



National
Australia
Bank

ABOUT THIS REPORT

Our 2018 Annual Review is an integrated report that shows how we deliver for our customers, people, shareholders and community in the way we run our business.

OUR COMMITMENT TO INTEGRATED REPORTING

The preparation of this report is guided by the Integrated Reporting Framework¹. We're committed to these principles as they align with long-term value creation and our role as a bank in society.

OUR SCOPE AND CONTENT

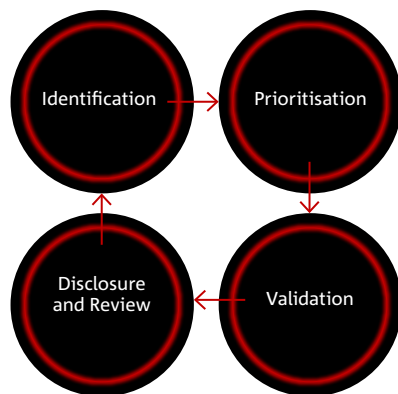
Unless otherwise stated, all the information included in this report refers to the year ended 30 September 2018 and covers the NAB Group operations' financial and non-financial performance.

The content of this report was shaped by consulting our customers, people, shareholders and community, as well as consumer advocacy organisations and the Integrated Reporting Business Network.

OUR MATERIALITY REVIEW

Part of our engagement with stakeholders is our annual materiality review². It identifies the environmental, social and governance issues that pose challenges and opportunities for our business and impact our ability to create value.

The review involves four stages:



This year's materiality review considered the level of our business impacts on stakeholders' decisions and the economy, society and the environment. These prioritised impacts shaped the themes for disclosure, reflecting what matters most to our stakeholders and business.

The topics are both challenges and opportunities. They're part of an ongoing conversation with stakeholder groups about improving and responding to community expectations.

The prioritised themes for the 2018 report are listed on the right. Click on an icon to find out more.

2018 PRIORITISED THEMES

Delivering for customers

Nailing the basics and getting real outcomes. We want to get it right for our customers every single time. That means being reliable and easy to deal with so we're trusted by customers for exceptional service.

Doing the right thing

Being a better bank that acts with integrity and makes the right decisions. We own our mistakes raised in the Royal Commission and commit to doing better in our culture and conduct.

Supporting communities

Backing a future that's sustainable for all people and the environment and taking action on the issues that are critical to our nation's future. That includes financial health and resilience, the transition to a low carbon economy and creating safer, more inclusive communities. It also means supporting regional Australia to prosper.

Engaging our people

An engaged and productive workforce that embraces diverse thinking is a critical part of delivering for our customers and our business. We must lead and care for our people, listen to them, develop their skills and communicate openly with them in times of change.

Good governance

We need effective systems to manage risks and meet our regulatory requirements. We must have robust and effective systems to manage risk and lend responsibly. That includes managing climate change and human rights-related risks.

Transformation and technology

Becoming a technology-enabled, innovative business means transforming to be simpler and faster. It also includes embracing challenges of digital disruption, automation and creating a digitally enabled customer experience.



DELIVERING FOR CUSTOMERS



DOING THE RIGHT THING



SUPPORTING COMMUNITIES



ENGAGING OUR PEOPLE



GOOD GOVERNANCE



TRANSFORMATION AND TECHNOLOGY

We have determined the content of this report following extensive engagement with our customers, people, shareholders and community.

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¹ The Integrated Reporting Framework, developed by the International Integrated Reporting Council (IIRC), aims to establish guiding principles and content elements that govern the overall content of an integrated report.

² More information on the materiality process, including how we conduct the annual materiality review and assessment, is available in our [2018 Sustainability Report](#).

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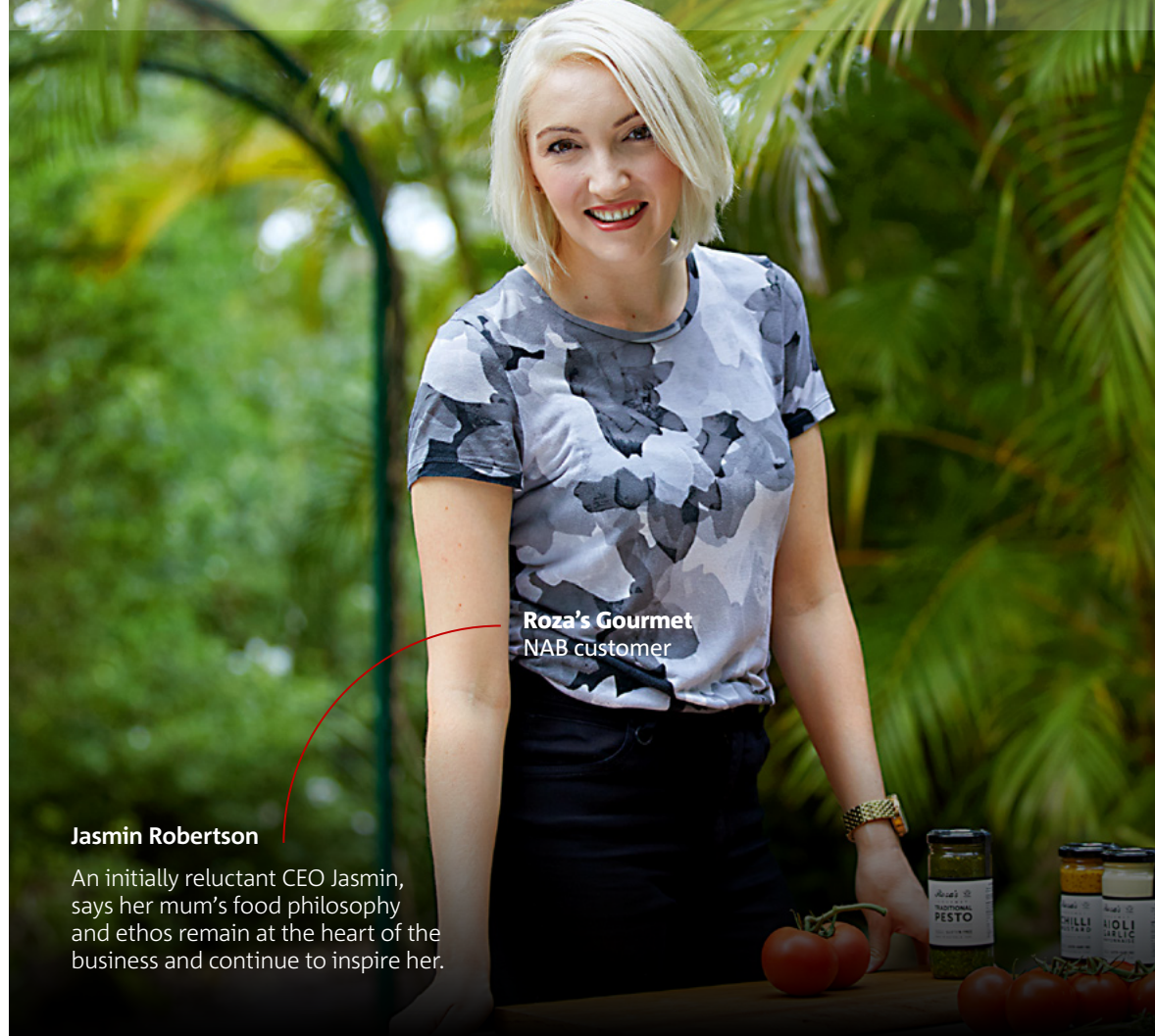
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Roza's Gourmet
NAB customer

Jasmin Robertson

An initially reluctant CEO Jasmin, says her mum's food philosophy and ethos remain at the heart of the business and continue to inspire her.

We back the bold who
move Australia forward

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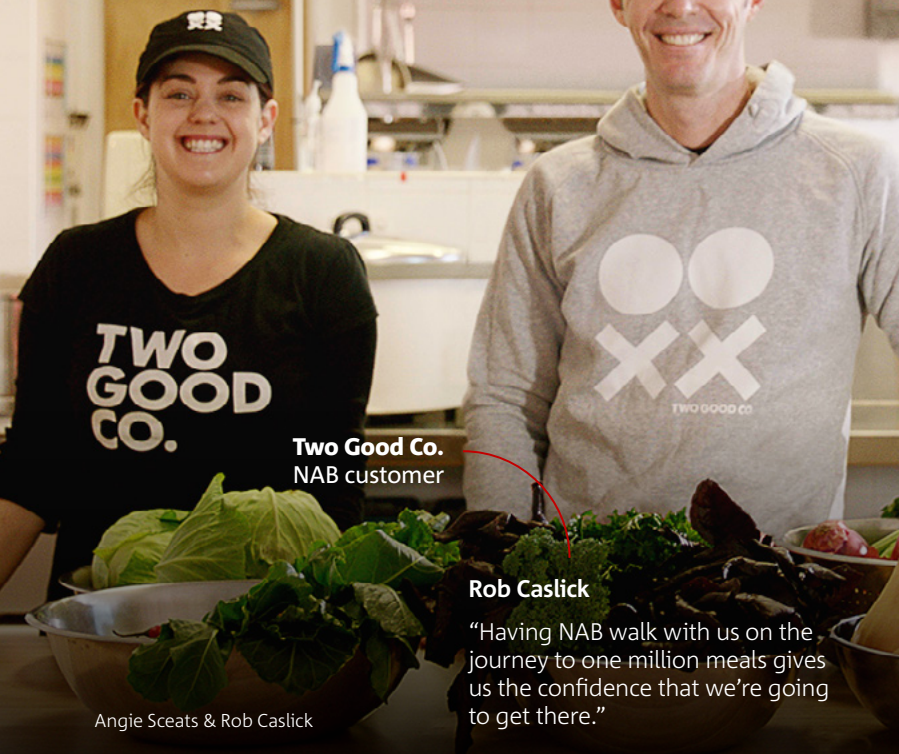
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OUR PURPOSE, VISION AND STRATEGY



Two Good Co.
NAB customer

Rob Caslick

“Having NAB walk with us on the journey to one million meals gives us the confidence that we’re going to get there.”

Angie Sceats & Rob Caslick

Becoming Australia’s leading bank, trusted by customers for exceptional service will take an unwavering commitment to living our values every day:

- Passion for Customers
- Win Together
- Be Bold
- Respect for People
- Do the Right Thing

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

At NAB, we back the bold who move Australia forward. That is our purpose. We have a new vision – to be Australia’s leading bank, trusted by customers for exceptional service. Our new vision amplifies our focus on customers and will help us be a better bank.

Becoming Australia’s leading bank, trusted by customers for exceptional service takes an unwavering commitment to living our values every day:

- Passion for Customers
- Win Together
- Be Bold
- Respect for People
- Do the Right Thing

We support our actions with a strong balance sheet and a non-negotiable focus on managing risk and technology.

Underpinning our 2018 strategy were four key objectives and themes, outlined in our longer-term strategic focus below.

OUR LONGER-TERM STRATEGIC FOCUS

Our purpose	Back the bold who move Australia forward			
Our vision	To be Australia’s leading bank, trusted by customers for exceptional service			
Our objectives	NPS positive and #1 of major Australian banks (priority segments) ⁴	Cost to income (CTI) ratio towards 35% ⁵	#1 Return on Equity (ROE) of major Australian banks ⁶	Top quartile employee engagement ⁷
How we’ll achieve our objectives	Best business bank		Simpler and faster	
	New and emerging growth opportunities		Great leaders, talent and culture	

1 Refer to **2018 at a glance on page 5** to see how we have performed against our strategic objectives.

2 Based on business lending market share from APRA’s September 2018 Monthly Banking Statistics.

3 Refer to key risks, qualifications and assumptions in relation to **forward-looking statements on page 40**.

4 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. Refer to **Glossary and definitions on page 41** for definition of NAB’s priority segments.

5 CTI ratio represents operating expenses as a percentage of net operating income.

6 ROE is calculated by dividing cash earnings by average equity. Refer to **footnotes 1 and 2 on next page** for more information.

7 Source: Employee Engagement Survey conducted by Aon Hewitt.

Our performance against these objectives and themes is measured and explored in this report¹.

Last year, we announced the acceleration of our strategy to enable us to grow, while staying focused on being efficient. We are now one year into this three-year plan and are on track to deliver a simpler and faster bank that can better deliver for our customers in an environment of significant change, with the emergence of new competitors, technology and regulation.

Across our transformation program, we’re increasing our investment by an estimated \$1.5 billion over 3 years. A key focus is on driving a significant uplift in innovation and capabilities in our market-leading Australian business banking franchise².

For more information on the acceleration of our plan and our longer-term strategic focus, refer to the table below and the messages from our **Chairman on page 6** and **CEO on page 8**³.

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2018 AT A GLANCE

KEY PERFORMANCE MEASURES

11.7%

cash return on equity^{1,2}

230 basis points decrease
from 2017

10.20%

common equity tier 1

14 basis points increase
from 2017

54%

employee engagement score³

compared to top quartile global
benchmark of 68%

-16

priority segments
net promoter score⁴

4 point decrease from 2017,
ranked #2 amongst major banks

\$5.55BN

statutory net profit

\$5.70BN

cash earnings^{1,2}

14.2% decrease from 2017

\$6.49BN

cash earnings^{1,2}

ex restructuring-related costs of \$755M and
customer-related remediation of \$360M

2.2% decrease from 2017

OTHER KEY PERFORMANCE MEASURES⁵

586,162

low-income Australians
and New Zealanders

assisted with microfinance products
and services since 2005⁶

\$1.98

dividend per share
(for the full year)

consistent with 2017

18,315

number of customers assisted
experiencing financial hardship

7% decrease from 2017

1 Information is presented on a continuing operations basis.

2 Cash earnings 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 **2018 Annual Financial 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 in Note 2 of NAB's **2018 Annual Financial Report**. A reconciliation of cash earnings to statutory net profit attributable to the owners of NAB is also set out on **page 35 of this 2018 Annual Review**.

3 Source: Employee Engagement Survey conducted by Aon Hewitt. The engagement score indicates the percentage of employees at NAB that are strong advocates (SAY), demonstrate a commitment to NAB (STAY) and exert discretionary effort (STRIVE).

4 Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter Systems 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 four priority segments: NAB defined Home Owners (HL@bank) and Investors, as well as Small Business (turnover \$100k-<\$5m) and Medium Business (turnover \$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 2018. 30 September 2017 NPS performance has been restated to reflect the change in priority segments from Home Owners to Home Owners (HL@bank).

5 For more information on how we have performed and created value for our stakeholders this year, refer to **How we run our business & deliver for our stakeholders on page 13** and **Our performance on pages 35-36**.

6 Delivered in partnership with Good Shepherd Microfinance (Australia) and Good Shepherd New Zealand. Cumulative data has been collected since 2005 in Australia and 2014 in New Zealand.

