

# Annual Review 2015





# About this report

This integrated report demonstrates how NAB is working to create value for stakeholders through our business strategy, operating environment, governance, financial and non-financial activities.

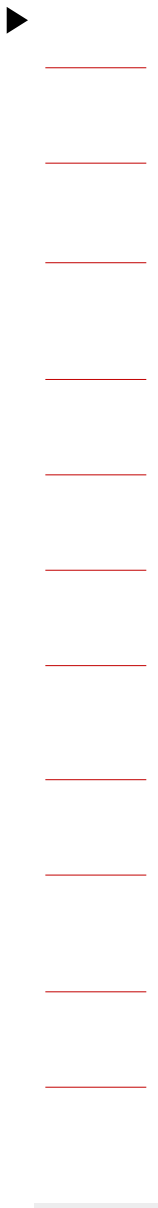
We continue to challenge ourselves to look at our business performance as a whole, through a framework set by the International Integrated Reporting Council (IIRC).

The content in this report is the result of extensive engagement with customers, shareholders, our people, analysts, consumer advocacy groups and community organisations, which makes it a strong reflection of what matters most to our stakeholders.

NAB also conducted an annual materiality review to identify the environmental, social and governance (ESG) issues that are most








likely to impact our business. Along with a continued focus on workshops and in-depth interviews, we gathered more insight by increasing the size and scope of our annual materiality survey. For more details on the prioritised ESG topics that came out of this review, **see pages 9-10**.

This report also includes financial summaries and information from NAB's 2015 Annual Financial Report and 2015 Full Year Results Announcement. This is our sixth year of providing an integrated report on our business.





# 2015 at a glance

 <b>Completed</b> <b>DECEMBER 2014</b> Sold a £1.2 billion parcel of higher risk loans from our UK Commercial Real Estate portfolio	 <b>Completed</b> <b>APRIL 2015</b> Reduced the size of our Specialised Group Assets portfolio from \$4.1 billion to \$2.1 billion in risk weighted assets	 <b>Completed</b> <b>JUNE 2015</b> Successfully completed the largest rights issue in Australian corporate history, raising \$5.5 billion of CET1 capital	 <b>Completed</b> <b>JULY 2015</b> Life reinsurance agreement that resulted in a \$0.5 billion CET1 capital release for the NAB Group	 <b>Completed</b> <b>JULY 2015</b> Completed a full divestment of Great Western Bancorp, Inc. <sup>1</sup>	 <b>Work in Progress</b> Committed to fully divesting our Clydesdale Bank and Yorkshire Bank operations, targeting an exit through a demerger and IPO	 <b>Work in Progress</b> Sale of 80% of NAB Wealth's life insurance business and partnership with Nippon Life
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**12.0%**  
 cash return on equity<sup>2</sup>  
 40 basis points increase from 2014

**\$5.84bn**  
 cash earnings<sup>2,3</sup>  
 15.5% increase from 2014

**\$1.98**  
 dividend per share  
 consistent with 2014

**\$6.34bn**  
 net profit attributable to the owners of NAB  
 19.7% increase from 2014

**-16**  
 priority segments net promoter score<sup>4</sup>  
 improvement from -18 in 2014

**52%**  
 employee engagement score<sup>5</sup>  
 10 percentage point increase from 2014

**394,277**  
 low-income Australians assisted with microfinance products and services<sup>6</sup>

**1,084,712**  
 volunteer hours contributed by our Australian employees since 2002

<sup>1</sup> Loss of control of Great Western Bancorp Inc. occurred on 3 August 2015. Refer to page 95 of the 2015 Full Year Results Announcement for further information.

<sup>2</sup> Includes specified items as detailed on page 20 of the 2015 Full Year Results Announcement.

<sup>3</sup> **Explanation and definition of cash earnings:** 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. NAB also uses cash earnings for its internal management reporting as it better reflects what NAB considers to be the underlying performance of the NAB Group. Cash earnings is calculated by excluding discontinued operations and other items which are included within the statutory net profit attributable to owners of NAB. Cash earnings does not purport to represent the cash flows, funding or liquidity position of the NAB Group, nor any amount represented on a cash flow statement. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards nor audited or reviewed in accordance with Australian Auditing Standards. 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 NAB Group. In September 2015, cash earnings has been adjusted for the following: Distributions, Treasury shares, Fair value and hedge ineffectiveness, Life insurance economic assumption variation, Amortisation of acquired intangible assets and Sale and demerger transaction costs. **Reconciliation to Statutory Profit:** Section 5 of the 2015 Full Year Results Announcement includes the NAB Group's Income Statement, including statutory net profit. The NAB Group's audited financial statements, prepared in accordance with the *Corporations Act 2001 (Cth)* and Australian Accounting Standards, will be published in its 2015 Annual Financial Report on 16 November 2015. A reconciliation of cash earnings to statutory net profit attributable to the owners of NAB (statutory net profit less non-controlling interest in controlled entities) is set out on **page 28** of this report, and full reconciliations between statutory net profit and cash earnings are included on pages 5-8 of the 2015 Full Year Results Announcement. Page 4 of the 2015 Full Year Results Announcement contains a description of each non-cash earnings item for September 2015 and for the prior comparative periods.

<sup>4</sup> Net Promoter Score (NPS) measures how likely a customer would be to recommend NAB to a friend or colleague on a scale of 0-10. The overall score is calculated by subtracting the percentage of customers that answer 6 or below ('detractors') from the percentage of customers that answer 9 or 10 ('promoters'). Priority Segments NPS is a simple average of the NPS scores of four priority segments: Mortgage Customers, Micro Business (<\$1m), Small Business (\$1m-<\$5m) and Medium Business (\$5m-<\$50m). The Priority Segments NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research. 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.

<sup>5</sup> Source: 'Speak Up, Step Up' survey conducted by Right Management in May 2015.

<sup>6</sup> In partnership with Good Shepherd Microfinance. Cumulative data collected since 2005.

# Chairman's message



**“As I retire from the Board I am pleased to report that NAB 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.”**

**Michael Chaney**

**Over the last twelve months, we have made great inroads into repositioning our business to focus on our strengths and our balance sheet.**

In anticipation of regulatory changes recommended by the Financial System Inquiry and Basel Committee, we raised \$5.5 billion in capital through a rights issue during the year, which has placed NAB in a strong position to withstand future challenges. This was also supported by capital released 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 insurance reinsurance transaction. The capital freed up through these measures will enable us to make further investments in our core businesses.

We also announced the sale of 80% of our life insurance business to global life insurer, Nippon Life, and the creation of a long term partnership with that company. This arrangement will allow us to continue to provide innovative insurance solutions to our customers, streamline our wealth business and improve shareholder returns.

The demerger and IPO of our UK operations, Clydesdale Bank and Yorkshire Bank, has

been extremely complex but is on track to be completed early next year, subject to shareholder and regulatory approval.

NAB's Australian and New Zealand businesses performed well in an environment characterised by a subdued economy, increased competition and new regulatory imposts.

We have significantly invested in our Business Bank. We are starting to see the results of this through increased market share in our priority segments<sup>1</sup> and are confident that we are well-positioned for growth, despite intense competition from our peers.

Our Personal Bank continues to be a strong performer, with year on year revenue growth of 73%.<sup>2</sup>

Over the last four years we have strongly focused on improving our asset quality, which has made NAB a stronger business.

Cash earnings in 2015 were up 15.5% to \$5.84 billion and statutory net profit

attributable to the owners of NAB was \$6.34 billion, up 19.7% from last year.

The Board declared a final dividend of 99 cents per share, fully franked, which has been maintained whilst additional capital was issued.

Global growth continues to be disappointingly below trend. While the pace of growth in advanced economies has increased somewhat, emerging markets are slowing, with falling global trade volumes and uncertainty about how sharp the slow-down in China will be. We are expecting fairly flat global growth over the next couple of years.

In Australia, the economy remains mixed, with mining investment declining but growing momentum in other sectors, particularly the service and tourism sectors. GDP growth is moderate at 2.3% but we are forecasting a gradual increase to 3.2% in 2017.<sup>3</sup> That in part reflects continuing low interest rates, lower currency and 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.

On my retirement from the Board, I pay tribute to the efforts of successive management teams and directors during my 10-year tenure as Chairman, in particular the leadership of CEOs Cameron Clyne and Andrew Thorburn. These efforts have often been overshadowed by significant challenges including the Global Financial Crisis, the UK subdued economic environment and conduct issues.

While I acknowledge that NAB's shareholder returns have not been at the level we would have liked relative to our competitors, in part because of the time it has taken to deal with our legacy assets, I am confident that NAB is well-positioned and we have the right strategy and management in place for future growth.

In the last twelve months we have seen some changes to the Board.

In December 2014, John Thorn and Geoff Tomlinson retired and I paid tribute to their substantial contributions in last year's report. John Waller retired in July 2015. He was a great director and representative of BNZ: considered, thoughtful, challenging and supportive. Paul Rizzo will retire at this year's AGM and 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 2014. Anne Loveridge will join the Board in December 2015, 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 2016. They each bring relevant skills and experience as well as diverse perspectives to the Board.

I am delighted to be succeeded in the Chair in December by Dr Ken Henry AC. Ken joined the Board in November 2011 following a decade as Secretary of the Commonwealth Treasury and was a member of the Board of the Reserve Bank of Australia. Since joining our Board, 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 thank our shareholders, customers, my fellow directors and members of management for their support over the last decade. I also thank our over 40,000 people for their hard work and dedication to the company.

**Michael Chaney**  
Chairman

<sup>1</sup> September 2015. DB Financial Services Monitor, APRA aligned lending dollars, NAB Lending Market Share.

<sup>2</sup> Based on unaudited management information data.

<sup>3</sup> Internal – Group Economics.

# CEO's message



“We are focused on delivering a great customer experience through improving the performance of our Australian and New Zealand business, maintaining a strong balance sheet, investing in digital technology and enhancing the capabilities of our people.”

**Andrew Thorburn**

Twelve months ago we clearly set out our strategic plan. I am pleased with the progress we are making against our priorities.

## Performance and results

Our Australian and New Zealand business is performing well with all of our business units contributing to our results.

Our Wealth business has shown a significant improvement since 2013, which has enabled us to secure a long term partnership with Nippon Life, one of the world's leading life insurers. This partnership will allow us to continue to deliver insurance solutions to our customers while improving Wealth returns for shareholders.

Wealth products remain crucial to our business and our customers, which is why we are injecting an additional \$300 million into NAB Wealth in our superannuation platforms, advice and asset management business over the next four years. This will allow us to deliver a great customer experience while driving a closer relationship between our banking and wealth businesses.

Our leadership team has put in a significant effort to address legacy assets and pleasingly for our shareholders the demerger and IPO of our UK operations, Clydesdale Bank and Yorkshire Bank, is expected to be completed in early February 2016.

Personal Banking has had another strong year and while Business Banking trends in our priority SME segments are promising, the environment remains very competitive and we remain focused on driving better performance in this business. We've put more than 330 additional bankers on the frontline and invested in their capability in our priority segments, which are SMEs, micro-business, debt free and mortgage customers.

In 2015, we have achieved significant technology milestones, which will deliver a better customer experience. Currently in pilot, the rollout of the Personal Banking Origination Platform (PBOP) will allow our personal banking customers to use one platform to apply for multiple products. This will result in quicker decision times and customers will be able to track the progress of their application. We have also successfully modernised our data centres, which will future proof our business. We value the trust our customers place in us and we're putting the right technology and teams in place to protect our customers' information as well as delivering a faster and more reliable service.

Customer-led innovation is crucial in the rapidly changing digital space and I'm proud of the work of our innovation hub, NAB Labs, which develops new customer focused concepts that can be rapidly commercialised.

Over the year we have continued to strengthen our balance sheet. In May, in anticipation of regulatory change and to facilitate our exit from the UK, we announced the raising of \$5.5 billion in capital through a fully underwritten rights issue. In addition, a focus on maintaining risk standards has contributed to further improvements in asset quality.

This was our first year of adopting the Net Promoter System (NPS), which measures the strength of our customers' advocacy. NPS is now embedded in our leaders' scorecards, helping us to deliver for our customers.

We've also put a renewed focus on culture, articulating five values: Passion for customers, Will to win, Be bold, Respect for people and Do the right thing. Living these values consistently will create value for our customers and shareholders. I am very pleased with the significant improvement in our employee engagement, which is up ten percentage points and above the financial services average.

## Future focus

Our vision is to be the most respected bank in Australia and New Zealand.

In 2016, our business will be stronger. We will be focused on improved and consistent returns for our shareholders and delivering a great customer experience.

We want to make it easy for our customers, and to support them through specialist advice and insights. We will continue the focus on our priority segments, where we have capability, passion and can win.

We will also focus on future proofing our business with a focus on three key elements: technology simplification, process excellence and our footprint for a digital world.

As a Bank, we have some significant and specific risks and these need to be handled

with discipline and rigour. This means we will constantly focus on areas such as capital allocation, return for risk and maintaining a strong balance sheet.

Our people are a top priority, building their capabilities and mindset will be a key driver of our performance and success.

Our leadership in the community is important and we will continue to work with Good Shepherd Microfinance to assist vulnerable Australians and those that are financially excluded. We have a target by 2018 to support one million Australians who are financially excluded and we are on track to do so.

We also want to continue to be social innovators and develop funding solutions for the renewable energy industry. We launched a \$300 million dollar climate bond, the first by an Australian issuer into the local market.

Finally, I want to thank our people for their incredible effort and hard work this year and their passion for our customers.

I would like to thank departing Chairman, Michael Chaney, for his sound stewardship of the Bank over the last decade. He has overseen the Bank during some significant challenges including the Global Financial Crisis. NAB is in a much stronger position today, with a more focused strategy and stronger balance sheet. We wish him well for the future. I'd also like to warmly welcome incoming Chair, Dr Ken Henry and I look forward to working with him.

It is a privilege to be the CEO of this great business. We have made significant progress this year and I am excited and energised by the year ahead. We still have a lot to achieve but my leadership team and I are committed to improving returns for you, our loyal shareholders.

**Andrew Thorburn**  
Group CEO

# Our business

## National Australia Bank

We are a financial services organisation with more than: 12 million customers, 1,500 branches and business banking centres<sup>1</sup>, 560,000 shareholders and 40,000<sup>2</sup> people. Our aim is to achieve our objective of delivering superior returns to our shareholders through execution of our strategy.

Cash earnings <sup>3</sup>	A\$m
Australian Banking	\$5,111
NZ Banking	\$762
NAB Wealth	\$464
UK Banking	\$307
Corporate Functions and Other <sup>4</sup>	(\$630)

## Our portfolio

The majority of our financial service businesses operate in Australia and New Zealand, with other businesses located in Asia, the UK and the US<sup>5</sup>. Our portfolio includes:

### Australian Banking

In Australia, we provide a comprehensive range of products and services to all customer segments.

Our Business Banking division provides products and services to customers ranging from micro, small and medium sized businesses to large global institutions. We are a leader in providing banking services to Australian businesses, with specialist expertise in Agribusiness, health, government, education and community banking requirements.

Our Personal Banking products can be accessed through various channels, including NAB, NAB Broker, nabtrade and UBank.

Australian Banking also includes Fixed Income, Currencies and Commodities (FICC), Capital Financing, Asset Servicing, Treasury and the results of our international branches. NAB currently has branches in Hong Kong, Beijing, Shanghai, Singapore, Tokyo, Osaka, Mumbai, London and New York as well as representative offices in Jakarta and Hanoi.

Our international branches support Australian and New Zealand businesses overseas and also serve our international customers who wish to do business in Australia and New Zealand.

## Our vision

To be Australia and New Zealand's most respected bank

### NZ Banking

NZ Banking operates under the Bank of New Zealand (BNZ) brand. BNZ offers services in retail, business, corporate, agribusiness and insurance. BNZ's market operations form part of Australian Banking.

### NAB Wealth

NAB Wealth provides superannuation, investment and insurance solutions to retail, corporate and institutional clients. It operates one of the largest networks of financial advisers in Australia under brands that include MLC, JBWere, JANA and Plum.

In October 2015, consistent with our commitments to improve the returns from NAB Wealth and continue to provide wealth solutions for our customers, we announced an agreement to sell 80% of NAB Wealth's life insurance business to Nippon Life Insurance Company.

### UK Banking

UK Banking operates under the Clydesdale and Yorkshire Bank brands and offers a range of banking services for both personal and business customers. These services are delivered through a network of retail branches, business and private banking centres, direct banking and broker channels. We are committed to fully divesting our Clydesdale Bank and Yorkshire Bank operations, through a demerger and IPO by February 2016.

<sup>1</sup> Includes retail agencies, agribusiness branches, and private banking suites.

<sup>2</sup> Based on full-time equivalent employees (FTEs).

<sup>3</sup> **Explanation and definition of cash earnings:** 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. NAB also uses cash earnings for its internal management reporting as it better reflects what NAB considers to be the underlying performance of the NAB Group. Cash earnings is calculated by excluding discontinued operations and other items which are included within the statutory net profit attributable to owners of NAB. Cash earnings does not purport to represent the cash flows, funding or liquidity position of the NAB Group, nor any amount represented on a cash flow statement. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards nor audited or reviewed in accordance with Australian Auditing Standards. 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 NAB Group. In September 2015, cash earnings has been adjusted for the following: Distributions, Treasury shares, Fair value and hedge ineffectiveness, Life insurance economic assumption variation, Amortisation of acquired intangible assets and Sale and demerger transaction costs. **Reconciliation to Statutory Profit:** Section 5 of the 2015 Full Year Results Announcement includes the NAB Group's Income Statement, including statutory net profit. The NAB Group's audited financial statements, prepared in accordance with the *Corporations Act 2001 (Cth)* and Australian Accounting Standards, will be published in its 2015 Annual Financial Report on 16 November 2015. A reconciliation of cash earnings to statutory net profit attributable to the owners of NAB (statutory net profit less non-controlling interest in controlled entities) is set out on page 28 of this report, and full reconciliations between statutory net profit and cash earnings are included on pages 5–8 of the 2015 Full Year Results Announcement. Page 4 of the 2015 Full Year Results Announcement contains a description of each non-cash earnings item for September 2015 and for the prior comparative periods.

<sup>4</sup> Corporate Functions and Other includes Group Funding, NAB UK Commercial Real Estate, specified items, other supporting units and the results of Specialised Group Assets. Specified items are detailed on page 20 of the 2015 Full Year Results Announcement.

<sup>5</sup> In July 2015, NAB completed its full divestment of Great Western Bancorp, Inc. (GWB). Loss of control of GWB occurred on 3 August 2015. Refer to page 95 of the 2015 Full Year Results Announcement for further information.

# How we create value

The primary role of our business is to facilitate the movement of capital and flow of money to meet the needs of our stakeholders. It is through the alignment of these needs that we can enable a thriving society and create long-term value. How NAB creates value can be understood in a number of ways, the primary one being through the various business activities that we engage in. This is explained in more detail in the table below. We continue to champion Shared Value<sup>1</sup> as a framework to leverage our strengths and create shareholder value by addressing social and environmental challenges.

Related financial impact	Business activity	Broader impacts of our business activities	Risks arising from activity <sup>2</sup>
Interest income	We <b>lend money to our customers</b> . This creates assets from which we derive interest income over time.	Lending makes it possible for NAB's customers to acquire the assets they need to create their own wealth. Lending also makes it possible for NAB's business banking customers to manage working capital and cash flow requirements which support their commercial growth and sustainability. Our responsible lending practices target suitability of products for our customers and help us to manage the exposure to ESG issues that arise through our lending portfolio.	<ul style="list-style-type: none"> <li>• Credit</li> <li>• Balance sheet and liquidity</li> <li>• Regulatory</li> <li>• Compliance</li> <li>• Operational</li> </ul>
Interest expense	We <b>obtain funding from deposits</b> placed by our customers to enable lending. We also access a diverse range of <b>wholesale funding</b> . This creates liabilities on which we incur interest expense.	Customer deposits earn interest at rates dependent on the type of product and the size of the deposit. NAB's participation across senior, subordinated and secured debt markets contributes to the stability and liquidity of the broader financial system. We also work closely with regulators to protect depositor funds and reduce risk in the Australian banking system.	<ul style="list-style-type: none"> <li>• Balance sheet and liquidity</li> <li>• Regulatory</li> <li>• Compliance</li> <li>• Operational</li> </ul>
Net life insurance income	We offer <b>superannuation, investment and insurance</b> to retail, corporate and institutional customers and earn fee, administration and premium income.	Through superannuation solutions, retirement and insurance products, and general investment advice we help our customers and their dependents grow and protect their wealth. We develop investment options, like 'green' or social bonds, that give our customers the opportunity to pursue positive financial returns, along with social and environmental outcomes.	<ul style="list-style-type: none"> <li>• Life insurance</li> <li>• Regulatory</li> <li>• Defined benefit pension</li> </ul>
Fees and commissions	We also provide <b>transactional banking</b> facilities to our customers and earn fee and commission income.	NAB's transactional banking solutions help our customers manage their cash and make payments efficiently and securely. By making banking simpler for our customers and reducing the time and cost involved in moving money, our customers can focus on running their businesses, achieving their financial goals and contributing to their local communities.	<ul style="list-style-type: none"> <li>• Credit</li> <li>• Regulatory</li> <li>• Compliance</li> <li>• Operational</li> </ul>
Trading income	We offer <b>risk mitigation products</b> that enable financial protection and diversification through risk transfer. Risks are either transferred to counterparties or retained by NAB. Our traded markets include foreign exchange, commodities, interest rate, credit and equity instruments.	NAB supports its customers' needs by assisting them in dealing with market fluctuations and volatilities. By offering risk mitigation products, we make it possible for customers to manage their exposure to unexpected gains or losses and continue to contribute to the growth and stability in local businesses and communities.	<ul style="list-style-type: none"> <li>• Credit</li> <li>• Traded market</li> <li>• Regulatory</li> </ul>
Personnel expenses	We invest in <b>attracting and developing</b> great people so we can create a customer-focused, diverse and inclusive workforce that enables execution of our strategy.	NAB employs over 40,000 people <sup>3</sup> and our remuneration framework rewards employees for meeting key objectives and aligning decisions to our values. Employee share ownership helps our people create wealth and aligns their interests to NAB's long-term success. Our investment in a diverse and inclusive workforce seeks to reduce inequality and includes programs to provide employment pathways to marginalised individuals.	<ul style="list-style-type: none"> <li>• Strategic</li> <li>• Compliance</li> <li>• Operational</li> </ul>
Other expenses	We invest in our <b>business operations</b> , including technology and digital capability, to deliver great products, services and support to our customers. We also invest in our <b>communities</b> and our <b>physical locations</b> .	To remain competitive and positively contribute to the community, we continue to invest in our business operations. Investing in improvements to our hardship function's operations has led to an increase of proactive requests for assistance and has reduced overall loan defaults. Our community investment focuses on building financial inclusion, facilitating economic engagement and improving environmental outcomes. The majority of our major locations now meet or exceed best practice environmental benchmarks.	<ul style="list-style-type: none"> <li>• Strategic</li> <li>• Compliance</li> <li>• Operational</li> </ul>
Tax expense Net profit Dividends	Our business operations result in the payment of <b>taxes</b> to governments and <b>dividends</b> to our shareholders.	NAB makes a valuable contribution to the development and growth of the economies in which we operate, both through the taxes we pay and the taxes paid by our employees and suppliers. By optimising our business success, we can also increase the value we are able to deliver to our shareholders and encourage long-term wealth creation.	<ul style="list-style-type: none"> <li>• Regulatory</li> </ul>

<sup>1</sup> Shared Value is a management strategy focused on companies creating measurable business value by identifying and addressing social problems that intersect with their business.

<sup>2</sup> See page 26 for definitions of the material risk categories. Strategic, Compliance and Operational risks are applicable for all business activities listed.

<sup>3</sup> Based on full-time equivalent employees (FTEs).



# Working with our stakeholders

Building strong relationships with our stakeholders is integral to NAB's success. We are always looking to maintain open and constructive communication.

By engaging with our stakeholders, we can better understand the expectations of our broader community, identify challenges and opportunities and encourage innovation. At NAB, engagement is possible in a range of ways including customer feedback, market research, employee engagement surveys, investor briefings, round tables, government briefings and community and supplier forums.

Our Advisory Council on Corporate Responsibility, the CEO Consumer and Small Business Briefings and our Indigenous Advisory Group bring in external perspectives. These forums provide business and community representatives the chance to work directly with NAB's leaders and help guide some of our most significant decisions.

Team members all across NAB are accountable for engaging with our stakeholders. We have teams responsible for engagement with customers, employees, investors and analysts, government, industry associations and initiatives, not-for-profits and community organisations, unions and the media. Each of these teams manage relationships with key stakeholders, so that we can understand opportunities and areas of concern and take appropriate action to effectively address them.

## Annual materiality review

Along with ongoing engagement, NAB conducts a formal materiality review each year to better understand the broader ESG topics that impact our business. In FY15, we explored a number of broad topics (and their respective drivers) that were most important to our stakeholders and most aligned to our ability to create value both now and into the future. While our overall materiality review process continued to follow the steps of identification, prioritisation, integration and disclosure of ESG topics, this year we increased the depth and breadth of views gained.

We identified the ESG topics through both internal assessments and external frameworks (such as the Global Reporting Initiative and Sustainability Accounting Standards Board). These topics are prioritised through a survey of over 1,000 customers, employees, suppliers and our community partners across Australia and New Zealand. We analysed the results of this survey to better understand different perspectives on the topics and how we are performing against them.

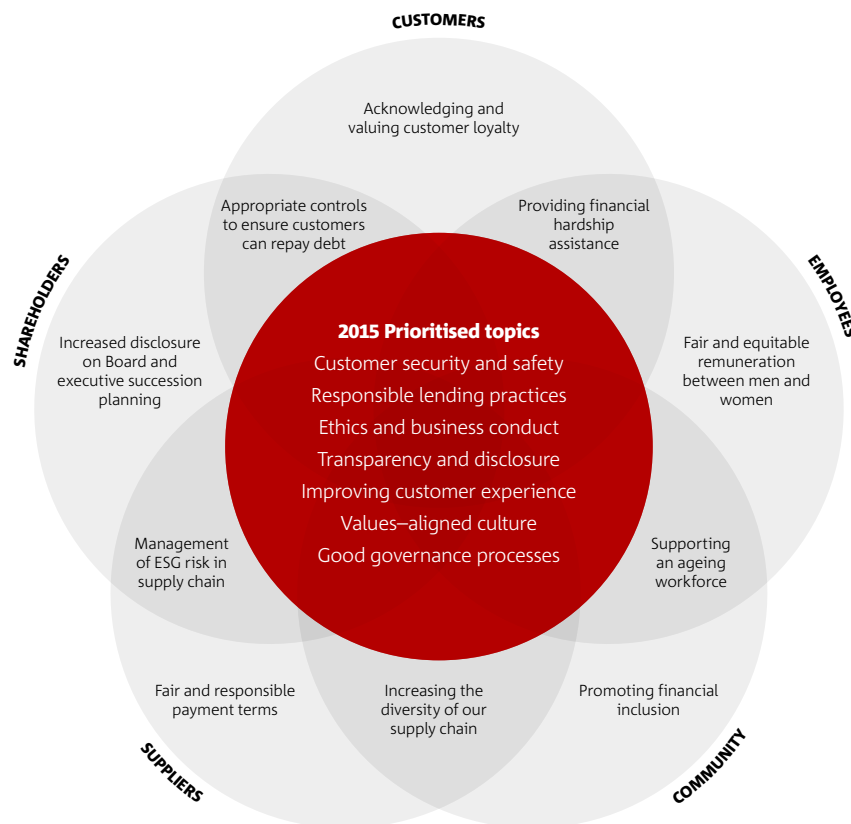
We also conducted detailed interviews with our investors and executives to better prioritise the ESG topics, based on how they might influence our ability to create value both for the business and society. With the changes to the materiality review in 2015, we will be able to more accurately track any changes to how our stakeholders feel about each of the ESG topics over time.

In 2015, our review prioritised seven major topics that were both important to our stakeholders and closely aligned with our ability to create value. These topics have informed the content of this report. Our management and performance against these topics is also included throughout this report.

## 2015 Prioritised topics

The diagram below displays the seven topics prioritised for disclosure in 2015 due to their importance to a broad range of stakeholders and to NAB's strategy. The diagram also outlines a number of the granular drivers of these topics, as assessed in our annual materiality review, to illustrate

their importance and relevance to various stakeholders. The diagram does not contain an exhaustive list of all drivers and stakeholders. Further detail can be found in our 2015 Dig Deeper report. Definitions of the prioritised topics and their relevance to NAB's ability to create value have been provided on **page 10**.



# Working with our stakeholders

## 2015 Prioritised topics



### Customer security and safety

Investing in our technology, operations and people so that our customers' information is protected and their data is used appropriately.



### Responsible lending practices

Putting policies and processes into place so that we provide our customers with the most suitable products and that we manage exposure to ESG issues that arise through our portfolio.



### Ethics and business conduct

Acting in the best interests of our stakeholders and maintaining high standards of ethical and lawful behaviour.



### Transparency and disclosure

Upholding high levels of transparency on the decisions we make and the matters that impact our sustainability, profitability or stakeholders.



### Improving customer experience

Continuing to engage with our customers so that we not only understand and fulfil their expectations but exceed them and deliver a great customer experience.



### Values-aligned culture

Clearly articulating and embedding our values, and recognising that culture is essential to executing our strategy.



### Good governance processes

Embedding management structures and policies to make sure NAB is governed effectively. Ensuring our Leadership has the capability, capacity and experience to preserve and create value. Making sure that effective succession plans are in place for key roles at NAB.

## Customer response initiative in NAB Wealth advice

NAB has a proud track record in the wealth advice industry and has long championed greater transparency in this area.

The vast majority of our more than 1,600 financial planners are doing the right thing. They are providing good advice to everyday Australians concerned about their retirement. And with more than 1.7 million customers, our complaint rate of <1% is small. However, we don't always get it right.

During 2015, our wealth advice processes came under both media and government scrutiny, after the leaking of a report we had commissioned to assess our track record and identify ways to lift standards further.

Following this, we offered to appear before the Senate Economics Committee Inquiry into Financial Advice to discuss this report and what actions we are taking to improve our business and make it stronger.

During the year, our Group CEO Andrew Thorburn committed to several initiatives to substantially improve outcomes for our financial advice customers which included:

- Finding and writing to customers we identify as being at risk of having received inappropriate advice over the last five years. We will review financial advice provided to these customers and where applicable, compensate for financial loss arising from inappropriate advice.

- Supporting our customers to resolve complaints within 45 days.
- Adding independence into our whistleblower process and our complaints process.
- Advising ASIC of all advisors who leave our business and the reason why.


In the last six months, we have made significant progress on these initiatives. We want to get it right for our customers the first time and resolve complaints quickly.

Since February 2015, we have paid \$1.8 million to 90 customers to resolve their compensation claims. NAB is also continuing to respond to new complaints within 45 days.

We have built independence into our complaints and review processes through the appointment of an independent customer advocate in relation to our major advice review, Professor Dimity Kingsford Smith, as well as the appointment of an independent assurance firm which will review our implementation of our major advice review.

Furthermore, we continue to pursue a strategy that is founded on the value of advice in assisting more Australians to have trust and confidence in their financial futures. This is a challenge for Australia as a nation, to help more Australians create and protect wealth for themselves and their loved ones.

# Working with our stakeholders

Building relationships through stakeholder engagement	Related prioritised topics	11
<b>Customers</b>	<p>At NAB, we are passionate about providing a great customer experience with a focus on making it easy for our customers, being personal and supporting our customers. We recognise that we still have work to do to make sure we can provide this experience consistently, with NPS being a key measure for our future success. In FY15, we renewed our customer focus to understand the pain points experienced through our banking processes and how we might be able to address them. In Australia, we focused on mortgage variations, simple business lending and NAB Connect (our online banking platform for business customers). In New Zealand, our Customer Basics program is using customer feedback and insights to prioritise initiatives aimed at improving our customers' experiences.</p>	<hr style="border: 1px solid #ccc;"/> <hr style="border: 1px solid #d9534f;"/>
<b>Employees (including unions)</b>	<p>NAB recognises how important our reward framework is when it comes to attracting and retaining great people. Over a number of years our people have provided feedback regarding the complexity of our annual performance review process and responding to this feedback, we introduced a number of changes. We removed the relative performance assessment (the "bell curve"), simplified scorecard objectives (ensuring alignment to values and business performance) and changed to a three-point performance rating scale.</p>	<hr style="border: 1px solid #d9534f;"/> <hr style="border: 1px solid #d9534f;"/>
<b>Shareholders/ Investors</b>	<p>NAB's shareholders want us to focus on the areas of our business that are generating consistent, robust returns. In FY15, we made considerable progress in targeting our focus and investment on priority customer segments and in addressing our low returning and legacy assets. For more information, see 'Responding to our challenges and opportunities' on <b>page 12</b> and 'Priority segment focus' on <b>page 14</b>.</p>	<hr style="border: 1px solid #d9534f;"/>
<b>Government/ Regulator</b>	<p>While the financial services industry has been subject to substantial regulatory activity in FY15, NAB continues to strive for constructive and effective engagement with its Regulators. In FY15 this included regular senior NAB and Regulator strategic engagement including the NAB Board meeting with both APRA and ASIC and the Group CEO and senior management meeting with AUSTRAC and the Financial Ombudsman Service. FY15 also saw issues based regulatory engagements and compliance monitoring.</p>	 <hr style="border: 1px solid #d9534f;"/>
<b>Community and consumer advocacy groups</b>	<p>At NAB, we know how important it is to listen and respond to community concerns on a wide range of ESG topics. In response to feedback, we systematically improved the way we listen and respond to stakeholder concerns. We updated our Corporate Responsibility policy to include principles for engagement, created a dedicated page on <a href="http://nab.com.au/about-us/corporate-responsibility">nab.com.au/about-us/corporate-responsibility</a> to outline our views, improved our response time to ESG stakeholder enquiries and engaged in constructive dialogue with advocacy organisations including Oxfam Australia, 350.org Australia and Market Forces.</p>	<hr style="border: 1px solid #d9534f;"/>
<b>Suppliers</b>	<p>Through feedback from NAB's procurement awareness workshops and interactions at supplier diversity forums, we know that suppliers can sometimes find it challenging to engage in procurement relationships with large organisations. To address this, we continue to focus on increasing supplier diversity as an important part of NAB's Supplier Sustainability Program. NAB supports the growth of Indigenous procurement through our ongoing partnership with Supply Nation and sponsorship of their Connect 2015 Annual Indigenous Business Tradeshow. This Tradeshow provides members and certified Indigenous suppliers the opportunity to build rewarding relationships.</p>	<hr style="border: 1px solid #d9534f;"/> <hr style="border: 1px solid #d9534f;"/>

# Our operating environment

Read more about our strategy on **pages 13-16** or read more about our Risk Disclosures on pages 11-19 of our 2015 Annual Financial Report.

## Economic conditions<sup>1</sup>

Across the globe, growth remains below trend in 2015. The pace of growth in the big advanced economies has picked up, reflecting the US recovery from weak growth in the first quarter. But it's the emerging market economies that drive most global growth, and they are slowing – with falling world trade volumes and softer commodity prices affecting output across much of East Asia and Latin America.

Global growth is forecast to remain at just over 3% through the next couple of years to 2017.

The Australian economic outlook remains mixed and patchy across a range of industries and geographies. Mining investment is declining sharply, public spending is limited and national income growth is weak as commodity prices continue to decline. However, there is increasing evidence to suggest that growth momentum is broadening across the non-mining economy in response to the lower Australian dollar and interest rates. This is most obvious in services sectors, including tourism.

On balance, GDP growth is expected to be moderate in 2015 at 2.3%, before picking up gradually through to 2.9% in 2016 and then 3.2% in 2017. Resource exports will make up the largest contribution to growth, while forecasts for domestic demand are weak. The unemployment rate is expected to stabilise at a little over 6%, before gradually falling over time.

In New Zealand, after solid economic growth of 3.3% in 2014, headwinds have emerged including a significant fall in dairy prices, and the tailwind from the post-earthquake rebuild in Canterbury has peaked. Moderate growth is still expected in 2015 (2.2%) and 2016 (1.8%) as the economy will be supported by lower interest rates, the decline in the New Zealand dollar and still-strong net immigration.

In 2015, the recovery in the UK economy from the severe 2008/2009 recession continued. Growth has slowed over 2015 but solid growth of 2.4% is still expected for the entire year, with a similar rate of growth (2.3%) forecast for 2016.

<sup>1</sup> All dates in 'Economic conditions' relate to the relevant calendar year.  
<sup>2</sup> More information in relation to UK conduct charges can be found on page 20 of the 2015 Full Year Results Announcement.  
<sup>3</sup> Platform to originate and fulfil all personal products across all proprietary channels.  
<sup>4</sup> Online banking platform for business customers.  
<sup>5</sup> Fully automated, institutional global foreign exchange platform.  
<sup>6</sup> Online financial advice for NAB internet banking customers.

## Responding to our challenges and opportunities

### Low growth environment, intense competition for business banking customers and declining business lending margins

- NAB is investing in priority segments across our Personal and Business Banking businesses where we have a clear competitive advantage, driving growth and returns.
- We have added more bankers on the frontline and are investing in banker capability to support customers.
- Our specialisation capability is extensive, for example in Agribusiness and Health where our deep industry knowledge is leveraged to create customer insights and tailored solutions, resulting in leading market shares and stronger returns profile than for non-specialist banking.
- We are focused on improving our customers' experience through enhancing our online capabilities, and improving our processes and policies to make it easier to do business with us.
- Enhanced pricing, fee and margin tools and disciplines are being implemented to provide portfolio insights to coach bankers and address margin decline.

### Addressing our legacy and low performing assets

- We fully divested our US subsidiary Great Western Bancorp Inc.
- We are committed to fully divesting our Clydesdale Bank and Yorkshire Bank operations through a demerger and IPO in February 2016. The UK Prudential Regulation Authority requires capital support of £1.7 billion in relation to potential future legacy conduct costs. Conduct provisions were raised in FY15 in relation to both payment protection insurance (PPI) and interest rate hedging product (IRHP) costs.<sup>2</sup>
- We sold a £1.2 billion parcel of higher risk loans from our UK Commercial Real Estate portfolio.
- We entered into a life reinsurance agreement which released \$0.5 billion in capital to the NAB Group.
- We reduced the size of our Specialised Group Assets portfolio from \$4.1 billion to \$2.1 billion in risk weighted assets.
- In October 2015, we announced an agreement to sell 80% of NAB Wealth's life insurance business to Nippon Life Insurance Company. Post this transaction, NAB will be left with a strong investments and superannuation business which is well positioned to grow.

### Regulatory change

- NAB continues to maintain a strong capital, liquidity and funding position.
- In June, we raised \$5.5b of CET1 capital through a rights issue to put NAB in a strong capital position ahead of expected regulatory requirements both domestically and globally.
- We are responding to APRA's requirement to restrict investor mortgage lending growth.
- We continue to monitor and actively manage complex regulatory changes and associated costs, including Basel IV and the Federal Government's Financial System Inquiry.

### Technology, complexity and digital transformation

- NAB continues to deliver projects that improve the customer experience and make it easier to do business with us. Examples include our Personal Banking Origination Platform (PBOP)<sup>3</sup> pilot, NAB Connect<sup>4</sup> upgrades, NAB StarXchange<sup>5</sup> pilot and NAB Prosper<sup>6</sup>.
- We continue to actively manage ageing technology to improve the stability and security of our systems.
- Digital disruption has created more competition but we are embracing this through our innovation hub (NAB Labs), our \$50 million NAB Ventures fund and partnering with third party technology experts.

# Our strategy

## Vision, objective and goals

We refreshed our strategy in light of the changing business environment. Our vision is to be Australia and New Zealand's most respected bank.

In developing NAB's strategy, the risks and rewards of available opportunities are considered. This includes the markets and customer segments that we operate in, the source and degree of differentiation from competitors and the internal and external environment faced by NAB.

NAB's objective is to deliver superior returns to our shareholders. To meet this objective, our refreshed strategy outlines three goals against which our performance is measured:

<b>Our vision</b>	To be Australia and New Zealand's most respected bank
<b>Our objective</b>	Deliver superior returns to our shareholders
<b>Our goals</b>	<ul style="list-style-type: none"> <li>• Turn our customers into advocates</li> <li>• Engage our people</li> <li>• Generate an attractive return on equity</li> </ul>
<b>Our strategy</b>	<ul style="list-style-type: none"> <li>• Focus on priority segments</li> <li>• Deliver a great customer experience</li> <li>• Execute flawlessly and relentlessly</li> </ul>
<b>Our people living our values</b>	Passion for customers, Will to win, Be bold, Respect for people, Do the right thing
<b>Our foundations</b>	Balance Sheet, Risk, Technology

### 1. Turning our customers into advocates

We seek to turn our customers into advocates and aim to have the highest Net Promoter Score amongst our peers<sup>1</sup> for our priority customer segments. In 2015, we achieved modest gains, with NPS for priority segments improving from -18 to -16. In 2016 we will continue to drive improvement in customer experiences across our business that will improve customer advocacy. **See page 15** for more information on customer experience.

### 2. Engaging our people

We seek to create a high performing, values-aligned culture and aim to have an employee engagement score at the "global high performing benchmark" (currently 60%<sup>2</sup>). We made significant progress in FY15, with employee engagement in the Group increasing from 42% in FY14 to 52% in FY15. **See page 20** for further information on employee engagement.

### 3. Generating an attractive return on equity

We aim to generate an attractive return on equity for our shareholders. In FY15, the NAB Group's statutory return on equity increased by 100 basis points to 13.1% compared to FY14. Cash return on equity increased by 40 basis points to 12.0%<sup>3</sup> for the same period.

To achieve these goals we are:

- Focusing on priority customer segments.
- Delivering a great experience for customers.
- