

Address by Mr Michael Chaney

Chairman

National Australia Bank

Annual General Meeting

17 December 2015

Good morning,

I am Louise Thomson, Company Secretary of National Australia Bank.

Before commencing this Annual General Meeting, I would like to welcome Richard Walley, Noongar Elder and traditional owner and custodian of the land where we gather today to welcome us to Country.

Thank you, Richard.

Before introducing our Chairman, Michael Chaney, I would like to acknowledge the importance of today's meeting for our Company. This will be Michael's last meeting as our Chairman, with Ken Henry taking on this position immediately after the meeting.

I would like to take this opportunity to personally thank Michael for his leadership and wisdom over the past 10 years as our Chairman and wish him every success in the future. Ken will say some words acknowledging Michael towards the end of today's formalities. Refreshments will be served after that point.

I would now like to introduce our Chairman, Michael Chaney.

Good morning, ladies and gentlemen.

It is now just after 9.30am, this is a properly constituted meeting and a quorum is present. I therefore declare the Annual General Meeting of National Australia Bank Limited open.

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

I would now like to introduce to you the people who are on the stage with me. Seated on my left, on your right, is our Group Chief Executive Officer & Managing Director, Andrew Thorburn. Next to Andrew is our Group Executive, Finance & Strategy, Craig Drummond. Seated on my right is the Company Secretary, Louise Thomson.

Seated in the front row are the other directors whom I will ask to stand as I introduce them. Firstly, David Armstrong, then next to David is Danny Gilbert, Peeyush Gupta, Ken Henry, Geraldine McBride, Paul Rizzo, Jillian Segal, Anthony Yuen, and Anne Loveridge.

I take this opportunity to formally welcome Anne, who joined the Board this week and is up for election today.

The directors contribute a very strong mix of skills and experience to the Board.

Also present with us are two representatives of our auditor, Ernst & Young: Andrew Price, the Lead Engagement Partner, and Sarah Lowe, Partner.

As I retire after ten years as Chairman of the National Australia Bank, I am pleased to be able to report that your company is in good shape. We have a strong balance sheet, are well-positioned for growth and are close to exiting our low-returning legacy assets.

Our clear strategy and the commitment and hard work of Andrew Thorburn and his Executive Leadership team are delivering improved outcomes for our shareholders, our customers, our people and the communities in which we operate.

Our Australian and New Zealand businesses performed well over the last year in an environment characterised by a subdued economy, increased competition and new regulatory imposts.

We have significantly invested in Business Banking and we are starting to see the results of this through increased market share in our priority segments. Personal Banking continues to be a strong performer, and our wealth business has shown a significant improvement from 2013.

The Bank's New Zealand business continues to do well.

Cash earnings were up 15.5 per cent over the year and reported net profit was up almost 20 per cent. Importantly, we have made significant improvements in strengthening our asset quality.

The Board declared a final dividend of 99 cents per share - consistent with the 2014 final dividend notwithstanding the additional capital raised during the year.

The Board's policy is to pay out 70-75 per cent of cash earnings in dividends. We are prepared to move above that range from time to time, subject to having a clear path to returning to it in due course.

It has been a real privilege for me to be Chairman of this institution for the last decade.

NAB makes a huge contribution to the growth of the Australian and New Zealand economies and the health of the communities in which we operate. To give you a snapshot, in 2015, the Bank:

- assisted millions of customers own their own homes, grow and protect their wealth or fund their businesses;
- employed more than 40,000 staff in Australia, New Zealand and globally;
- paid almost \$5 billion in dividends to our shareholders, many of whom are retirees; and
- invested \$59.2 million in the community through our corporate responsibility programs.

This contribution makes a significant difference to the lives of many Australians.

In September 2005, when I was offered the Chairman's role at NAB, I thought it would be a rewarding opportunity and also a challenge. It has proved to be both. Over the last decade, banking has gone through considerable change.

The Global Financial Crisis (GFC), a once in a 100 year event, resulted in an explosion of regulation both globally and here in Australia.

At the same time the pace of digital change has been phenomenal. Ten years ago, the majority of banking was done in branches, via ATMs or phone banking. Now, banking is conducted 24 hours a day, seven days a week, with 60 per cent of our 45 million transactions per month done on mobile devices, from trains, buses, restaurants and football games.

Social media like Facebook, Twitter and YouTube barely existed in 2005. Now they are an important channel in how our customers and our shareholders communicate with us, giving immediate feedback.

Disruptors are challenging traditional business models like ours, which means we need to be more agile, more innovative and invest more in technology.

The status quo is not an option. It is a challenging time to be in the business of banking but it also a time of great opportunity.

Over the last decade NAB has been on a journey.

When I took over as Chairman, it was a very difficult and turbulent time in the Bank's history. NAB's reputation had been tarnished by some significant foreign currency option losses. The events uncovered some fundamental problems of culture, underinvestment in technology and governance.

Resolving these issues has been a significant priority for the Board and successive management teams and I believe we have made great progress in each of these areas. We have worked hard to build a strong risk culture. Australia escaped the ravages of the GFC due in no small part to the strength and performance of our major banks.

Despite some losses on financial instruments during the GFC, NAB remained strong and as Australia's largest business bank, continued to back and support our business

customers. I thank former CEO, Cameron Clyne and his executives as well as my board members for their steely determination and strength in steering the Bank through this time.

In Australia, the impact of the GFC led to the Murray Financial System Inquiry (known as the FSI), which was set up to strengthen our financial system and make it more efficient and transparent. We were active participants in the FSI process, believing it to be necessary and important, and in October, we welcomed the Federal Government's response.

Earlier in the year, in anticipation of expected changes in capital regulation, we raised \$5.5 billion in capital through a rights issue. This put NAB in a strong position to withstand future challenges. I thank shareholders for your support in ensuring the success of this raising.

The strengthening in our capital position was also supported through the full divestment of our US subsidiary, Great Western Bancorp Inc, the reduction of our UK commercial real estate exposure, and a major life reinsurance transaction.

We also announced recently the sale of 80 per cent of our life insurance business to global life insurer, Nippon Life, and the creation of a long term partnership with that company, which will allow us to improve shareholder returns.

One of the disappointing aspects of my tenure as Chairman is the time it has taken to exit our UK legacy assets, largely due to the UK recession and unprecedented regulatory imposts following the GFC. This was a significant factor in our shareholder returns not being at the level we would have liked, relative to our competitors.

However, I am pleased that while the process has been extremely complex, NAB is on track with its demerger and proposed Initial Public Offering (IPO) of our Clydesdale and Yorkshire banks in the UK, to be completed early next year, subject to shareholder approval at the Extraordinary General Meeting on the 27 January.

You will have recently received important information from us about the demerger, which will result in our shareholders owning 75 per cent of the new UK bank holding company, CYBG PLC. The remaining 25 per cent is proposed to be divested by NAB through an IPO to institutional investors.

The NAB Board encourages you to vote in favour of the demerger, which will establish CYBG Group as a standalone group operating in the UK and allow NAB to focus on investment in its higher-returning core businesses in Australia and New Zealand.

Closer to home, the economic outlook in Australia remains mixed, with mining investment declining but growing momentum in other sectors, particularly the service and tourism sectors. GDP growth is subdued at 2.3 per cent but we are forecasting a gradual increase to 3.2 per cent in 2017. That in part reflects continuing low interest rates, lower currency and the expected ramp up in mining exports.

Growth in Australia is increasingly reliant on successful reform of our taxation, workplace and education systems, on improved innovation practices and competition reforms. We urge governments to unite in tackling these issues.

The last twelve months have seen a number of changes to the Board as part of our ongoing succession planning process.

In July this year, John Waller retired. I stated in the Annual Report, he was a great director and representative of BNZ: considered, thoughtful, challenging and supportive.

Paul Rizzo will retire at the end of this year's AGM. He brought a wealth of banking and diverse corporate experience to our deliberations. Paul was a diligent chair of the Board's Risk Committee for much of his tenure and he will be greatly missed.

Peeyush Gupta joined our Board in November last year. Peeyush has over 30 years' experience in wealth management and corporate governance.

Anne Loveridge joined the Board in December, after retiring as Deputy Chair of PricewaterhouseCoopers in Australia.

Doug McKay, who replaced John Waller as the Chairman of BNZ, will join the Board in February next year.

They each bring relevant skills and experience as well as diverse perspectives to the Board.

I am delighted to be succeeded in the Chair by Dr Ken Henry AC. Since joining our Board in 2011, Ken has demonstrated an exceptionally strong understanding of financial and regulatory environments and of the issues and challenges facing financial institutions in this fast changing world.

In closing, I am confident that NAB is well-positioned and we have the right strategy and management in place for future growth.

I'd like to thank you, our shareholders, for your continued support. You are in good hands under Ken's stewardship and Andrew's leadership.

To my fellow directors and members of management over the last decade, thank you for your support, your guidance and your diligence. Working with you has been the highlight of my time at NAB.

And to our more than 40,000 people, thank you for your hard work and commitment.

It has been an honour to be Chairman of this great company.

I now call upon Andrew Thorburn to speak to you about our strategic focus and priorities for 2016.

Thank you Michael, and good morning and welcome to our shareholders here today in Perth.

Welcome also to those joining us on the webcast.

I, along with the Board and Executive team, look forward to talking with you, to hear about what is important to you. Thank you for your support of our company.

It is a great privilege to be the CEO of National Australia Bank. I have been a banker my whole career. I believe our profession makes a meaningful difference to people's lives.

Our key objective is to produce superior returns for you, our shareholders. We know that to achieve this, we need to have the best people, and deliver an excellent service experience for our customers. These are the things we are working on and which I will outline for you today.

The actions we are taking occur every day, including what we are doing here in Western Australia.

In WA, we have over 900,000 customers, and have over 1300 people working hard across 76 branches and 27 business centres. Our people are actively engaged in the local community, taking part in volunteering opportunities and contributing over 12,000 hours during 2015.

NAB has been established in WA for nearly 150 years. I know this, because my grandmother was born in Albany in 1915, and her father, W H Stevenson was the Manager of the National Bank at the time. He subsequently spent time at Wyalcatchem, and went on to serve his whole career at the bank.

So it really is great to be here in Perth.

Today, I wish to outline three areas that we are focused on as a company:

- Delivering a great customer experience
- Keeping the bank strong; and
- Developing our people and culture

Our customers are at the heart of our company. All our people are seeking to understand how we can drive a great customer experience. We will build a sustainable and high performing bank by focusing on serving our customers better than our competitors.

We continue to focus on ways of improving the quality of our products and services. We wish to make it easy for our customers, to be personal in all our dealings, and to support our customers with valuable insights and advice.

Last week, across the bank, we held our third Customer Connect Day for 2015. Our people made over 36,000 calls to customers, to thank them for their loyalty, and to ask for feedback around how we can improve.

Over the last year, we have increased the number of frontline bankers by 330.

We have increased our lending pledge to business customers to \$2 billion a month. This will help businesses around Australia grow and create jobs across all sectors of the economy – in Agriculture, Health, Education, Hospitality and Services, to name a few.

As we make these decisions, we understand and manage the risks to achieve a sustainable return on the capital you have given us.

Through the distribution of \$73 billion of new home lending, in 2015 we have helped 169,000 customers realise their dream of owning their own home, and we have helped over 22,000 customers buy a car.

Our focus on improving the customer experience includes our branches and Business Banking centres. Increasingly, our focus is on the many new and emerging ways that our customers wish to do business, and that's why we will continue to invest in digital channels.

At NAB we have a clear plan. In 2015, we did what we said we would do. We are being focused and disciplined in the way we go about achieving our vision of being the most respected bank in Australia and New Zealand.

One of the important foundations of this plan is ensuring that the bank remains strong. As rapid and continuous change occurs in the global and domestic marketplace, the bank must remain resilient.

Our asset quality is excellent, and the numbers we have seen over the last year show we are in a strong position. Our balance sheet has been strengthened by our capital raising during the year, and we thank our shareholders for your support in raising \$5.5 billion. Our capital and funding position is strong and we remain competitive with international peers.

We are well-positioned for any future changes in the regulatory environment.

Our focus is very much on our Australian and New Zealand franchise. We hold good positions in our home markets and have operated here for well over a century. We know the risks and opportunities in these markets.

As part of this, we have undertaken a disciplined exit plan including the sale of Great Western Bank in the US, and Clydesdale Bank in the UK. The Chairman has covered this in his speech, but what this will enable us to do is to focus on growing and nurturing our businesses here.

We believe the medium term outlook for the Australian and New Zealand economies is promising. Nevertheless, further economic reform will need to be undertaken if we are to maintain our standard of living. The emphasis on skills, innovation, infrastructure and disciplined government spending will be important.

We know that for many businesses in Australia and New Zealand, the link to growing economies in Asia is vital. A key way we support them is through a selective branch presence, including the opening of our Beijing branch last month.

We are pleased to have entered into a long-term strategic partnership with Nippon Life, a leading Japanese insurer. They have expertise and experience. The sale of this business will enable customers to have even better products, and our return on capital will improve as a result of this transaction.

And finally, our investment in technology will ensure we have a modern and strong bank. We will partner with global companies to leverage these opportunities and deliver a better service experience for our customers. We will invest in systems that are robust and reliable, to keep the bank safe from cyber-attacks and fraud.

Also, our focus on innovation will increase. That's why in 2015, we announced the establishment of our in house innovation centre called NAB LABS and the creation of a \$50 million fund over three years, to support investment in emerging payments and technology companies.

Our focus is on customers; on keeping the bank strong; and investing in new initiatives that will produce superior returns for our shareholders.

Our people are absolutely fundamental to this. We need people who have the skills and capabilities to deliver for us.

We must continue to attract and retain the best people. We know that leaders are vital to this, and our focus on the right leaders is central to our people strategies and plans at NAB.

The culture of the organisation is paramount. Our company values underpin what we do and how we behave every day. They support the systems and structures that help us to perform better. Our values are:

- to have a passion for customers
- to have a will to win
- to be bold
- to have a respect for people, and
- to do the right thing.

Living our values, having the right mindset and having the best people and team, will make the difference between being competitive, and being the best.

Thank you to all our people for their hard work and commitment to improving the performance of NAB. In closing, I would like to thank our Board for their commitment and expertise. In particular, I would like to acknowledge Paul Rizzo who has brought wide ranging banking and corporate experience to bear for over a decade.

I also acknowledge John Waller, who I worked with in New Zealand. John always kept us focused on the right things - people, customers and continuous improvement.

I would also like to thank our retiring Chairman, Michael Chaney. Michael has served as Chair through an extraordinary decade. I have greatly valued his calm and wise counsel and extensive corporate experience.

I look forward to forming an effective partnership with our new Chairman, Dr Ken Henry. Ken is well-known to us, having been on the Board since 2011. His knowledge of Australian and Asian financial markets, economic policy and regulation, is a real asset.

To our shareholders, thank you for your support. We have a great business and a clear plan. I am determined that we will implement it well. The outcome will be superior returns for our shareholders, and achieving our vision of being the most respected bank in Australia and New Zealand.

Thank you.

Thank you, Andrew.

I would like to welcome Ken Henry to the stage to say a few words.

Thank you, Michael.

As our Company Secretary, Louise, has mentioned, Michael has been our Chairman for the past decade.

These have not been easy years for financial institutions anywhere in the world, and NAB has had some challenges to deal with in that period. NAB is clearly a stronger company today than it was 10 years ago.

A lot of the credit for that has to go to Michael's extraordinary leadership. His colleagues on the Board have benefited enormously from his deep experience in corporate leadership, his strength of character, and the commitment, energy and patience that he has brought to the role.

I consider myself very fortunate to have had Michael as role model and mentor in the time I have been on the Board. And I know that all of my Board colleagues share this view.

Michael, we salute you and wish you the very best in your future pursuits. None of us is surprised that you are showing no signs of slowing down. And that is a good thing for corporate Australia, as you have so much to offer.

Thank you.

I would also like to take the opportunity to thank Paul Rizzo, personally, for his contribution to the work of the Board. We will miss his experience and sound judgment. Paul, your NAB colleagues wish you well.

I am looking forward to the many opportunities I will have to address you, the shareholders of NAB, over the period ahead. I feel honoured to have had entrusted to me the role of NAB Chairman. And you may be assured that I am fully committed to undertaking this role to the best of my abilities.

Thank you, Ken.

On behalf of the directors and staff of the company, I thank you for your attendance here today.

I would like to thank our customers and shareholders for their continued support of National Australia Bank.

Your support is highly valued by the directors and employees.

I now formally declare this Annual General Meeting closed.
