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Wednesday, 18 December 2019

Market Announcements Office  
ASX Limited  
Level 4  
20 Bridge Street  
SYDNEY NSW 2000

**NATIONAL AUSTRALIA BANK LIMITED (NAB) 2019 ANNUAL GENERAL MEETING  
CHAIRMAN'S ADDRESS**

Please find attached the Chairman's address to be delivered at NAB's 2019 Annual General Meeting.

A handwritten signature in blue ink, appearing to read "Louise Thomson".

Louise Thomson  
Group Company Secretary  
National Australia Bank Limited

800 Bourke Street  
Docklands VIC 3008  
AUSTRALIA



# **NATIONAL AUSTRALIA BANK LIMITED 2019 ANNUAL GENERAL MEETING**

**Sydney, Australia  
Wednesday, 18 December 2019**

## **Chairman's Address**

Good morning, ladies and gentlemen.

It is a pleasure to join you in Sydney this morning.

While NAB's head office is in Melbourne, our history in New South Wales dates back to 1834 when one of our founding companies, the Commercial Banking Company of Sydney, first opened.

Before we reflect on 2019 and discuss the future, I want to pause and acknowledge the trauma being faced by many in this State and elsewhere around Australia, with devastating bushfires and some of the worst drought conditions in our modern history.

On behalf of everyone at NAB, I want to recognise the bravery and dedication of emergency service workers.

We have announced disaster relief packages for customers and stand ready to do what we can to help over the months to come.

I also want to offer my deepest sympathy to the families who have suffered tragedy from the volcanic eruption on White Island in New Zealand.

This is my first annual general meeting as Chairman of National Australia Bank and Ross McEwan's first as Chief Executive Officer.

It is my pleasure to welcome Ross back to Australia and introduce him to you as your new CEO.

Today, we appear before you as new leaders of NAB after a very challenging 12 months.

The Royal Commission demonstrated the gap between how we have been operating and how our customers, shareholders and the community expect us to operate.

We will not let time dull the impact of the Royal Commission, nor will we gloss over its findings.

***NAB has lost a lot of trust and significant changes need to be made.***

Ross is a strong and proven leader who has a reputation for customer fairness and industry reform. I know he will drive the right behaviours and culture at NAB and continue to make the significant changes required.

Given Ross is only in his third week, I will address Board and governance items as well as operational matters that would normally be covered by the CEO. I will then pass to Ross to share his early observations and aspirations for our bank.

As a Non-Executive Director for the past three years and having acted as interim CEO for the past nine months, I understand and acknowledge where NAB has fallen short.

Now as your Chairman, I accept accountability for making sure we change and our customers, our people and our shareholders can all see the benefits of that change.

The Board stands ready to assist Ross in taking this organisation forward.

We have taken some important steps this year but acknowledge there is much more to be done. We have improved how we incentivise and reward at all levels of the bank.

This includes removing most grandfathered commissions for NAB Financial Planning employed advisers and reducing financial targets for frontline bankers.

We support Sedgwick's recommendations for retail banking remuneration and are ahead of schedule to put them into place. Our home loan 'introducer' payments program has ended.

We want customers to have the confidence to come to NAB because of the products and services we provide – not because a third party received a payment to recommend us.

As part of our commitment to rural and regional Australia, we will keep branches in these areas open until at least January 2021.

We have opened four regional customer connect centres and construction has begun on a new \$2.4 million banking hub for Tamworth in New South Wales.

We have reduced or removed more than 185 fees this year to lessen complexity, decrease complaints and lower customer costs.

***We have made a start but there is much more to do.***

We are moving to deliver sustained internal reform, changing the way we operate to ensure we meet the highest standards, applied with rigour and discipline.

Together, the Royal Commission findings and our self-assessment into governance, accountability and culture, have provided us with a blueprint for change.

We are implementing the Royal Commission recommendations where there is sufficient regulatory, industry and legislative guidance to do so.

Of the 39 recommendations that relate to NAB, we have completed five and work on the other 34 is in progress.

The self-assessment process, which was led by the Board, identified weaknesses in our frameworks and practices and found that customers' interests weren't always placed at the forefront of decision-making.

It found that our approach to managing compliance and conduct risk was not sufficiently robust or effective.

It found that leaders weren't always as clear as they should have been on who was accountable for complex issues across the bank.

And it shone a light on the role of the Board – that we were not always as inquiring, challenging and demanding of management as we should have been.

We recently published a detailed update on progress against our self-assessment actions, after releasing the full report just over 12 months ago.

A new Board Customer Committee, established in March, has oversight of how we are bringing the voice of the customer more firmly into the bank.

It has approved a new Customer Outcomes Framework, to assess how NAB's 300 products reflect the needs of customers, identify gaps where they do not, and prioritise improvements.

The Board Customer Committee is also overseeing the redesign of complaint capture processes, to identify the root causes of issues, inform better decision-making and improve the customer experience.

Directors have spent time with our customer advocates, with our teams managing customer remediation and those assisting customers experiencing financial hardship and vulnerability.

The full Board has also participated in workshops on topics of importance to customers, such as financial crime, cyber security and projects underway to improve NAB's lending processes and systems.

Improved reporting of non-financial risk has enabled the Board to be more searching and demanding of management.

Executive accountability is now clearer.

The status and age of outstanding risk issues is transparent, and customer impacts are better understood.

On this, the Board is acutely aware of the risk that our banking services could be used by those with criminal intent and takes its obligations under the various anti-money laundering, counter terrorism financing and sanctions laws very seriously.

We actively support law enforcement agencies in finding and stopping criminals from using the bank to pursue criminal activity.

Inevitably, given the millions of customers we have and the millions of transactions we process, there will be times when our processes fall short.

Where this happens, we let our regulator know and we move to fix the issues promptly.

We maintain a close and constructive relationship with AUSTRAC but know that we have not always met 100% of their requirements.

Since 2016 we have materially increased both the quality and quantity of the resources we devote to this area of work and to improve our compliance.

We will continue to do whatever is required. More broadly, open material risk issues have reduced significantly in 2019.

A monthly Culture Index is now incorporated in Board reporting to track how well NAB's values are being lived and observed by our people.

There is intensive effort underway to tackle complexity in our systems and processes.

And we are confident these changes will continue to make NAB better for our customers and colleagues than it is today. We will continue this work with urgency, discipline and accountability.

At the same time, we have significantly increased resources to fix issues and pay back customers who are owed compensation as soon as possible.

Provisions are in place for customer-related remediation of all known, material legacy issues.

While the impact to 2019 cash earnings was significant, fixing mistakes will set a strong foundation for the future.

We have approximately 1000 people dedicated to customer remediation work.

Since June 2018, we have returned \$276 million to customers through approximately 503,000 separate payments.

***We acknowledge concerns you have raised, as the owners of the company.***

Thank you to those who have shared questions and concerns in advance of this meeting and to those of you who have been in touch with me during the year.

The Board understands that we got executive remuneration wrong last year.

We have fundamentally changed the structure and assessment of our executive remuneration.

We are determined not to let you down again.

We have made material enhancements to the information provided to the Board regarding executive performance assessments, to apply greater rigour and oversight.

As a first tangible step in this direction, significant amounts of unvested variable rewards from 2016, 2017 and 2018 were forfeited for the majority of the 2018 Executive Leadership Team.

We have also implemented a new remuneration framework which includes an appropriately hurdled long-term variable reward.

For the current year, we determined there would be no short-term variable rewards and no fixed remuneration increases for our current Group Executives.

We are acutely aware of the continuing changes in the community and regulatory landscape, including APRA's executive remuneration review, and we will continue to ensure our frameworks are appropriate and comply with all requirements.

The Board has acknowledged its own accountability for the issues we face. Directors had a 20 per cent reduction of their base fees in 2019.

With respect to the dividend, we understand many shareholders rely on this income and they are disappointed with the Board's decision to lower the interim and full year dividend. It was not a decision that was taken lightly.

However, it was necessary to ensure we have a strong, sustainable business that can manage any headwinds that arise.

I also know that NAB's share price performance over past years has been disappointing.

Encouragingly, we have achieved total shareholder return over the 2019 year of 11.8% as at the end of November – second highest amongst our peers.

We are also second on the same measure for three years and five years and are now the third largest bank by market capitalisation.

We have high ambition for NAB and looking ahead, we see opportunity to strengthen and grow the business.

***Our core businesses remain strong and continue to perform well.***

Business and Private Bank, Corporate & Institutional Bank and Bank of New Zealand all lifted underlying profit this year.

In Business & Private Bank we continue to have robust growth in small business lending – the engine room of the Australian economy.

Pleasingly, growth has come from two of our core specialisations; agribusiness and health.

Bank of New Zealand performed well with strong revenue growth and good growth in volumes for both housing and business lending.

Softer markets income and lower margins made this a more challenging period for Corporate and Institutional Banking.

Lending volume continued to grow strongly at 7% for the year, aligned with our focus on higher growth and higher return global infrastructure, renewable energy, funds and insurance.

We have strengthened our financial settings and our capital position now sits above APRA's Unquestionably Strong capital requirement for January 2020.

We are over two years into our previously outlined three-year program to make NAB simpler, faster and less complex for customers and our people.

We have 30% fewer products, 30% fewer over-the-counter transactions and have seen a 17% decrease in calls to our call centres. We have more work to do to complete this phase of our transformation program.

We recognise the challenges of low-growth global conditions and a low-rate local economy presents for our own business and for our customers.

The RBA cash rate is sitting at historic lows, and we know this creates challenges for our three million savings and investment customers.

Low interest rates also impact earnings across the banking industry.

Competition in our sector has never been more intense and our net interest margin – being a key indicator of competition – declined 7 basis points over the year from 1.85% to 1.78%.

It is my view that monetary policy has lost much of its potency, and to drive growth in the Australian economy we need to look at other forms of growth-promoting activity, in particular, the facilitation of increased business investment.



***We remain ready to support our customers to build a stronger future for Australia.***

In this spirit, NAB is proud of its role as part of the 'Australian Business Growth Fund' announced last month that will help small business get access to equity capital.

NAB will help even more Australians to buy their first property, having recently been selected by the National Housing Finance and Investment Corporation to offer mortgages under the Federal Government's First Home Loan Deposit Scheme.

As part of the 2019 Australian National Outlook project we are thinking more about the role we can play in building a stronger future for Australia and for future generations.

We have committed \$2 billion in financing to drive innovation in the emerging technology sector and a further \$2 billion to support social and affordable housing in Australia.

We acknowledge that climate change is increasingly important to the community and recognise opportunities for NAB and our customers in the transition to a low-carbon economy.

This global shift is a reality and we must act responsibly to strategically shape our business around it.

We committed to continuing to be Australia's largest arranger of renewable energy finance and in mid-November we increased our environmental financing target from \$55 billion to \$70 billion by 2025.

Since 2015, we have cumulatively provided nearly \$34 billion of this commitment.

At the same time, NAB will source 100% of our own energy requirements from renewable sources by 2025.

We have also announced we are capping our exposure to thermal coal mining at current levels and will not take on new-to-bank thermal coal mining customers.

Thermal coal mining currently represents seven percent of NAB's total resources portfolio credit exposure.

We will halve our financing to thermal coal mining by 2028 and intend to be effectively at zero by 2035, apart from residual guarantees to rehabilitate existing coal assets.

***To close – we are determined to create confidence in our future.***

We will make the necessary changes at NAB to earn and maintain trust.

We will continue to actively pursue Board renewal, following the resignation of former Chairman Ken Henry, effective November 2019 and the planned retirement of Anthony Yuen after today's AGM.

I would like to take this opportunity to formally thank Ken and Anthony for their contributions and service since they joined the Board in 2011 and 2010 respectively and wish them well for the future.

I also thank our former Group Chief Executive Officer, Andrew Thorburn, who led the organisation for more than four years and whose passion for customers is well known. Welcome also to Kathryn Fagg who is standing for her election to our Board today.

Kathryn is a highly respected director with extensive leadership experience across several industries, including banking. We will deliver for you by achieving better outcomes for our customers.

And we expect you to continue to hold us to account.

It is truly an honour to now serve you as your Chairman.

Thank you to our nine million customers for banking with us and our 34,000 people for their continued commitment, passion and customer focus.

To our shareholders, I again thank you for your support.

We look forward to demonstrating to you and all our stakeholders that we are a worthy company.

Together we will make NAB, once again, Australia's leading bank.