CHAIRMAN MESSAGE

TRUST IS THE FOUNDATION OF OUR BUSINESS

I believe this year will mark a turning point for NAB.

The Royal Commission has shone a light on the Australian financial services industry and, in particular, the treatment of its customers.

We have been presented with evidence of conduct that is simply unacceptable. There have been times when we have fallen well short of providing quality customer service and meeting community expectations.

Understandably, the Commissioner has questioned whether the banks have lost sight of the customer, in pursuit of profit. This is the right question to be asking. When we do the wrong thing by the customer in order to boost short-term profit we lose the trust of our customers. And we also do the wrong thing by our shareholders, because behaviour that doesn't put the customer first cannot provide a sustainable foundation for any business.

The Board, and NAB's people, share an absolute determination to earn the trust of our customers and to rebuild the respect of the communities in which we operate.

OUR FOCUS

One of the more important things we have done in recent years is define the purpose of our business. Obviously, we cannot exist unless we generate attractive returns for our shareholders. Making a profit to enable the payment of a good dividend yield says something about how we exist. But, of course,

it says nothing about why we exist. The Board takes the view that the principal reason for a loss of trust in business is that too little time has been spent on the 'why', and that has led to a very narrow and at times highly distorted focus on the 'how' – a focus that sometimes sees the customer as no more than the means to an end.

The reason we exist is to 'back the bold who move Australia forward'. This speaks to the contribution we seek to make to the lives of our customers, their communities and the nation. Our purpose is complemented by an ambitious vision, to be 'Australia's leading bank, trusted by customers for exceptional service'. Our customers are not merely the means to an end. It is through our customers that we deliver on our purpose. That is why our customers are our focus.

Our purpose, vision and a strong set of corporate values provide the foundation for our culture.

Culture is evidenced by behaviours. And behaviours are influenced by incentive structures. For that reason, we have reformed our remuneration systems. We need remuneration systems that encourage everybody in the bank to live our purpose and help us realise our vision.

Remuneration at every level of the organisation is being redesigned to drive the delivery of exceptional customer service.

Of course, the Executive Leadership Team (ELT) has to accept responsibility for delivering on the financial plan of the business and for the execution of our strategic priorities – our business transformation. But in designing the performance framework for the ELT,

the Board considers it essential to put a heavy weighting on customer service, risk and conduct metrics. Performance in all of these dimensions should determine the size of an individual's variable reward.

In addition, we think it is very important to provide the variable reward in a form that binds the individual to the shareholder experience. So the NAB CEO and the entire Executive Leadership Team now receive 60% of any variable reward in the form of shares, deferred for four years.

Where leaders exceed the Board's expectations with respect to customers, shareholders or the community, subject to overall Group performance, they may receive more than their 'target' variable reward. But where they fall short of the Board's expectations, again subject to overall Group performance, they may receive less than their target variable reward, possibly as low as zero. And the new framework provides the Board with the ability to hold leaders accountable across the full four-year deferral period, with deferred shares subject to forfeiture, further deferral or clawback. The Board considers that this is how leaders should be held accountable. It is also fully consistent with both the letter and the spirit of the Banking Executive Accountability Regime.

2018 PERFORMANCE

The financial performance of the business this year was solid, in a challenging environment, but below the targets set by the Board. The bank also failed to achieve its NPS target – which measures levels of customer advocacy – and additional provisions were applied for conduct matters.



Our purpose, vision and a strong set of corporate values provide the foundation for our culture.

Most of the customer issues which have featured in the Royal Commission should have been dealt with better and faster. We take these matters seriously and consider that significantly reduced variable reward outcomes are appropriate this year.

For the CEO and Executive Leadership Team, targeted reductions ranging from 10% to 75% have been applied to individual variable reward outcomes in consideration of individual risk matters. In addition, the Board determined a further significant reduction of group variable reward outcome for the whole Executive Leadership Team to 70%, reflecting their collective accountability for the standards of the organisation. Full details are available within the 2018 Remuneration Report.

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CHAIRMAN MESSAGE – CONTINUED

Looking ahead, the Board is confident in the capability of the CEO and Executive Leadership Team. We are confident that this team will reshape the bank so that it is fit for purpose and provides exceptional customer service everywhere and every time. Good progress has already been made towards executing NAB's transformational strategy.

To make NAB simpler, stronger and faster, we are making an additional investment of \$1.5 billion over three years to 30 September 2020. This accelerated investment program is progressing well and the Board will continue to monitor it closely.

In setting ourselves up for the future, we are not looking to the other Australian banks for benchmarks. We are looking to the leading banks and technology companies around the world who are delivering exceptional service for their customers.

A GREATER AUSTRALIA

Strong population growth and an improving unemployment rate continue to support a growing economy, but there are headwinds.

Households are concerned about the cost of living, partly because of stubbornly low wages growth and high levels of household indebtedness. These concerns are reflected in subdued consumer spending in important parts of the economy.

Business conditions are holding at levels above their long-run averages. But business confidence is not as strong. Good business conditions are not yet translating into equally strong business investment and real productivity growth. Without a pick-up in productivity, wages growth and household income growth will remain weak.

Against this backdrop, NAB's purpose has never been more important.

We play a critical role in backing Australians who are starting, running and growing their businesses. By supporting them, we are helping to create jobs and opportunities. We also back our customers to buy homes. And we are a leading arranger of finance for Australia's major infrastructure projects, helping to build roads, schools and hospitals.

We remain the leading arranger of renewable energy project finance in Australia and have committed to provide \$55 billion to environmental financing by 2025. To date, we have provided almost \$23 billion in environmental financing.

Each year at NAB we see people in all areas of the bank committed to making a difference and helping those in need through financial assistance and hardship programs, community grants and sponsorships, and participating in one of Australia's largest volunteering programs. We will continue to look for ways that we can do more.

In all of these ways, we are making a positive contribution to the communities in which we operate, right across Australia and New Zealand.

THE BOARD'S COMMITMENT

Living our purpose and values starts with the Board. Every NAB director is a NAB shareholder. And every NAB director is a NAB customer.

The Board is exposed to unfiltered, direct feedback from customers. We get out of the boardroom; to see, feel and hear what is happening across the bank and to hear directly from our employees and our customers.

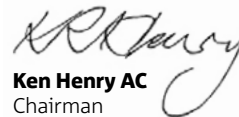
Our November 2018 Board meeting was in my home town of Taree, on the Mid North Coast of NSW. Taree was the last stop in a tour that NAB's senior leaders made of regional and rural Australia this year, listening and identifying ways we can serve our communities better.

This year we have also supported a review of our culture, governance and accountability, which began soon after APRA's Prudential Inquiry Final Report into CBA was released. We want to understand whether there is anything we can learn from the matters raised in relation to CBA and will deliver a final report to APRA by the end of November. This will challenge us to further improve our processes.

The Board is actively involved in guiding the strategic direction of the bank, and in monitoring execution and business performance.

We have ambition for NAB. We will not be complacent with our customers and we will not be complacent with the investments our shareholders have made in our company.

We thank you for joining us in building a stronger and better bank for our customers and for helping us to back the bold who move Australia forward.



Ken Henry AC
Chairman

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CEO MESSAGE



We are building a stronger bank, where profitability and sustainable returns are built on a foundation of customer trust and loyalty.

2018 has been a tough year – a very challenging operating environment and a period of significant change and investment.

While the overall Australian economy remains sound, risks are emerging – in house prices, low real wage growth and potential disruptions to global trade.

We must stay alert to these challenges and at the same time, face the future with confidence. Twelve months ago, we outlined why we needed to accelerate our strategy, to make NAB stronger for the future.

We have done what we said we would do in this first year, with momentum for years two and three of the transformation. We have also stayed focused and delivered a credible 2018 result and maintained our dividend for shareholders of \$1.98 for the full year.

Of course, we are facing significant questions as a sector around reputation and trust. The Royal Commission has presented a confronting case for change. We have heard too many examples of letting both our customers and the broader community down and, in turn, our shareholders.

Most of these issues were not caused by ill-intent. The overwhelming majority of our people want to do the right thing. But the cases we've heard have been upsetting and are unacceptable.

I acknowledge we have not always treated our customers with the care and respect we should have. I am sorry for this and determined to set things right.

The hearings have led me to reflect deeply on my more than 30 years in banking. It is clear the industry has drifted over the past two decades. We lost sight of customer interests through a narrow focus on short-term returns. Incentives were not managed carefully enough and internal systems, policies and processes became too complex.

It should not have taken a Royal Commission to bring these issues to light. But now we have a burning platform – for us to address these issues, get back to basics and be better for our customers.

We are listening – and we are responding. We are embarking on an ambitious transformation, to become simpler and faster. We are building a stronger bank, where profitability and sustainable returns are built on a foundation of customer trust and loyalty.

TAKING ACTION FOR CUSTOMERS

In recent months NAB has made a number of decisions as a result of both what we have heard in the Royal Commission and from our customers.

In September, we kept our Standard Variable Rate for existing home loan customers on hold when many competitors increased their rates. While funding costs have been elevated, we have managed our business well and were in a position to hold the rate for longer, to recognise the loyalty of our customers. This is shown through stable margins for the year.

During 2018 we have changed how we reward our frontline employees, reducing the focus on short-term

financial targets to provide greater emphasis on the experience of our customers. We continue to examine this area to ensure we are getting it right.

We committed to accelerate the phasing out of grandfathered commissions in our wealth business, and worked to simplify and speed up the remediation process in the case of significant issues.

We have also enabled farming customers to offset Farm Management Deposits against their lending and, for those affected by drought, we have eliminated default interest and launched assistance packages. When people fall into hardship, our first instinct must be to help.

Senior NAB executives have taken part in a listening tour of rural and regional Australia, visiting 13 communities across every state to hear first-hand what these communities want from the bank, what we have been doing well and where we need to do better. As a result of this feedback, we are thinking differently about our branch footprint and announced a moratorium on branch closures in drought-affected areas ahead of finalising our rural and regional strategy.

We will continue to look for ways to do more and recognise that rebuilding trust will take time.

TRANSFORMING OUR BANK

We have a long-term strategy to build a better bank for our customers. Core to this is our purpose to 'back the bold who move Australia forward'.

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CEO MESSAGE – CONTINUED

We are now one year into our three-year transformation, which will help us achieve our vision to be ‘Australia’s leading bank, trusted by customers for exceptional service’ – the bank we want to be.

We are investing a total of \$4.5 billion to make NAB simpler and faster – less bureaucratic, with more efficient and reliable systems and a better experience for customers. We are confident it is the right plan to prepare the bank for the future and we are on track with what we said we would do.

Our business bank is a key differentiator with a strong market position and good returns. We are determined to be the best business bank for our clients and have identified four key areas to focus on that will help us get there – empowered relationship bankers, industry specialisation, market-leading digital and decisioning capabilities, and Small Business. We have made good progress in these areas, and continue to focus on these as drivers to achieving our best business bank ambition.

We have made further progress on digital banking with the rollout of more Smart ATMs and have reduced the number of products we offer – from approximately 600 products to 500 and are on our way to our goal of 300 – to reduce compliance, complexity and cost. We have also invested in migrating to technologies, including Cloud, that offer greater speed and resilience at a lower cost. We have also seen progress on simplifying and automating processes and reducing third party costs, which will provide cumulative cost savings targeted at greater than \$1 billion by 2020.

We are investing in new and emerging growth opportunities – in the growth corridors of Greater Western Sydney and Greater Melbourne, in global infrastructure financing, extending the reach of private banking, accelerating UBank as a standalone digital bank – and creating new partnerships through NAB Ventures and NAB Labs.

OUR PEOPLE

In 2018, our people have proven incredibly resilient in a challenging environment and we are proud of the work they do to serve our customers every day.

Engagement of our people is a big focus. Having people who feel part of what we are doing and who really want to give their best is vital.

Whilst our engagement score for 2018 fell, it remains above expectations for organisations undergoing significant transformation. Pleasingly 79% of our people already say they are encouraged to look at things from our customers’ perspectives – but we’re eager to lift this further.

We have made progress in transforming our workforce to ensure we have the right skills for the future, which includes reducing layers of management to streamline decision-making.

In 2018, around 1,900 people left the bank. Through this process a further 4,000 people will leave over the next two years and it is our priority to provide the utmost care for those impacted. We continue to enhance our world-class assistance program, The Bridge, to help employees leaving NAB find their next opportunity – whether that be a role outside the bank, learning a new skill, starting new businesses or transitioning to retirement.

We made changes to our Executive Leadership Team (ELT) and I was delighted to elevate Rachel Slade and Shaun Dooley to the ELT, both strong leaders and representative of the talent inside the organisation.

We also welcomed Geoff Lloyd as CEO of MLC Wealth – and he will play an important leadership role as we progress towards its targeted separation by the end of calendar year 2019.

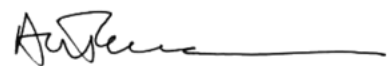
Antony Cahill and Andrew Hagger left the business in the second half and I thank them both for their valuable service over many years.

LOOKING AHEAD

This year has been one of the most challenging in the bank’s history. I am determined to respond by taking the necessary steps to make NAB better and stronger.

I am accountable for achieving our vision, to truly deliver exceptional service and in doing so, rebuild trust. We have started this journey but there is much more work to do to become the bank we want to be for our customers.

Thank you to all of our customers, people and shareholders for their continued support.



Andrew Thorburn
Group Chief Executive Officer

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Harvest
NAB customer

Tristan Grier

"The relationship has given us strength and the ability to move forward. NAB bought into our future and, from the day they did, we haven't looked back."

Brooke Hudson, Tristan Grier & Kass Grier

OUR BUSINESS

WHAT WE DO

Formed in 1858, our financial services business now has over 33,000 people serving around nine million customers in more than 900 locations, largely across Australia and New Zealand.

We're focused on our core operations in Australia and New Zealand and dedicated to backing our customers in the moments that matter most.

AUSTRALIAN BANKING INCLUDING WEALTH

The Australian banking operations have three customer-facing divisions:

- **Business & Private Banking (BPB)** – focuses on serving the needs of three of NAB's priority customer segments – small businesses, medium businesses and investors. Customers are served through an integrated banking model locally led by managing partners through business banking centres and

through the small business customer hubs. This includes specialists in Health, Agribusiness, Government, Education, Community and Franchising, Professional Services and Commercial Real Estate. The division also serves high net worth customers through the Private Bank and JBWere.

- **Consumer Banking & Wealth (CBW)** – supports millions of consumer banking relationships in Australia by providing a comprehensive range of financial services and products through a national network of branches, call centres and digital options (including UBank). The division also services mortgage brokers through NAB-owned aggregators Plan, Choice and Fast. The Wealth operations that sit in this division are in the process of being divested under the leadership of Geoff Lloyd. That includes advice and superannuation services, mainly operating under MLC and other brands. The planned divestment is expected to be completed by the end of the 2019 calendar year.

2018 CASH EARNINGS¹

	A\$m
Business & Private Banking	\$2,911
Consumer Banking & Wealth	\$1,539
Corporate & Institutional Banking	\$1,541
New Zealand Banking	\$922
Corporate Functions & Other	(\$1,211)

- **Corporate & Institutional Banking (CIB)** – provides a range of lending and transactional products and services related to financial and debt capital markets, specialised capital, custody and alternative investments. The division serves its customers in Australia and globally, including branches in the US, UK and Asia, with specialised industry relationships and product teams.

These divisions receive support from our Customer Experience, Technology & Operations, Risk, Commercial Services, Finance and People functions.

NEW ZEALAND BANKING

New Zealand Banking comprises the Consumer Banking, Wealth, Business, Agribusiness, Corporate and Insurance franchises and Markets Sales operations in New Zealand, operating under the 'Bank of New Zealand' brand. It excludes Bank of New Zealand's Markets Trading operations.

¹ Refer to footnote 2 on page 5 for a definition of cash earnings.

FOCUSING ON THE CORE

JULY 2015
Completed full divestment of Great Western Bancorp, Inc

FEBRUARY 2016
Divested Clydesdale Bank and Yorkshire Bank operations through demerger and IPO

OCTOBER 2016
Completed sale of 80% of life insurance business

MAY 2018
Announced plan to exit Advice, Platform & Superannuation and Asset Management businesses

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OUR EXECUTIVE LEADERSHIP TEAM



RACHEL SLADE

Chief Customer Experience Officer

DAVID GALL

Chief Customer Officer, Corporate & Institutional Banking

MIKE BAIRD

Chief Customer Officer, Consumer Banking

SHAUN DOOLEY

Group Chief Risk Officer

ANGELA MENTIS

Chief Executive Officer and Managing Director, Bank of New Zealand

GARY LENNON

Group Chief Financial Officer

ANDREW THORBURN

Group Chief Executive Officer and Managing Director

SHARON COOK

Chief Legal and Commercial Counsel

LORRAINE MURPHY

Chief People Officer

PATRICK WRIGHT

Chief Technology and Operations Officer

ANTHONY HEALY

Chief Customer Officer Business & Private Banking

Our Group Executive Leadership Team (ELT) is responsible for ensuring we provide the right products and services to our customers and also deliver for our people, shareholders and communities.

Led by Group Chief Executive Officer and Managing Director Andrew Thorburn, the ELT brings a depth and breadth of expertise across banking and customer-focused organisations. The team concentrates on ensuring NAB is a purpose-led organisation which exists to back the bold who move Australia forward.

Our ELT is responsible for implementing our strategy of transforming NAB into a simpler,

faster bank for customers. The ELT, along with NAB's Board, is responsible for setting the tone from the top for all of our people and this includes living NAB's five core values: passion for customers; win together; be bold; respect for people; and do the right thing.

In January 2018, Anthony Healy and Angela Mentis rotated roles, with Anthony becoming Chief Customer Officer Business

& Private Banking and Angela taking the role of Chief Executive Officer and Managing Director, Bank of New Zealand.

In August 2018, Chief Operating Officer Antony Cahill resigned from NAB and in September 2018, it was announced that Chief Customer Officer – Consumer Banking & Wealth, Andrew Hagger would leave the bank.

From there, NAB undertook a broader executive restructure that became effective 1 October 2018. Rachel Slade and Shaun Dooley joined the Executive Leadership Team to assume the roles of Chief Customer

Experience Officer (replacing the COO role) and Chief Risk Officer, respectively. Additionally, David Gall moved from the risk portfolio to Chief Customer Officer – Corporate & Institutional Banking, replacing Mike Baird who became Chief Customer Officer – Consumer Banking.

For more information on the background and experience of each member of the Group Executive Leadership Team, visit nab.com.au/about-us/our-business

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HOW WE RUN OUR BUSINESS & DELIVER FOR OUR STAKEHOLDERS

At NAB, we combine resources and expertise to deliver for our customers, people, community and shareholders. We rely on six types of capital¹ to drive performance and achieve solid results for our stakeholders. We draw on these capitals to offer great products and services for our customers and create positive outcomes for our community, environment and business.

INPUTS

Financial capital

\$52.7bn total equity
\$452.9bn deposits
10.20% common equity tier 1 ratio

Human capital

Over 33,000 employees
A gender balanced workforce 52% female

Intellectual capital

Market leading business bank²
Strategic partnerships REA, Medipass, Visa
NAB Labs

Manufactured capital

911 branches and business banking centres
3,328 ATMs

Social & relationship capital

NAB Foundation grants program
NAB volunteering and workplace giving

Natural capital

Australia's largest **Agribank**³
Green Star rating 78% of key office buildings⁴

OUR OPERATING ENVIRONMENT

Royal Commission
 Regulatory Policy and Competition
 Economic Conditions
 Digital Disruption

OUR BUSINESS



HOW WE DELIVERED FOR OUR STAKEHOLDERS⁵

Our customers

\$74bn in new home lending⁶
\$89bn in new business lending⁷
Ranked #1 in Small Business and #2 in Medium Business segments for NPS amongst major Australian banks⁸
\$36m microfinance loans written⁹

Our people

Paid \$4.4bn in salaries and superannuation to employees
Recruited 93 Indigenous Australians through employment traineeship and internship programs
Provided almost 1m hours in training¹⁰

Our shareholders

Declared dividends of **\$5.3bn**¹¹
 Returned **94% of our cash profits** to our ~585,000 shareholders
Generated TSR of 15.4% over the last 5 years¹², ranked #3 amongst major Australian banks

Our community

Paid \$3.1bn in taxes including **\$0.4bn** in bank levy¹³
Invested \$54.4m in the community¹⁴
Over 15,300 volunteering days completed by our employees
\$22.9bn in environmental financing since 1 October 2015¹⁵

VALUE CREATION OVER TIME

1. The capitals are identified by the IIRC and defined in **Glossary and definitions on page 41**.

2. Based on business lending market share from APRA's September 2018 Monthly Banking Statistics.

3. Source: RBA Banking System/NAB APRA Submissions September 2018.

4. Key office buildings are all NAB commercial tenancies over 4,000m². Green Star = 4 star and above.

5. All value creation measures relate to the 2018 financial year unless otherwise stated.

6. Drawdowns (excluding redraws) by Australian and New Zealand customers.

7. For new and increased (on and off balance sheet) commitments by Australian and New Zealand customers. New lending has been derived from year on year customer limit movements.

8. Ranking based on absolute scores, not statistically significant differences. Refer to **Glossary and definitions on page 41** for definition of Small and Medium Business segments.

9. Delivered in partnership with Good Shepherd Microfinance (Australia) and Good Shepherd New Zealand.

10. Formal training and development hours captured in our Learning Management System and provided to our Australian and New Zealand employees.

11. Dividends declared in respect of 2018.

12. Source: IRESS. TSR combines share price appreciation and dividends paid from 1 October 2013 to 30 September 2018 to show the total return expressed as a percentage.

13. Includes income tax, GST, FBT, payroll tax, bank levy and other taxes borne by NAB, paid during the year ended 30 September 2018.

14. Community investment ranges from short-term donations to longer-term capacity-building programs. It is calculated using the London Benchmarking Group methodology. For more information, refer to our **2018 Sustainability Report**.

15. For more information on our environmental financing commitments, see **page 31**.

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OUR OPERATING ENVIRONMENT

Campbells Wines
NAB customer

Colin Campbell

"It's been an extraordinary relationship and if it wasn't for NAB, we wouldn't be where we are now."

Jane Campbell & Colin Campbell

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OUR OPERATING ENVIRONMENT

The economic, regulatory, political and community environment in which we operate directly influences our ability to create value.

We're constantly responding to the changing external landscape by identifying challenges and opportunities that may impact our efforts to deliver for customers, financial performance, ongoing stability and our reputation.

REGULATORY POLICY AND COMPETITION

The industry continues to be highly competitive. A competitive, resilient and well regulated financial industry is crucial to Australia's ongoing economic stability and growth of the broader economy.

Since 2008, there have been more than 60 Australian government or regulatory policy inquiries or reviews relevant to NAB, some of which are ongoing.

Many significant changes have been implemented or are still coming through; including the introduction of Comprehensive Credit Reporting (CCR) and the Open Banking regime.

NAB has taken a proactive position on the introduction of CCR. On Monday 19 February 2018, we became the first major Australian bank – ahead of the legislative mandate – to participate in CCR for personal loans, credit cards and overdrafts, and we look forward to a broader roll-out.

The launch of Open Banking in 2019 will also introduce new opportunities for customers, giving them more control of their data and improving the way data can be shared. We're focused on ensuring this is done in a way that ensures the safety and security of customer data and information.

ROYAL COMMISSION

In November 2017, the Government announced a Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. That came after major bank chairs and chief executives called for the establishment of a properly constituted inquiry to put an end to uncertainty and restore trust and confidence in the sector.

We view the Royal Commission as an important and necessary process and throughout this year we've co-operated fully, respecting the process put in place by the Commissioner, the Hon Kenneth Hayne AC QC.

The Royal Commission reminds us of the importance of banking in society, of having a customer mindset, being forward-looking and learning from our mistakes.

Many of the issues examined at the Royal Commission were publicly known or industry-wide. At NAB, we acknowledge that mistakes have been made and that we've not always delivered for customers. We're working on significant improvements to speed up how we address customer issues, including remediation, improved risk management practices and tightened controls.

Among the case studies that centred on NAB were a series of loans incorrectly set up through our Introducer program, which came to our attention by whistleblowers in 2015. Conduct of this kind may have, in some instances, resulted in customers receiving potentially unsuitable loans. It was unacceptable and led to 20 employees leaving NAB.

Other case studies considered by the Royal Commission involved NAB's wealth business. These include issues with the incorrect witnessing of beneficiary nomination forms, which set out whom an individual wants to receive their superannuation funds in the event of death. No customers have been identified as suffering financial loss as a result of this issue and consequence management was applied to 353 employees in the 2017 financial year.

The Royal Commission also considered misconduct on the issue of plan service fees, where some superannuation customers should not have been charged the fee, including in circumstances where the customer was not aware of their ability to elect not to have this service and turn off the fee.

In September 2018, ASIC launched civil penalty proceedings against superannuation trustees NULIS and MLC Nominees. We're assessing the details of the case and will carefully consider the allegations.

Two case studies concerning NAB small business and agribusiness were brought up during the Royal Commission hearings and while we're confident we acted lawfully in both cases, the discussions raised the importance of improving how we communicate and engage with our business customers.

We take these issues seriously and respond to ensure better outcomes for customers. The action taken to address the case studies presented include:

- Over an 18-month period, we tightened eligibility criteria for the Introducer Program as part of improvements to our systems, processes and programs.
- In July 2018, we announced that we'd no longer charge a higher default interest rate to NAB agribusiness customers in Government-declared drought regions if they fall into arrears.
- NULIS stopped deducting the Plan Service Fee from MLC MasterKey Personal Super (MKPS) member accounts from 30 September, with all MKPS members to be fully refunded for Plan Service Fees by the end of 2018.
- From January 2019, we'll no longer accept grandfathered commissions from NAB Wealth superannuation and investment product providers.
- Created a dedicated customer remediation centre to bring consistency to fixing issues where a mistake we've made has resulted in customer detriment.

Maintaining a constructive approach in dealings with regulators and any other investigations is our commitment to achieving the right outcomes for customers and the bank.

In September this year, the Royal Commission released its interim report and NAB submitted a response.

As the Commission moves towards its final report for the Government, due on 1 February 2019, NAB continues to co-operate in the process and consider any regulatory changes that may be instituted as a result of the Royal Commission's findings.

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OUR OPERATING ENVIRONMENT

North Parramatta Physiotherapy & Sports Injuries
NAB customer

Mary Knapman

"NAB has come with us the whole way – it's been a very long relationship."

Peter Knapman & Mary Knapman

The digital world is evolving fast and forcing companies to invest heavily to keep pace with the rapidly changing preferences of consumers.

In addition to traditional players and non-Australian Deposit-taking Institution (ADI) lenders, we're seeing the emergence and rapid growth of new competitors such as neo-banks, fintechs and tech giants.

Customers benefit most in this situation. Overall borrowing rates remain around the lowest levels on record; many fees and charges have been reduced or removed while services such as digital payments and mobile banking in Australia are widely considered to be among the best in the world.

NAB works hard to understand what customers want and our research consistently tells us that customer advocacy is driven by multiple factors, with customers often valuing the overall experience and outstanding service more than price. However, price is a factor, and we recognised our loyal customers when announcing in September we would hold our Standard Variable Rate for home loans steady at a time when some competitors had raised rates for customers. We'll take time to assess whether elevated funding costs remain sustained, but by holding this rate longer, we're helping our customers for longer.

DIGITAL DISRUPTION

The digital world is evolving fast and pushing companies to invest heavily to keep up with the rapidly changing preferences of consumers. Our customers are now mostly 'digital-first' and expect seamless personal experiences. They're connecting with us every minute of the day, through our digital platforms.

The result is that customers are comparing our experience to not only other banks – but to all major companies with digital services. We know customers want more self-service capability and the ability to solve basic questions in a channel that suits and is convenient for them.

This backdrop guides our strategy, as outlined last year, with significant and ongoing investments in our digital banking experience. We're investing more money to simplify the bank and build better technology platforms to reshape our staff, branch and business network.

ECONOMIC CONDITIONS

Global economic growth accelerated last year and in 2018 has remained above its average (post-1980) growth rate. Due to a gradual tightening in monetary policy settings in both advanced and emerging market (EM) economies, the eventual fading of this year's US fiscal stimulus, supply constraints, acute financial stress in some EM economies and a supply-shock driven rise in oil prices, global growth is expected to ease over 2019 and 2020 back towards its historical average.

The Australian economy continues to perform solidly. Gross Domestic Product (GDP) is expected to increase by just over 3.0% in 2018, driven by mining exports, public infrastructure investment and a continued recovery in non-mining business investment. However, consumption is likely to grow at a moderate pace over the next couple of years, limited by the challenges facing households – including high debt levels and weak wage growth. Slower growth in household wealth – reflecting downward pressure on dwelling prices – is another challenge. GDP growth in 2019 and 2020 will then slow to 2.7% and 2.5% but at this level should be enough to lead to a gradual decline in unemployment. For businesses, while NAB's Monthly Business Survey suggests conditions have eased from the record high levels of early 2018, current levels remain well above the long-term average.

Although the New Zealand economy is growing steadily with a relatively low unemployment rate, there are tensions emerging. Business surveys have weakened, immigration is gradually coming off its peak – slowing population growth – and capacity constraints will limit growth. However, Government fiscal stimulus in the second half of 2018 is a near-term support to activity. Overall, GDP is expected to grow by between 2.7 to 2.9% over 2018 to 2020, similar to that in 2017.

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OUR STRATEGY



North West Ag Services
NAB customer

Steve Cameron

“There have been some tough situations during drought years but NAB has been there every time.”

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To achieve our strategic objectives, it's crucial that we deliver for customers – this means nailing the basics, being reliable and producing real outcomes. One of the ways we're doing this is through the Customer Journeys program.

Customer Journeys continue to be a way we quickly and consistently innovate for our customers. Journey teams have diverse skills and enable our people to make decisions faster and deliver changes rapidly. Journeys deeply engage customers to better understand their needs and use an iterative approach to test, build and deploy solutions with real outcomes.

Customer Journey outcomes delivered in 2018 include:

- Enabling mortgage customers to see the value of their home and net equity and set up and manage home loan offset accounts online – reducing the need for customers to visit a branch or call and making it easier to manage the cost of their home loan.
- Improving the direct debit functionality for credit card customers to account for payments made post-statement.
- Launching a virtual banker on nab.com.au to provide customers with instant answers for 'how-to' questions.
- Introducing SMS messaging to inform customers of the status of disputes, balance transfer requests and for notifying them about their new or replacement card. More than 550,000 customers have received text messages to date.
- Welcoming customers made simpler by allowing new customers to join NAB by downloading the NAB app and opening a personal transaction and savings account.

We're empowering bankers by providing them with the best-in-class tools to better understand their customers and support their growth.

OUR STRATEGY

BEST BUSINESS BANK

To realise our purpose to back the bold who move Australia forward, we're working on transforming to become the best business bank and making it simple, easy and personal for our small and medium business customers.

Earlier this year, we implemented a new operating model to become simpler and faster and to bring our people together to support our customers. This integrated banking model is locally led by managing partners across our key locations.

Key highlights include:

- Uniting our people in local geographies and simplifying our leadership structure.
- Enhancing our service proposition for small and medium business customers.
- Deepening our focus on the sectors that matter most for Australia.

EMPOWERING RELATIONSHIP BANKERS

We're empowering bankers by providing them with best-in-class tools to better understand customers and support their growth. That means our bankers are able to spend more time with customers and provide quick and confident answers, including:

- Faster decisions as a result of expanded credit algorithms and streamlined email consents – with more than 35k banker hours saved.
- Added dedicated resources to support mortgage origination, increasing banker capacity.
- Simpler delegated credit authorities delivering faster approval times and better banker productivity.
- Enhancing the banker experience via an improved customer relationship management (CRM) platform.

INDUSTRY SPECIALISATION

We continue to leverage our industry specialisations to provide tailored solutions, increasing specialised industry revenue by 7% in 2018. We're deepening and broadening our specialist capabilities into sectors that matter most for Australia, including the national roll-out of a Professional Services specialisation. We're also establishing a centre of excellence to build deeper knowledge across key sectors, including a research, analytics and insights function to support customers with greater industry insights to help identify growth opportunities.

BUILDING MARKET-LEADING DIGITAL AND DECISIONING TOOLS

We're aspiring to leverage leading digital products, service offerings and leveraging data and analytics to improve our customers' experiences, including:

- Extending QuickBiz, our online platform, to equipment finance lending up to \$150,000, which provides customers with an instant, online decision as well as increasing our unsecured lending limits for QuickBiz customers from \$50,000 to \$100,000 and streamlining the application process by connecting with cloud-accounting packages like Xero.
- Growing and enhancing the customer experience through innovative partnerships such as HICAPS Go and Xero.

STRENGTHENING SMALL BUSINESS CUSTOMER PROPOSITION

We're establishing multiple contact channels that allow customers to connect with us – or self-serve – how and when it suits them and personalising the experience by having banking specialists readily available.

We've established The Customer Hub to provide simple and more convenient contact, including extended hours 7 days a week.

Red tape, lack of time and resources are some of the biggest challenges facing Australian businesses. In response, we've overhauled our standard loan form contract in plain English and with simpler contractual clauses. The result is a major reduction in document length by removing one-third of existing terms and conditions.

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OUR STRATEGY

NEW AND EMERGING GROWTH

GLOBAL INFRASTRUCTURE FINANCING

We continue to play a leading role in enabling a diverse mix of institutional and retail investors to participate in Australia's infrastructure growth story.

In 2018, we made progress by:

- Closing 63 deals with total project debt of \$48bn across the US, Europe, Asia and Australia.
- Being the first Australian major bank to issue a United Nations Sustainable Development Goals (SDGs) Green Bond allowing investors to allocate capital towards NAB-funded projects that support the transition to a low carbon economy.

BUILDING AUSTRALIA'S LEADING DIGITAL BANK – UBank

We're committed to being Australia's leading digital bank to be responsive to changing customer preferences.

In 2018 we improved the digital experience for our customers and strengthened our reputation by:

- Innovating to improve customer and banker experiences, including UBank's personal finance management tool Free2Spend and artificial-intelligence powered RoboBrain, helping our Advisors serve customers faster.
- Collaborating with FinTechs and technology giants to rethink the customer experience.
- Driving positive customer outcomes, with strong growth and high levels of customer advocacy.

GROWING VIA PARTNERSHIPS AND INNOVATION

To continue improving our offering to customers, we're encouraging innovation and collaboration with external partners.

Our dedicated innovation hub, NAB Labs, is boosting customer-led design methodology across our business to launch new customer-centric propositions in 2018, including:

- Expanding voice-activated technology through Amazon Alexa and Google Home, extending our voice-first experiences to provide real-time service to customers, in their channel of choice, delivering secure access to account information.
- Accelerated growth of our HICAPS Go digital marketplace, with more than 37,000 practitioners enabled for digital claiming with 12 private health insurers and continued to digitise customer onboarding and servicing.

We're exploring new strategic alliances and direct equity investments through our Partnerships team and dedicated innovation fund, NAB Ventures (which received an additional \$50m in funding in September 2018). This allows us to leverage new technology and business models that fast-track customer experience improvements.

2018 also began some exciting new partnerships:

- Poynt is a US based technology company developing the next generation of payment terminals. In June 2018, we took part in Poynt's \$US100m Series C investment round with participation from other top-tier financial institutions and venture firms. We've commenced negotiations to distribute Poynt terminals.

We're continuing to pursue opportunities for growth by engaging with customers, expanding our offering in chosen markets and leveraging key partnerships to deliver excellent customer experiences.

- Slyp is an Australian based start-up that have developed a platform that will allow NAB customers to automatically receive smart receipts inside their banking app. NAB is the foundational banking partner, with NAB Labs and Digital teams working to launch the service within the NAB mobile app. In April 2018, we led Slyp's \$2m seed investment round, with participation from other banking venture arms.

In 2018, we built on our established strategic partnerships, including:

- Initiating payments through cloud-accounting software provider Xero, strengthening the NAB/Xero lending proposition and sponsoring the Xerocon event.
- Launching in-market with realestate.com.au and allowing customers to search, find and finance from one place. In an Australian first, customers can apply for conditional home loan approval from a bank on a non-banking website and customers can also speak with our home loan specialists in-person or over the phone.

The NAB and Visa partnership enters its fourth year with many initiatives delivered during 2018 uplifting customer experience, simplifying the proposition and improving our digital capability.

SUPPORTING URBAN GROWTH CORRIDORS

We're accelerating growth in many fast developing areas across Australia including Greater Western Sydney and Greater Melbourne. We're reconfiguring our network to be where the growth is and engaging customers to explore strategic partnerships and local networks.

2018 saw progress on the development of a flagship hub for Greater Western Sydney in Parramatta Square and we added/relocated more bankers to service these areas of growth.

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OUR STRATEGY

GREAT LEADERS, TALENT AND CULTURE

Great leadership, talent and culture is crucial to achieving our strategic objectives.

GREAT PEOPLE

NAB has a global workforce of over 33,000 employees. To meet the needs of customers and the requirements of our regulators, we need skilled people in the appropriate roles.

We have changed how we recruit for volume-based, entry-level roles, to ensure we identify and hire people in a fairer, more effective way. For these roles (around 2,000 a year) we've replaced traditional resumes and interviews with online cognitive testing and video interviews. Successful candidates get invitations to engagement centres where they're assessed in person and given a realistic preview of the role.

We provide our people with targeted, role-based learning and mandatory, role-specific training as well as formal training and on-the-job skills development.

We have annual performance reviews alongside our Performance Everyday strategy. Our people leaders act as performance coaches by having regular conversations with their people on how they're tracking and how they are demonstrating NAB's values. Performance plans and goals, together with quality and timely feedback, aim to lift individual performance and to provide support.

There are many ways we recognise achievements. Our peer recognition program, NAB Recognise, highlights those who display our values. Through our annual enterprise recognition program NAB Honour, we appreciate the top performers who've contributed significantly to achieving NAB's strategic objectives, represented our values and put customers at the centre of everything they do.

Our recognition approach aims to make people feel appreciated for their excellent work, inspired to perform and connected to our purpose and customers.

GREAT LEADERSHIP

We're determined to identify, assess and develop senior leaders who translate our strategy into actions and demonstrate the culture and behaviours key to helping us realise our vision.

2018 saw us build our leadership groups to improve leaders' development, communication and accountability. We've added the Executive Leadership Group (~109) and have continued with our One NAB Leaders group (~536) who have accountability for accelerating the delivery of the NAB strategy.

Our individualised, objective and data-driven approach continues to help leaders grow:

- Around 900 of our Head Of level are participating in a program centred on leading the culture needed to achieve our strategic objectives. This program helps leaders improve their self-awareness, developing others and manage complexity.
- A further 1,023 leaders participated in leadership programs and coaching. This is done in order to build high performing teams that can better support our customers. These leaders manage around 15,000 employees that work directly with customers.
- We launched a suite of programs on the topic of Inclusive Leadership to build engagement and inclusion across teams. A key initiative moving into 2019 is our Leadership Framework, E.P.I.C (Empathy, Perform, Imagine, Connect) that is designed to develop outstanding leaders.



DOING THE RIGHT THING

Culture drives performance. All five NAB values are critical to success: **Passion for Customers, Be Bold, Respect for People, Win Together and Do the Right Thing.** These values are part of the performance assessment of all employees. Customer feedback is shared weekly throughout the organisation and we discuss what customers value most and make change in order to meet their needs.

Conduct and Culture

As part of the recommendations made by the Australian Banking Association's Sedgwick review of product-based incentives, NAB has moved more than 4,000 NAB retail banking and direct employees from a product-based sales incentive plan to incentive plans based on Group performance measures and supported by balanced scorecards. This change came into effect on 1 October 2018 and is backed by customer-centric changes to our performance management frameworks and learning and capability programs.

We treat seriously all matters where our employees' decisions don't align with our values or breach our Code of Conduct – and we act. In the 2018 performance year, our Workplace Relations team managed 1,215 Code of Conduct breaches.

These instances range from cases of personal conduct (such as repeated unexplained absences) to more serious situations, including deliberate breaches of our policies and procedures. In the 2018 performance year, 307 cases saw employees exiting the business and 908 cases resulted in coaching or other remedial actions, including loss of performance-based incentives in some instances.

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OUR STRATEGY

GREAT LEADERS, TALENT AND CULTURE

GREAT TALENT

We're investing in our talent to attract, grow, retain and mobilise a diverse, world-class workforce of outstanding leaders. We also bring in the best external talent to constructively disrupt and speed up strategic delivery.

In 2018, over 350 senior managers completed an assessment and development experience aimed at providing insights on current capability, as well as identifying potential to progress to more complex or senior roles. 162 senior leaders have been identified and endorsed as Key Talent. To date, over 60% of Key Talent participated in a Talent Development Program aimed at preparing them to move into new roles.

Finding and developing graduate talent is also critical to NAB's future. In 2018, we supported 210 graduates with accelerated learning experiences focused on developing skills.

Additionally, NAB launched a Summer Intern Program for penultimate year students. The program encourages students to build professional skills while supported by a business placement with the aim of increasing employability after their studies.

The outcomes of these programs prepare our most talented people for the transition to more senior roles.

DIVERSITY AND INCLUSION

We embrace and work with people from different backgrounds and experiences to deliver positive outcomes. NAB is a place where employees bring unique life experiences and capabilities to work and feel valued for their contribution.

The overarching commitment of our Diversity & Inclusion (D&I) strategy is fostering an inclusive culture and includes three strategic priorities: gender equality, life stage and lesbian, gay, bisexual, transgender and intersex (LGBTI+) inclusion. The strategy also maintains a focus on cultural inclusion and accessibility and is underpinned by the key enablers of leadership, flexibility and NAB's employee resource groups.

72% of NAB employees experience an inclusive workplace¹. We aim to increase this to 78% of our employees, or higher – which represents the top quartile of organisations in Australia and New Zealand.

In 2017, we made a bold commitment to achieve gender equality throughout our business – so every level from executive leaders through to entry level roles have 40-60% female representation by 2020. This includes changing how we report progress against our objectives, which led to greater transparency at all levels in 2018. We remain accountable to our 2020 commitment and have implemented targeted initiatives to accelerate progress in 2019.

We're proud of our achievements in 2018:

- 2017-2018 Workplace Gender Equality Agency, Employer of Choice for Gender Equality citation & inclusion in the 2018 Bloomberg Gender Equality Index.
- Silver status in the 2018 Australian Workplace Equality Index, the definitive national benchmark on LGBTI workplace inclusion.
- 32% of employees who took primary carer's leave were male, which increased from 2% before the policy change that made this leave accessible to non-birth-parents².
- Launching a new Cultural Inclusion employee resource group, empowering employees of different ethnic and cultural backgrounds to realise their full potential in leadership.
- Presenting Partner for the 2018 Special Olympics Australia National Games with over 200 volunteers.
- Embedding inclusive leadership into our core leadership curriculum for Groups 2-5, with Group 6 curriculum to be integrated in 2019 via the Leadership Framework, E.P.I.C.
- Extending our Domestic and Family Violence Support Policy to include paid leave for any employee providing support to a family member – or immediate household member – experiencing domestic or family violence. The amount of leave is based on the employee's situation in consultation between the employee, the people leader and Employee Relations.
- Continued investment in African Australian Inclusion Program (AAIP), a professional program for skilled African-Australians, providing six months paid corporate experience. The program enables candidates to immerse themselves in Australian workplace culture, build their professional networks and update resumes with meaningful local experience.
- 84% of our employees are working flexibly³.

EMPLOYMENT LEVEL 2018 VERSUS 2017	2018 FEMALE	2017 FEMALE	2018 MALE	2017 MALE
Executive management (Groups 6 & 7)	31%	31%	69%	69%
Senior management (Group 5)	32%	30%	68%	70%
Management (Group 4)	38%	38%	62%	62%
Non-management (Group 1-3)	57%	59%	43%	41%
Overall organisation	52%	54%	48%	46%

¹ As reported through NAB's employee engagement survey, using an inclusion index.

² The percent of eligible male employees taking up paid parental leave was 30% in 2017, 28% in 2016 and 15% in 2015.

³ As reported through NAB's employee engagement survey, using the item "I have the flexibility I need to accommodate various priorities at work, at home and/or in the community."

OUR STRATEGY

GREAT LEADERS, TALENT AND CULTURE

ENGAGING OUR PEOPLE

Our annual engagement survey is one way that we listen to our people. In 2018 the survey was completed by 75% of employees globally and as in 2017, helped us benchmark our performance against a range of companies, with the objective being to attain a top benchmark of 68%¹.

The 2018 overall engagement score for the NAB Group fell five points to 54%. This score of 54% is higher than expected for an organisation going through significant transformation². However, it's not where we want to be and means there's more work to do. Our overall engagement has improved since a Pulse check conducted in April 2018 (48%), suggesting a positive momentum that we can continue building.

The question "People who deliver strong results are not excused from following the rules" (+20 in 2018) and "I have the freedom to express my views even though they might contradict the views of my People Leader" (81%) both saw significant improvements. That suggests we're taking positive steps to foster an environment where employees are comfortable speaking up and leaders are holding people to account for their actions.

To achieve our vision to be Australia's leading bank, trusted by customers for exceptional service, we need highly engaged people. It's the job of all our leaders and people to lift engagement levels. We'll continue getting regular feedback from our people, as well as coaching, resources and further investment in our leaders, to help us reach the top quartile for engagement.

RESPECT FOR PEOPLE

In November 2017, Andrew Thorburn announced significant organisational transformation that would see up to 6,000 employees leave NAB. 'The Bridge' has been established to provide care and support to employees impacted through this transformation.

The Bridge delivers services through partnerships with best in market providers in career transition, health and wellbeing, counselling and vocational training,

providing a higher and more holistic level of transition support. Practical tools are provided together with personalised support through a dedicated Bridge Coach to help former employees explore their strengths, plan their next steps and create a new future outside of NAB.

Since commencing operation in March 2018, 891 employees have taken advantage of the services provided, representing 84% of those who have been retrenched. During this time, The Bridge has delivered ~2,700 one to one coaching sessions and 638 workshops.

Of those who have finalised their support with The Bridge, 40% so far have successfully transitioned to a new position with an average job search time of 74.5 days versus a market average of 90 days. A further 23% have opted to take up vocational training instead of career transition support to enhance their job market value proposition or to retrain into new careers. NAB has invested a total of \$468,535 on this vocational training and education. Other outcomes include 9% moving to self-employment and 7% opting to plan for retirement.

Prior to commencing with The Bridge, 967 employees have taken advantage of NAB's new deployment experience which partners those on deployment with expert external career coaches. A further 2,081 hours of deployment transition coaching has been delivered and 32% of employees have successfully redeployed to a new position within NAB.

1 The 2017 & 2018 Employee Engagement Surveys were conducted by Aon Hewitt.
2 Aon Hewitt's expected benchmark for NAB given the significant transformation is 50%.



**Ahmad Asker, Catherine Keogh
& Vamshi Velma**
NAB Honourees

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Staying ahead means our people and business must adapt to the changing needs of customers. That includes facing the challenges of automation and rapid digital innovation while protecting customer data and privacy.

To help us get there, we've focused on customer needs and developing customer-centric solutions. Our dedicated innovation hub, NAB Labs, utilises a customer-led design methodology, and our Customer Journey teams bring together bankers, product specialists, risk experts, marketing leaders, digital developers and UX designers from across NAB, to work together to redesign the essential experiences our customers have with us on a daily basis.

Aligning our transformation and project governance around customer value chains brings greater accountability for customer outcomes. Project delivery has improved with more attention given to customer and user experience and flexible workflows deliver incremental change and improved capabilities. This is critical to more effectively balance innovation with resilience and speed with security.



Jamie Davison

"We had impressive individual trading histories but failed to realise that after we merged we'd have an unproven new business that nobody would want to lend to. Fortunately, NAB were able to lend to us."

**Carbon Group
NAB customer**

Nathan Hood & Jamie Davison

OUR STRATEGY

SIMPLER AND FASTER

We're simplifying our business to improve efficiency and better service our customers. The goals are to make it easier to do business with us, reduce the complexity and duplication and lower our costs.

RESHAPING WEALTH MANAGEMENT

In line with becoming simpler and faster, we announced in May 2018, a plan to reshape our Wealth Management offering.

A detailed review determined that we could best serve the needs of customers and deliver long-term value for our shareholders by retaining and investing in a more focused wealth offering, including:

- **JBWere** – part of our leading Business and Private Banking franchise¹, helping high-net-worth customers manage their personal wealth alongside their business interests.
- **nabtrade** – our fast growing online investing platform, supporting self-directed customers.

We intend to exit our Advice, Platform & Superannuation and Asset Management businesses operating under MLC and other brands.

SIMPLIFIED ORGANISATION

Reshaping our workforce enables us to better deliver for customers and ensure we have people with the right skills for the future.

Simplifying the organisation allows our people to focus on core tasks and customer experience by removing non-essential, low-value work. We'll be easier to do business with and be able to make quick and lasting decisions that produce better outcomes for customers and employees, making us more competitive.

There's been substantial progress over 2018, with \$320m in productivity savings delivered by 30 September 2018 through workforce restructuring, digitisation, operating improvements and reduction in third-party spend.

EXPANDED AND SCALED CUSTOMER JOURNEYS

To deliver the best customer experience, we're continually assessing the journeys our customers take.

Since October 2016, Journeys delivered over 120 initiatives impacting over 4 million retail and 150,000 business customers, driving a material improvement in customer experience, revenue growth, cost reduction and capacity release, including:

- A new digital rollover process for term deposits is helping 350,000 customers – with over 1,000,000 interactions a year – and reduced banker processing times from 20 minutes to 2 minutes.
- Improving wealth customers' experience by providing a transparent and visual representation of how their superannuation has performed over time, relative to market movements and fees.
- Streamlining on-boarding for business customers, allowing bankers to complete the process in minutes rather than days (saving 41,300 banker hours annually).

Customer Journeys are also creating a more agile organisation through human-centred design, multi-disciplinary teams and digital enablement that aim to deliver improved services at twice the speed.

¹ Based on business lending market share from APRA's September 2018 Monthly Banking Statistics.

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OUR FOUNDATIONS

FRANKiE4 Footwear
NAB customer

Caroline McCulloch

"NAB's financially backing us, it's a partnership and they are helping us grow this business."

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TECHNOLOGY

In 2018, we continued to improve the customer's experience by prioritising the technology that supports our business strategy, including:

INSOURCING TECHNOLOGY AND ADOPTION OF CLOUD SERVICES

As part of our Technology Strategy, we started a program of insourcing technology functions that are differentiating to our customers, which allow us to provide new innovative products at a faster rate.

We're also moving many of our applications out of our data centres to cloud-based infrastructure to provide more reliable service for customers. None of our cloud-based applications were impacted by the critical data centre incident (see right).

We've also developed the NAB Cloud Guild, a technical education capability designed to train our technical staff at scale, building important cloud computing skills within NAB. By improving the technical capacity of our teams, we lower outsourcing to IT providers, thus reducing costs and improving our ability to develop new innovative products quickly. To date we've trained over 3,000 people.

IMPROVING OUR SECURITY CAPABILITIES

The sophistication and number of cyber-attacks continue to rise, and NAB is adapting to stay ahead.

NAB is continuously enhancing its security capabilities with a priority on strengthening data protection to reduce the risk of accidental or deliberate information loss. Identity management capabilities reduce the risk of unauthorised system access and cyber capabilities improve cyber threat detection with reduced response time.

In 2018, NAB increased investment in security by more than 70%.

NAB is in the process of unifying its approach to security, moving all security-related operations under one division as it continues to evolve and strengthen the way it protects the data of customers, its people and shareholders. The moves see all elements of NAB's security – physical, fraud, cyber and investigations – come together in an integrated security model.

That enables NAB to be better prepared for the future, further strengthening its intelligence-led, data-driven security function to adapt to the continually evolving threats. The converged data and operating model will realise enhanced identification of risks, faster detection of security events and improved response capabilities.

Our security team provides insights on measures customers can take to protect themselves online and keep their information secure. We have comprehensive resources available on nab.com.au/security for personal and business customers, including online training for small and medium business owners.

CRITICAL DATA CENTRE INCIDENT

On Saturday, May 26, 2018, a power issue resulted in a systems failure that impacted NAB and BNZ customers across Australia and New Zealand.

It was our most significant disruption for several years, leaving customers stranded at checkouts with shopping, petrol or services that they couldn't pay for. Our customers couldn't access Internet Banking or our ATMs and business customers couldn't trade using our EFTPOS terminals.

While we identified the problem and mobilised quickly, it took several hours to have all services restored.

We took full responsibility for this, apologising without reservation to all our customers and compensating customers who were financially impacted by the outage. We provided \$7.4m in compensation. We resolved 86% of customers claims within five days of lodging and 67% closed within the same day.

After a detailed review of the incident, we strengthened many of our operational processes to prevent a similar situation in the future. The event also taught us a great deal about how and when to communicate with customers during a service disruption.

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TECHNOLOGY

MODERNISING OUR DATA CAPABILITIES

We continue to work with the Government on establishing Open Data Standards, which we'll implement using Application Program Interface (API) technology. This enables customers to have their data provided securely to other certified data service providers with whom our customers want to share their data.

This year we began a multi-year program to modernise our data architecture, using cloud technologies. We've completed the first releases of our NAB Data Hub and NAB Discovery Cloud, which utilise external cloud services. With these tools, we're able to anticipate our customers' needs better, enabling us to create the products and services that customers expect, while at the same time, saving on costs through automation of operations processes.

We're also investing in enhancing core data and analytics capabilities which ensure a solid data foundation for the future.

AGILE DELIVERY

We have improved our NAB Connect Mobile app so that our business customers can now authorise or make fast payments wherever they are, in the moments that matter.

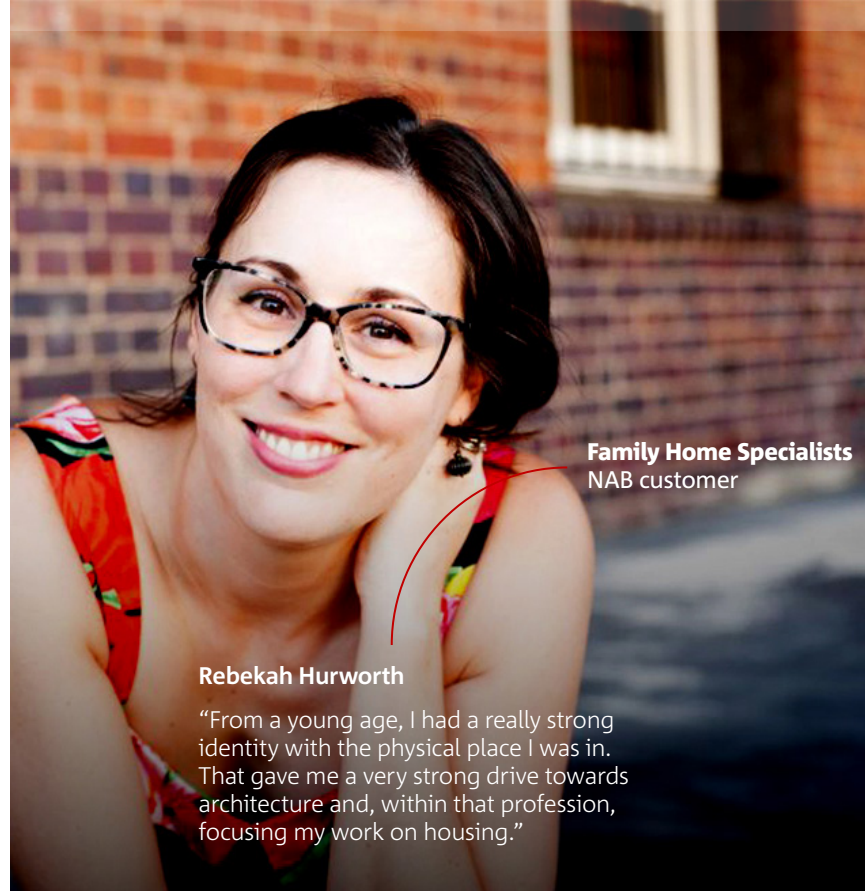
Our customers can also do more on our Mobile Internet Banking app, such as look up details of merchants for payments, make fast payments using the PayID industry standard, set their PIN, receive notifications within the app, view the estimated equity in their home and easily apply for products they need.

Additionally, our customers can easily find solutions to their needs online with our Virtual Assistant and live chat combined customer service experience. It is estimated that this will save over one million calls to our call centres by 2020.

FUTURE FOCUS

Looking forward, we'll continue to focus on ensuring that our technological capability is:

- **Fast:** able to experiment, deliver and learn quickly
- **Agile:** able to shift our technology as markets evolve
- **Efficient:** operate at top decile efficiency and productivity
- **Relevant:** deliver fit-for-purpose solutions that our customers value
- **Resilient:** operate world-class, resilient and secure systems
- **Deep:** develop and maintain strong technical capabilities



Family Home Specialists
NAB customer

Rebekah Hurworth

"From a young age, I had a really strong identity with the physical place I was in. That gave me a very strong drive towards architecture and, within that profession, focusing my work on housing."

Our approach to technology is focused on three core areas: delivering reliable and stable experiences for our customers and people, continually improving our technology platforms and services to make them simple and agile, and getting products to our customers faster.

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RISK MANAGEMENT

Risk management is one of the key foundations for the successful implementation of our strategy. It's central to everything we do and drives true sustainability in our business.

During 2018, we continued to invest in compliance and operational risk management, as well as building on our risk culture so we can respond to the needs of our customers and community.

Effective risk management¹, including a sound risk culture, is essential to achieving our vision and delivering the right outcomes for customers. For our bankers, our risk management strategy translates into everyday actions that involve 'taking the right risks, with the right controls, for the right return'.

RISK CULTURE AND CONDUCT

Our culture is shaped by our purpose, vision, values and behaviours. Our Board and executive management set and reinforce an appropriate 'tone from the top' for a risk culture that supports all employees to do the right thing.

We recognise the importance of customer and community trust and can only earn this by treating people with respect and fairness. That is why we revised, for 2019, the conduct risk framework and its definition. For NAB, conduct risk is the 'risk that any action of mine or my colleagues will result in unfair outcomes for customers'. This acknowledges that this risk may arise through any of our actions (whether intentional or unintentional).

We also focus on our values and behaviours that amplify our passion for customers, doing the right thing, speaking up about issues that impact our customers and ensuring that we face into and fix issues quickly.

We back our people to speak up if they are concerned about anything they see in their day-to-day activities and in turn we protect and support them. Our Whistleblower Program remains an integral component of our management strategy to continue building on our risk culture and conduct capabilities.

ENHANCING OUR RISK MANAGEMENT FRAMEWORK AND PRACTICES

We continued strengthening our risk management framework and practices in 2018, with actions including:

- Investment in uplifting compliance risk management capacity and capability and incorporating improved management of financial crime risk.
- Redesign of a conduct risk framework that delivers on customer fairness in line with community expectations.
- Enhancing our risk appetite framework to monitor and manage acceptable risks.
- New credit operating structure to support high quality credit decisions and align to our customers' needs. The new structure embraces the value of specialisation, allows bankers to focus on specific industries and means customers benefit from a deeper industry understanding.
- Simplified credit decision making to allow front line bankers to respond more quickly and appropriately to customers.

PUTTING CUSTOMERS AT THE HEART OF RISK MANAGEMENT

We recognise how important the Banking Code of Practice is to our individual and small business customers. The Code was recently updated to better align with changing community standards and expectations around banking products being easier to understand and more customer focused. As a signatory bank to the new Code, we're proud to support it.

For our customers, improving our risk management capabilities results in:

- Making it easier for customers to transact with us.
- Reducing application times for business lending.
- Banking solutions that meet their needs in a changing world.

MANAGING REGULATORY CHANGE

NAB and the broader financial services industry continue to experience a heightened level of regulatory change, that is likely to continue. As a result, we are focused on early engagement with our key regulators in an open, constructive and proactive manner to understand, shape and prepare for regulatory reform. That helps manage the impact of regulatory change on our customers, people and shareholders.

¹ The material risks managed by the Group are: credit risk, operational risk, compliance risk, conduct risk, balance sheet & liquidity risk, market risk, regulatory risk and strategic risk.

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RISK MANAGEMENT

We believe that identifying and managing Environmental, Social and Governance (ESG) risk can help us mitigate risks and identify a range of opportunities.

Our ESG Risk Principles provide an overarching framework for integrating ESG risk considerations into our day-to-day decision making. They align with our values and vision. ESG risk is not managed as a separate risk category but integrates across our material risk categories¹.

GOVERNANCE

NAB's Board retains ultimate oversight for ESG risks and issues. ESG risks are identified, measured, monitored, reported and overseen in accordance with the Group's Risk Management Framework (as described in the Group's Risk Management Strategy). The Group Regulatory, Compliance and Operational Risk Committee has oversight of these risks, including the Group's Environmental Agenda and performance. The Group Credit and Market Risk Committee oversees ESG risk in the context of the credit risk portfolio. Matters are escalated to the Group Risk Return Management Committee, Board Committees and Board as required.

We believe information on how our suppliers, business partners and customers manage ESG risks provides us with valuable insights about their current and potential future business performance.

ESG PERFORMANCE

NAB considers ESG risk in the assessment of potential and existing business relationships – particularly in credit risk and procurement risk assessment and due diligence processes.

Our objective is to understand the companies with whom we form business relationships. We believe information on how our suppliers, business partners and customers manage ESG risks provides us with valuable insights about their current and potential future business performance. ESG risk data, information and insights also help inform our risk appetite and credit risk policy settings.

Key ESG risk management activities this year include:

- A biennial review of Group Environmental Policies.
- Our annual Human Rights Policy review which included dialogue with NGO stakeholders.

- A review of credit risk policy settings for the oil and gas sector. This is part of a phased review of climate intensive, low carbon and climate sensitive sectors that commenced in 2017 and runs through to 2020. Going forward, as an outcome of the oil and gas sector review, NAB will not finance: (i) oil/tar sands extraction projects; and (ii) oil & gas projects within or impacting the Arctic National Wildlife Refuge area and any similar Antarctic Refuge.
- Joining the United Nations Environment Program Finance Initiative (UNEP FI) Responsible Banking Principles initiative.
- Partnering with IAG, UNEP FI, the Responsible Investment Association of Australia, Principles for Responsible Investment and the Investor Group on Climate Change to start an Australian and New Zealand Sustainable Finance Roadmap process – this commenced with a conference held in Sydney in July 2018.

CLIMATE CHANGE

NAB recognises that climate change is a significant risk and major challenge for the global economy and society. Regulators, investors and other stakeholders are also interested in how we're managing the risks arising from climate change.

Climate change governance is provided through oversight by our Board and risk committees. Additionally, our Climate Change Working Group reviews the risks and opportunities facing NAB and its customers arising from the Paris Agreement and monitors and supports the implementation of our climate change strategy.

In 2018, we undertook a range of activities to deepen our understanding of climate-related risk including:

- Participating in a United Nations Environment Program Finance Initiative (UNEP FI) pilot project with 15 other UNEP FI member banks to test recommendations made by the Financial Stability Board's Task Force on Climate-related Financial Disclosures. The project involved piloting methodologies for using climate change scenarios to assess the 'stress' or impact of physical and transition risks on our lending portfolio.
- Working with various organisations to identify and demonstrate ways the finance sector can invest in, or lend to, climate adaptation initiatives which reduce climate risk exposure and deliver commercial returns and community resilience.
- Partnering with CSIRO to establish the Australian National Outlook (ANO) Project. This included consideration of two global outlooks on climate action corresponding to 2°C and 4°C increases from pre-industrial temperature.

Our climate change disclosures align with the recommendations of the Task Force on Climate-Related Financial Disclosures. Therefore, we continue to provide disclosures on climate change governance, strategy, risk management, and metrics and targets throughout our annual reporting suite.

Further details are provided in our **2018 Annual Financial Report** pages 32-35 and **Sustainability Report**.

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¹ The material risks managed by the Group are: credit risk, operational risk, compliance risk, conduct risk, balance sheet & liquidity risk, market risk, regulatory risk and strategic risk.

OUR FOUNDATIONS

BALANCE SHEET STRATEGY

In 2018, the Group maintained a strong capital, funding and liquidity position, in line with our ongoing commitment to balance sheet strength.

We continually monitor and assess our position so that changes in market conditions and regulation can be accommodated.

Our strategy focuses on ensuring balance sheet strength. The Stable Funding Index (SFI), which represents the proportion of our core assets that are funded by customer deposits and term wholesale funding with a remaining term to maturity of greater than 12 months has remained stable at 93.3% (2017: 93.4%), as our focus to maintain stable sources of funding continued throughout 2018.

We've continued to access a diverse range of wholesale funding markets; this includes both the development of new products and achieving further diversification within existing markets. The Group raised \$28.4bn of term wholesale funding for 2018.

We've maintained strong liquidity throughout the year. The 30 September 2018 quarterly average Liquidity Coverage Ratio (LCR) was 129%, and the Net Stable Funding Ratio (NSFR) was 113%, both well above the Australian Prudential Regulation Authority (APRA) regulatory requirement of 100%.

Our capital management strategy concentrates on adequacy, efficiency and flexibility. The amount of capital we hold considers our risk appetite, informed by an internal risk-based assessment, regulatory requirements and shareholder expectations. This approach is consistent across the Group's subsidiaries.

The Group's capital ratio operating targets are regularly reviewed in the context of the external economic and regulatory outlook with the objective of maintaining balance sheet strength. APRA's 'unquestionably strong' capital framework review is ongoing. The Group is expecting to achieve Common Equity Tier 1 (CET1) benchmark of 10.5% from January 2020.

NAB remains well capitalised. As at 30 September 2018, NAB's CET1 ratio was 10.20% on an APRA basis and 14.60% on an internationally comparable basis. NAB's Leverage Ratio was 5.4%.

Diabete-ezy
NAB customer

Elissa Renouf

When four of her five children were diagnosed with Type 1 diabetes, the challenges associated with their care inspired Elissa to start Diabete-ezy.

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SUPPORTING COMMUNITIES

We're committed to working with our customers, people and communities to help Australians prosper into the future. This means taking action on critical environmental and societal issues. Our Social Impact priorities are Financial Health, Environmental Wellbeing and Stronger Communities.

We're driving change by:

- Giving our time, money and resources where we can help people most, to scale up our social impact.
- Acting responsibly and being an ethical business that cares about people and the planet.
- Finding new ways to create value by using our core business skills to find commercial opportunities that address the big environmental and social challenges facing Australians.

FINANCIAL HEALTH

During the year, we continued our 15-year partnership with Good Shepherd Microfinance to help more than 585,000 Australians on low incomes to access credit. We also launched Speckle, an online small loan product designed to disrupt payday lenders. This is part of our ongoing commitment to provide \$130 million in capital for fair and affordable loans to Australians excluded from mainstream finance.

We are committed to supporting Indigenous success by enabling greater access to finance and employment. We aim to improve the financial inclusion of Indigenous Australians, increase our support of Indigenous businesses and improve career paths. This year, we have provided over 6,500 loans for Indigenous Australians on low incomes, recruited 93 indigenous employment program participants and spent almost \$600,000 with Indigenous businesses.



SUPPORTING COMMUNITIES

As one of Australia's largest businesses, we've got a clear role to play in strengthening communities. Our people have used their skills and energy to support the community through our volunteering program, which was established in 2002. This year, we contributed 15,397 days of volunteering to our communities, and a total \$54.4 million community investment in 2018. NAB's philanthropic arm, the NAB Foundation provided \$1.6 million in grants to environmental organisations in regional areas addressing ecological challenges.

As Australia's largest agribusiness bank¹, we're committed to supporting regional and rural Australia. We held a listening tour this year, visiting 13 towns to hear directly from customers about how to better serve them. We also launched a Drought Assistance Package for affected customers in Queensland and New South Wales, offered Farm Management Deposit offsets and waived penalty fees for eligible customers. A community relief package of more than \$280,000 was donated to the Country Women's Association NSW and QLD.

¹ Source: RBA Banking System/NAB APRA Submissions September 2018.



Unita Group
NAB customer

Robert Rowe

"I love the process of building experiences that people want to share, talk about and return to."

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SUPPORTING COMMUNITIES

CLIMATE CHANGE & ENVIRONMENTAL WELLBEING

As a bank, we have a unique role in supporting environmental wellbeing and the transition to a low carbon economy. We recognise that climate change is a significant risk and challenge for the global economy and society.

Our climate change strategy focuses on: (1) leadership commitments, (2) developing climate change knowledge and insights, (3) supporting our customers through the low-carbon transition and (4) investing in organisational capability to identify and respond to climate change risks and opportunities.

Highlights from our climate-related activities and commitments in 2018 include:

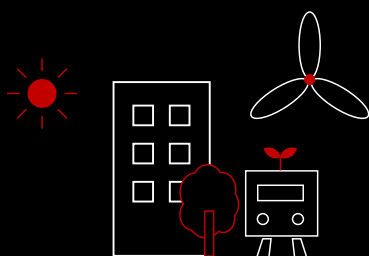
- Reaching a total of \$22.9bn towards our 2025 \$55 billion environmental finance commitment to assist the low carbon transition.
- Financing of our 100th renewable energy transaction since 2003. The total at 30 September 2018 was 114 projects and our power generation lending portfolio is now 68.8% renewable energy.
- Issuing a EUR750m NAB Sustainable Development Goals (SDG) Green Bond (August 2018) – the largest ever green bond from an Australia issuer, and NAB's 6th green bond.
- Nearly doubling the number of branches with installed solar panels (now at 78).
- Being on track to meet our 10% by 2018 and 50% by 2025 renewable energy sourcing commitment.
- Supporting our business customers with discounted equipment finance for renewable energy and energy efficiency investments providing \$300 million in finance to date since 2015.

There's more information available in our [2018 Annual Financial Report](#) on page 32 and our [2018 Sustainability Report](#).

OUR ENVIRONMENTAL FINANCING COMMITMENT

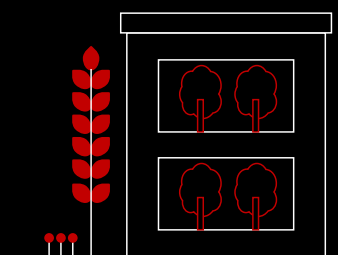
We're making progress against our commitment to provide \$55 billion in Environmental finance by 2025 in order to help address climate change and transition to a low-carbon economy.

This includes:



\$20BN

to support green infrastructure, capital markets and asset finance



\$35BN

in new mortgage lending flow for 6 Star residential housing in Australia (new dwellings and significant renovations)

ENVIRONMENTAL FINANCE CATEGORY	TOTAL ¹
Lending activity	\$BN
Lending for Green Star certified commercial buildings	0.2
Specialised and corporate finance for projects that reduce emissions and assist with climate change adaptation, and lending to other low carbon businesses	4.6
Asset finance	0.3
Debt market activity	
Green bonds	4.8
Advisory, underwriting and arranging activity	
Advisory activities, underwriting and arranging	0.5
Progress towards 2025 target of \$20 billion	10.4
Lending flow to support development of 6 Star residential properties ²	12.5
Progress towards 2025 target of \$35 billion	12.5
PROGRESS TOWARDS AGGREGATED 2025 TARGET OF \$55 BILLION	22.9

¹ Represents total cumulative new flow of environmental financing from 1 October 2015.

² Along with new home loan construction, this amount includes residential financing provided for activities where the identified purpose is 'construction'. This typically includes major renovation activity in which the borrower undertakes a progressive drawdown of the loan amount. For major renovations, state building requirements for such construction activity generally require the overall home to meet a 6-star energy rating.

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GOVERNANCE

Our robust governance framework underpins effective decision making across our business.

Our approach to corporate governance is supported by:

- A skilled, experienced, diverse and independent Board.
- Strong, accountable and coordinated management.
- Risk management and policy frameworks.
- Timely and comprehensive communication with stakeholders.
- A genuine, long-term commitment to sustainability.
- Compliance with law and regulation.

In 2018, we continued to apply high standards of corporate governance and complied with the 3rd edition of the ASX Corporate Governance Principles and Recommendations. These principles set best practice in governance for ASX listed companies.

THE BOARD

Our Board provides strategic direction for our business and represents the interests of our shareholders through the creation of sustainable value. The Board achieve this through a focus on customers, employees and the broader community. The Board is supported by its Committees, as shown in the NAB governance framework diagram to the right.

The NAB Board has standing committees that cover each of Audit, Remuneration, Risk and Nomination & Governance matters. Other committees are created, with specific remits, when required.

Each Committee has a Charter that sets out its scope, authority, duties and responsibilities. In 2018, the activity of the Remuneration Committee was expanded on a trial basis to include key people topics.

The expansion facilitated a deeper focus on NAB's People strategy during a time of significant transformation.

The Board reserves certain powers for itself and delegates authority and responsibility for day-to-day management to the Group CEO (and other people responsible for the day-to-day management of our business). The Group CEO in turn delegates certain authorities to senior executives. These delegations are regularly reviewed and confirmed and are consistent with the requirements of the *Banking Executive Accountability Regime* (BEAR).

RESPONSIBLE REMUNERATION

The Board is determined to drive a focus on exceptional customer service at every level of the bank to achieve our strategy and deliver sustainable, long-term performance.

In 2018, NAB made significant changes to remuneration – to encourage performance that represents the interests of all NAB stakeholders.

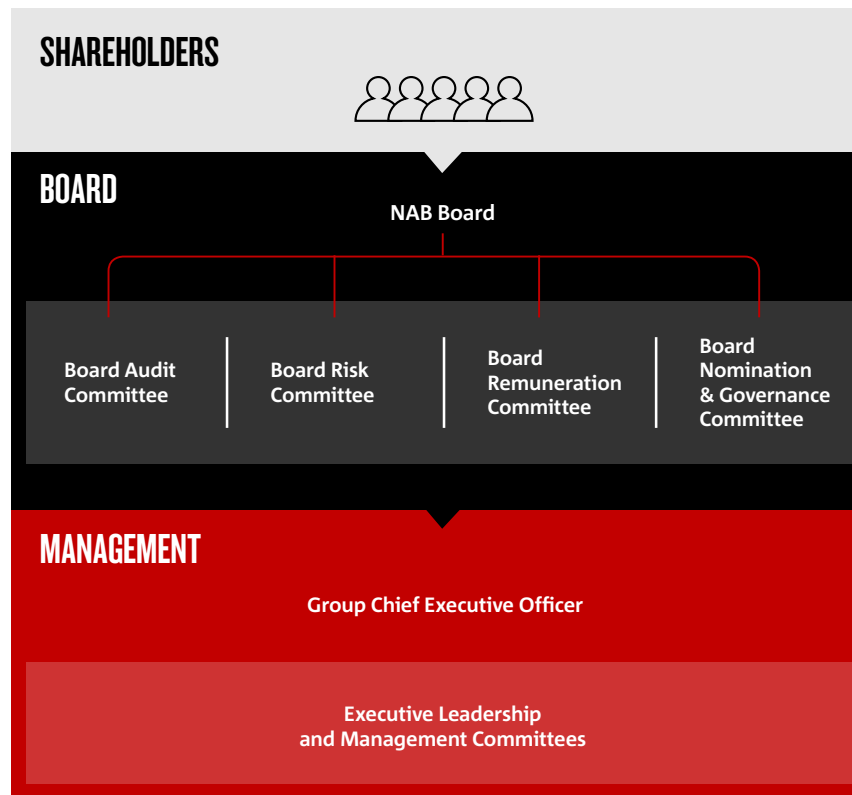
We closed a number of legacy sales based incentive plans. Across the business, 100% of our people now have a balanced scorecard, with compulsory customer and risk measures. Our standard group variable reward plan now covers 97% of our people.

NAB is fully compliant with the retail banking remuneration related recommendations of the Sedgwick Report, in advance of the 2020 deadline.

We introduced a new executive remuneration framework for the CEO and Executive Leadership Team.

NEW EXECUTIVE REMUNERATION FRAMEWORK

The new framework makes more transparent the means by which the Board holds leaders accountable when NAB falls short of customer, shareholder and community expectations.



Key points on the new framework:

- Remuneration is now received in only two components. The first component is **fixed remuneration**, including superannuation (effectively a base salary). The second component is a **single variable reward** (determined by the Board on the basis of performance in the year).
- Variable reward is paid as follows:
 - 40% in cash
 - 60% deferred for 4 years (in dividend paying shares). Deferred shares cannot be traded during the deferral period.
- Executive outcomes are aligned to shareholders, through deferral in shares upon which dividends are paid.
- All variable reward is subject to clawback, further extension of deferral periods and/or forfeiture at the Board's discretion, for any reason, including:
 - regulatory compliance, customer service outcomes and matters that impact on the bank's reputation; and
 - upon resignation, dismissal for cause or failure to meet threshold conduct requirements.
- The Board will monitor the vesting of deferred shares (in light of individual and bank performance) throughout the 4 year deferral period.

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GOVERNANCE

Behaviour that does not put the customer first cannot provide a sustainable foundation for any business and therefore is not aligned with our shareholders. The 4 year deferral of a significant proportion of an executive's variable reward (paid in shares) emphasises the alignment with shareholders.

The new framework removes complexity and encourages performance that represents the interests of all NAB stakeholders. Its development involved engagement with investors, proxy advisors, regulators and executives. It is designed to ensure that NAB delivers exceptional customer service. We will monitor its effectiveness over time.

The new framework is compliant with the *Banking Executive Accountability Regime* (BEAR).

It applies with effect from 1 October 2017. The Board used the new framework to assess the 2018 performance outcomes for the Group CEO and Executive Leadership Team. Those outcomes are set out in **NAB's 2018 Remuneration Report**.

FOCUS ON GOVERNANCE

Good governance matters. Our governance practices empower and enable our operations. They provide clarity on the scope of authorities, encourage transparency and support compliance. Good governance allows the timely flow of information to the Board to assist it in fulfilling its roles and responsibilities.

Significant governance activities undertaken in 2018 included:

- A comprehensive program of work to embed the requirements of the BEAR by the 1 July 2018 start date; and
- A detailed self-assessment of governance, accountability and culture frameworks and practices (although an APRA requirement, it was a piece of work already instituted by the Board).

ACCOUNTABILITY

In readiness for the BEAR start date of 1 July 2018, NAB registered its directors and identified senior executives as 'Accountable Persons' with APRA.

Implementing BEAR has strengthened existing accountability structures and practices and provided greater clarity on accountabilities, resulted in clearer delegation and decision making processes and prompted an internal review of existing risk management practices and procedures across NAB.

The work to further embed BEAR will continue in 2019.

RISK GOVERNANCE

The Board's Risk Committee supports the Board in relation to its risk governance responsibilities. This involves overseeing the management of NAB's risks against the Board approved Risk Appetite Statement.

The Risk Management Strategy is reviewed annually (and more frequently as required) by NAB and approved by the Board. Once approved by the Board, the Risk Management Strategy is submitted to APRA.

The Board makes an annual declaration to APRA on risk management in accordance with the requirements of APRA Prudential Standard CPS 220 *Risk Management*.



GOOD GOVERNANCE

Following the release of APRA's report on its Prudential Inquiry into the CBA in April 2018, NAB promptly mobilised a comprehensive self-assessment of its governance, accountability and culture frameworks and practices. NAB's Risk function led the project, supported by an Advisory Committee of senior leaders from across the bank, ensuring a diversity of views. Directors have worked closely with the Risk function to support the delivery of this critical work.

The assessment has involved detailed interviews, including with Directors, the Group Company Secretary, the Executive Leadership Team, Internal Audit and the Independent Customer Advocate. In addition, focus groups were held with a diverse cohort of NAB employees and customers, as well as discussions with regulators and key community stakeholders.

NAB has engaged with APRA throughout on the scope and methodology for the self-assessment. NAB is confident the self-assessment will respond to the regulator's request and produce insights that enable NAB to deliver on our vision to be Australia's leading bank, trusted by customers for exceptional service.

NAB's self-assessment is currently concluding, with the findings to be reported to APRA by late November 2018.

From 1 October 2018, NAB is fully compliant with the retail banking remuneration related recommendations of the Sedgwick Report, in advance of the 2020 deadline.

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BOARD OF DIRECTORS

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GERALDINE MCBRIDE

Non-executive director since March 2014. Geraldine is a member of the Board's Audit Committee.

ANN SHERRY

Non-executive director since November 2017. Ann is a member of the Board's Remuneration Committee.

ANTHONY YUEN

Non-executive director since March 2010. Anthony is a member of the Board's Audit Committee and Risk Committee.

ANDREW THORBURN

Managing Director and Group Chief Executive Officer since August 2014. Andrew attends the Board's Risk Committee and Remuneration Committee.

DOUG MCKAY

Non-executive director since February 2016. Doug is a member of the Board's Audit Committee and Nomination & Governance Committee.

KEN HENRY

Chairman since December 2015 and a non-executive director since November 2011. Ken is also Chairman of the Board's Nomination & Governance Committee.

DAVID ARMSTRONG

Non-executive director since August 2014. David is Chairman of the Board's Audit Committee and a member of the Risk Committee.

PHILIP CHRONICAN

Non-executive director since May 2016. Philip is Chairman of the Board's Risk Committee and a member of the Remuneration Committee.

ANNE LOVERIDGE

Non-executive director since December 2015. Anne is Chairman of the Board's Remuneration Committee and a member of the Nomination & Governance Committee.

PEEYUSH GUPTA

Non-executive director since November 2014. Peeyush is a member of the Board's Risk Committee, Remuneration Committee and Nomination & Governance Committee.

Building a stronger and better bank for customers, by backing the bold who move Australia forward.

As Chairman, Dr Ken Henry is responsible for leading the Board and ensuring that it operates to a high standard of corporate governance, as well as fulfilling its duties under the Board's Charter, published in the Corporate Governance section of our website.

The Board actively reviews its composition to ensure it maintains the appropriate mix of skills, experience, expertise and diversity required to fulfil its responsibilities. Board succession planning is a core function of the Board's Nomination & Governance Committee.

Board performance, Committee performance and director independence are assessed annually.

The Board has reviewed and taken into consideration the existing workload of directors and concluded that each director has sufficient capacity to undertake the duties expected of a director of NAB.

For detailed information on the skills and experience of each director, see pages 24-26 of the **2018 Annual Financial Report** and page 7 of the **2018 Corporate Governance Statement**.

For more on our corporate governance practices, see our 2018 Corporate Governance Statement at nab.com.au/about-us (in the Corporate Governance section).

OUR PERFORMANCE

GROUP FINANCIAL PERFORMANCE

2018 GROUP FINANCIAL PERFORMANCE¹

RESULTS (\$M) ^{2, 3, 4}	2018	2017
Net interest income	13,467	13,166
Other operating income ⁵	4,510	4,729
Net operating income	17,977	17,895
Operating expenses ⁶	(8,992)	(7,635)
Underlying profit	8,985	10,260
Credit impairment charge	(779)	(810)
Cash earnings before tax and distributions	8,206	9,450
Income tax expense	(2,404)	(2,710)
Cash earnings before distributions	5,802	6,740
Distributions	(100)	(98)
Cash earnings	5,702	6,642
Cash earnings (excl restructuring-related costs and customer-related remediation)	6,493	6,642
Non-cash earnings items (after tax):		
Distributions	100	98
Fair value and hedge ineffectiveness	182	(500)
Amortisation of acquired intangible assets	(30)	(62)
MLC Wealth divestment transaction costs	(12)	-
Net profit from continuing operations	5,942	6,178
Net loss after tax from discontinued operations ⁷	(388)	(893)
Net profit attributable to owners of NAB ('Statutory Basis')⁸	5,554	5,285

1 Refer to **Glossary and definitions on page 41** of this report, for definitions of the above financial metrics.

2 Figures are in Australian dollars, unless otherwise stated.

3 Information is presented on a continuing operations basis. Refer to **Glossary and definitions on page 41** for definition of continuing operations and discontinued operations.

4 NAB's audited financial statements, prepared in accordance with the *Corporations Act 2001* (Cth) and Australian Accounting Standards, are set out in NAB's **2018 Annual Financial Report**. A definition of cash earnings is set out in the **Glossary and definitions on page 41** 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 in Note 2 of NAB's **2018 Annual Financial Report**.

5 Includes customer-related remediation of \$249 million for the September 2018 year end.

KEY INDICATORS ^{2, 3, 4}	2018	2017
Statutory earnings per share (cents) – basic	201.3	194.7
Statutory earnings per share (cents) – diluted	194.0	189.1
Cash earnings per share (cents) – basic	210.4	249.3
Cash earnings per share (cents) – diluted	202.4	239.7
Statutory return on equity	11.2%	10.9%
Cash return on equity (ROE)	11.7%	14.0%

PROFITABILITY, PERFORMANCE AND EFFICIENCY MEASURES^{2, 3, 4}

Dividend per share (cents)	198	198
Dividend payout ratio	94.1%	79.4%
Cash earnings on average assets	0.71%	0.83%
Cost to income (CTI) ratio	50.0%	42.7%
Net interest margin	1.85%	1.85%

CAPITAL

Common Equity Tier 1 ratio	10.20%	10.06%
Tier 1 ratio	12.38%	12.41%
Total capital ratio	14.12%	14.58%

ASSET QUALITY^{2, 3, 4}

90+ days past due and gross impaired assets to gross loans and acceptances	0.71%	0.70%
Specific provision to gross impaired assets ⁹	44.4%	45.5%

OTHER

Full Time Equivalent Employees (FTE) (spot)	33,283	33,422
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6 Includes restructuring-related costs of \$755 million and customer-related remediation of \$111 million for the September 2018 year end.

7 Discontinued operations is defined in the Glossary and definitions and for the September 2018 full year includes customer-related remediation relating to the insurance business and additional costs associated with the insurance business sale, plus the final payment relating to the Conduct Indemnity Deed entered into with CYBG.

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

9 Ratio excludes \$2 million (NZ\$3 million), September 2017: \$205 million (NZ\$222 million) of New Zealand Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans.

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OUR PERFORMANCE

NON-FINANCIAL PERFORMANCE

2018 GROUP NON-FINANCIAL PERFORMANCE ^{1, 2}	2018	2017
Net Promoter Score (Home Owners – HL@bank) – Australia ³	-19	-20
Net Promoter Score (Investors) – Australia ³	-18	-16
Net Promoter Score (Small Business) – Australia ³	-21	-16
Net Promoter Score (Medium Business) – Australia ³	-5	+3
Net Promoter Score (Priority segments) – Australia ³	-16	-12
Number of customer complaints – Australia and New Zealand ⁴	236,696	225,011
Number of branches and business banking centres	911	977
Number of ATMs	3,328	3,491
% of registered internet banking customers that are active users – Australia	75%	74%
Number of microfinance loans written – Australia and New Zealand ⁵	32,266	27,146
Value of microfinance loans written (\$m) – Australia and New Zealand ⁵	36.0	29.3
Cumulative number of low income Australians assisted with microfinance products/services ⁵	585,005	513,941
Number of customers assisted experiencing financial hardship – Australia	18,315	19,652
NAB Group overall employee engagement score ⁶	54	59
NAB 'Alignment to our values' score ^{6, 7}	70	76
Number of disclosures received under the Whistleblower Policy	123	87
Number of data breach notifications sent to the Office of the Australian Information Commissioner (OAIC)	8	DNR
Number of breaches of our Code of Conduct – Australia ⁸	1,215	1,613

- 1 NAB Group non-financial performance table data is described in detail in our [2018 Sustainability Report](#). 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 and definitions on page 41](#) for definition of continuing operations and discontinued operations.
- 3 Roy Morgan Research 6 month moving AFI advocacy, DBM (BF5M) 6 month moving AFI advocacy as at 30 September 2018. Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter Systems are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. 2017 NPS performance for Home Owners has been restated to reflect the change to HL@bank for this priority segment. Refer to [Glossary and definitions on page 41](#) for definition of NAB's priority segments.
- 4 Reflects our ongoing commitment to encourage customer feedback and address customer concerns. For further information, refer to [2018 Sustainability Report](#).
- 5 Delivered in partnership with Good Shepherd Microfinance (Australia) and Good Shepherd New Zealand. Cumulative data has been collected since 2005 in Australia and 2014 in New Zealand.
- 6 Source: Employee Engagement Survey conducted by Aon Hewitt.
- 7 Alignment to values is a measure of the response to the question: "My everyday work is guided by the organisation's values/behaviours."
- 8 Code of Conduct breaches represent confirmed breaches managed through our Workplace Relations team. In 2017, 343 breaches were attributable to one particular issue relating to the incorrect completion of forms and, where appropriate, disciplinary action was consistently applied following a thorough investigation.

2018 GROUP NON-FINANCIAL PERFORMANCE ^{1, 2}	2018	2017
% of women in total workforce ⁹	52	54
% of women in Executive Management (salary Group 6 and 7) ⁹	31	31
% of women on NAB Group subsidiary Boards ⁹	39	39
% of women on the NAB Board (excluding executive directors) ¹⁰	33	25
% of employees 50 years of age or over ^{9, 11}	20	19
Return to work rate (%) for employees following primary carer's leave and any consecutive extended leave – Australia	83	86
Number of Indigenous Australians employed ¹²	287	209
Total employee turnover rate (%) ^{9, 13}	17.4	14.9
Voluntary employee turnover rate (%) ^{9, 13}	11.3	11.4
Retention rate (%) of high performing employees – Australia and New Zealand ^{9, 14}	93	93
Absenteeism – Australia ^{9, 15}	8.13	8.37
Community investment (\$m)	54.4	44.6
Number of volunteer days completed	15,397	16,115
Value of volunteer days completed (\$m) ¹⁶	6.8	6.4
Progress towards 2025 \$55bn environmental financing commitment (\$bn) ¹⁷	22.9	13.4
Gross greenhouse gas emissions (Scope 1, 2 and 3) (tCO ₂ -e) ¹⁸	181,316	187,425
% of material suppliers that are signatories to NAB Group Supplier Sustainability Principles	88	90

- 9 Data has been calculated based on total population as at 30 September 2018. It includes all members of the NAB Group.
- 10 Calculation of the 2017 percentage of women on the NAB Board (excluding executive directors) does not include the appointment of a female non-executive director in November 2017.
- 11 Total number of employees aged 50 and over as a percentage of headcount.
- 12 2018 figure has been sourced from our annual Employee Engagement Survey conducted by Aon Hewitt. Prior year figure has not been restated.
- 13 Number of all employees who exited NAB each year, by exit type, as a percentage of the average permanent headcount for each respective year.
- 14 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.
- 15 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.
- 16 Value of volunteer days is calculated by applying average daily salaries by employment level, to number of days completed by employment level.
- 17 This includes NAB's financing of green infrastructure, capital markets, asset finance and new mortgage lending flow for 6 Star residential housing in Australia (new dwellings and significant renovations) as a cumulative amount of new finance since 1 October 2015.
- 18 Consolidated Scope 1, Scope 2 and selected Scope 3 GHG emissions (accounting for renewable electricity purchased in the UK) are for the environmental reporting year of 1 July – 30 June. Net greenhouse gas emissions for 2017 have been restated due to a recalculation of 2017 Scope 3 base building electricity within Australia. See our [2018 Sustainability Report](#) and [2018 Sustainability Data Pack](#) for further information.

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SHAREHOLDER INFORMATION

2018 ANNUAL REPORTING SUITE

You can view our 2018 Annual Reporting suite online at nab.com.au/annualreports.

A printed copy of our 2018 Annual Financial Report can be requested from the Share Registry either by emailing nabservices@computershare.com.au or 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 nab.com.au/shareholder.

HELPING CONVERT YOUR SHARES TO BENEFIT AUSTRALIAN CHARITIES

ShareGift Australia is a not-for-profit organisation providing 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 \$1.64 million to over 470 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 or call 1300 731 632.

2019 FINANCIAL CALENDAR¹

HALF YEAR RESULTS ANNOUNCEMENT

THURSDAY, 2 MAY 2019

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

Ex – Dividend Date for Interim Dividend Tuesday, 14 May 2019

Record Date for Interim Dividend Wednesday, 15 May 2019

Payment Date for Interim Dividend Wednesday, 3 July 2019

FULL YEAR RESULTS ANNOUNCEMENT

THURSDAY, 7 NOVEMBER 2019

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

Ex – Dividend Date for Final Dividend Thursday, 14 November 2019

Record Date for Final Dividend Friday, 15 November 2019

Payment date for Final Dividend Thursday, 12 December 2019

Annual General Meeting

Wednesday, 18 December 2019

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

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The Arnhem Land Progress Aboriginal Corporation is the largest Indigenous Corporation in Australia with 1,100 team members, and growing.

**Arnhem Land Progress
Aboriginal Corporation**
NAB customer

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ASSURANCE REPORT



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Independent Limited Assurance Statement to the Management and Directors of National Australia Bank Limited ('NAB')

Our Conclusion:

Ernst & Young ('EY', 'we') was engaged by NAB to undertake limited assurance as defined by Australian Auditing Standards, here after referred to as a 'review', over the materiality process, selected material topics and associated selected disclosures and performance metrics included in NAB's 2018 Annual Review (the 'Report') for the year ended 30 September 2018. Based on our review, nothing came to our attention that caused us to believe that:

- ▶ NAB has not presented its material issues and that the associated disclosures are not complete in the Report, where materiality and completeness are defined by the Global Reporting Initiative Standards ('GRI')
- ▶ The Performance Metrics and Disclosures detailed below, have not been reported and presented fairly, in all material respects, in accordance with the Criteria detailed below.

What our review covered:

We reviewed NAB's materiality process including NAB's approach to identification of material topics and the completeness of the disclosure of these material topics in the Report.

We also reviewed the following disclosures and performance metrics for the year ending 30 September 2018:

- ▶ 29 key non-financial metrics and the disclosures¹ included in the Report related to these key metrics
- ▶ The financial metrics included in the Report in the Group Financial Performance table on page 35 of the Report.

Criteria applied by NAB

In preparing the materiality process and selected material topics, NAB applied the GRI G4 principles of materiality and completeness. In preparing the selected disclosures and performance metrics NAB applied the following Criteria:

- ▶ NAB's reported Criteria for the key non-financial metrics detailed on page 36 of the Report
- ▶ NAB's accounting policies as defined in NAB's Annual Financial Report and financial reporting policies and principles per NAB's 2018 Results Announcement as detailed online at www.nabgroup.com (together 'the Criteria').

Key responsibilities

EY's responsibility and independence

Our responsibility was to express a limited assurance conclusion on the outcomes and reporting of NAB's materiality process, the reporting of selected material topics and associated selected disclosures and performance metrics and the reporting of selected financial metrics in the Report.

We were also responsible for maintaining our independence and confirm that we have met the requirements of the APES 110 Code of Ethics for Professional Accountants including independence, and have the required competencies and experience to conduct this assurance engagement.

NAB's responsibility

NAB's management was responsible for selecting the Criteria, and fairly presenting the materiality process, selected material topics and associated disclosures and performance metrics in accordance with that Criteria. This responsibility includes establishing and maintaining internal controls, adequate records and making estimates that are reasonable in the circumstances.

Our approach to conducting the review

We conducted this review in accordance with the International Federation of Accountants' *International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ('ISAE 3000'), the *Auditing Standard on Review Engagements ASRE 2405 Review of Historical Financial Information Other than a Financial Report* and the terms of reference for this engagement as agreed with NAB on 29 June 2018.

Summary of review procedures performed

A review consists of making enquiries, primarily of persons responsible for preparing the materiality process, selected material topics, selected performance metrics and related information, and applying analytical and other review procedures.

Our procedures included:

- ▶ Gaining an understanding of NAB's business and approach to sustainability
- ▶ Conducting interviews with NAB executive management and other key personnel relating to NAB's identification and inclusion of material sustainability issues in the Report in line with the GRI materiality and completeness principles
- ▶ Conducting checks such as a media review and comparison of peer reporting to understand whether NAB included and reported its material sustainability issues in line with the GRI materiality and completeness principles
- ▶ Conducting limited assurance procedures over the non-financial and financial performance metrics and disclosures, including:
 - ▶ Checking that the calculation Criteria have been applied as per the methodologies for the non-financial metrics within the report and for the financial metrics as defined in NAB's accounting and financial policies and 2018 Results Announcement online at www.nabgroup.com
 - ▶ Undertaking analytical procedures to support the reasonableness of the metric data
 - ▶ Identifying and testing assumptions supporting calculations
 - ▶ Testing, on a sample basis, underlying source information to check accuracy of the metric data
 - ▶ Checking the clerical accuracy of input data utilised in the performance indicators and metrics
 - ▶ Where applicable agreeing financial metrics to core financial systems and the 2018 Results Announcement
 - ▶ Testing, on a sample basis, the accuracy and balance of performance statements within the Report associated with the key non-financial metrics

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

Limited Assurance

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. 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.

While we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance 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.

Use of our Assurance Statement

We disclaim any assumption of responsibility for any reliance on this assurance report to any persons other than management and the Directors of NAB, or for any purpose other than that for which it was prepared.

Our review 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 this web-based information after the date of this assurance statement.

Ernst & Young
Melbourne, Australia
16 November 2018

Terence Jeyaretnam, FIEAust
Partner

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¹ The key non-financial metrics included in the scope were determined by NAB. A list of the 29 key non-financial metrics is included in our limited assurance statement for NAB's 2018 Sustainability Report, located at <https://www.nab.com.au/annualreports>

ADDITIONAL INFORMATION

BEING ACCOUNTABLE

Our 2018 Annual Review Steering Committee is responsible for ensuring the integrity of our integrated report (the 2018 Annual Review). The Steering Committee is comprised of representatives from key business functions, including Investor Relations, Finance and Corporate Affairs.

Other business functions have collectively contributed to the preparation of the 2018 Annual Review. These include Strategy, Governance, Risk, Legal, Treasury, People and Technology.

The Steering Committee concludes that the 2018 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 2018 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 2018, 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.

2018 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 NAB's 2018 Annual Financial Report, which can be viewed at nab.com.au/annualreports from 16 November 2018 and is available in hard copy on request.

ADDITIONAL CORPORATE RESPONSIBILITY

Information is available in our 2018 Sustainability Report, available online from nab.com.au/annualreports. 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 made¹.

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 14-23 of our **2018 Annual Financial Report** under 'Disclosure on Risk Factors'.

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¹ Refer to pages 140-142 of the **2018 Annual Financial Report** for more information on our contingent liabilities.

GLOSSARY AND DEFINITIONS

APRA

Australian Prudential Regulation Authority.

ASIC

Australian Securities and Investments Commission.

Cash earnings

Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the September 2018 financial year has been adjusted for the following:

- Distributions.
- Fair value and hedge ineffectiveness.
- Amortisation of acquired intangible assets.
- MLC Wealth divestment transaction costs.

Cash earnings per share – basic

Calculated as cash earnings divided by the weighted average number of ordinary shares (net of treasury shares).

Cash earnings per share – diluted

Calculated as cash earnings adjusted for interest expense on dilutive potential ordinary shares. This adjusted cash earnings is divided by the weighted average number of ordinary shares (net of treasury shares), adjusted to include dilutive potential ordinary shares.

Cash return on equity (RoE)

Cash earnings after tax expressed as a percentage of average equity (adjusted), calculated on a cash earnings basis.

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 profits; undistributed current year earnings; as well as other elements as defined under *APS 111 Capital Adequacy: Measurement of Capital*.

Common Equity Tier 1 ratio

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

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.

Cost to income (CTI) ratio

Represents operating expenses as a percentage of operating revenue.

Customer deposits

The sum of interest bearing, non-interest bearing and term deposits (including retail and corporate deposits).

Customer-related remediation

Consists of costs for several customer remediation matters including costs for refunds and compensation to customers, implementing remediation processes and other costs associated with regulatory compliance matters.

Discontinued operations

Discontinued operations are a component of the Group that either has been disposed of, or is classified as held for sale and represents a separate major line of business or geographical area of operations, which is part of a single co-ordinated plan for disposal.

Distributions

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

Dividend payout ratio

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

Earnings per share (EPS)

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 from the Group's assets and liabilities designated at fair value, hedge accounting ineffectiveness from designated accounting hedge relationships, or from economic hedges 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 2018.

Full-time equivalent employees (FTEs)

Includes all full-time employees, part-time, temporary, fixed term and casual employee equivalents, as well as agency temporary employees 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.

Greenhouse gas (GHG) emissions

Gaseous pollutants released into the atmosphere that amplify the greenhouse effect. Gases responsible include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

Group

NAB and its controlled entities.

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/or 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 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.

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.

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 derived on a cash earnings basis expressed as a percentage of average interest earning assets.

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.

Net Promoter Score (NPS)

Net Promoter Score measures the net likelihood of recommendation to others of the customer's main financial institution for retail or business banking. 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.

NPS priority segments

An average of the Net Promoter Score of four priority segments: NAB defined Home Owners (HL@bank) and Investors, as well as Small Business and Medium Business. The priority segments NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research.

NPS – Home Owner (HL@bank)

NAB defined Home Owner (HL@bank) segment. Australian Population Aged 14+, six month moving average reported as at 30 September. Source: Roy Morgan Research.

NPS – Investor

NAB defined Investor segment. Australian Population Aged 14+, six month moving average reported as at 30 September. Source: Roy Morgan Research.

NPS – Small Business

Small Business (turnover \$0.1m-<\$5m) is a NAB construct that combines weighted results for the Lower (turnover \$0.1m-<\$1m) & Higher (turnover \$1m-<\$5m) Small Business sub-segments, using a 50:50 weighting approach. This metric does not reflect the relative size of these segments as per the ABS business population.

NPS – Medium Business

Business customers segment with a turnover between \$5m and \$50m.

Restructuring-related costs

Consist of personnel, occupancy, software impairment and other general charges recognised as part of acceleration of the Group's strategy announced in November 2017.

Social & 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 that meet the criteria for inclusion as Additional Tier 1 capital set out in *APS 111 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.

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 issued to meet the requirements of employee incentive schemes which have not yet been distributed.

Weighted average number of ordinary shares

Calculated in accordance with the requirements of AASB 133 *Earnings per Share*.

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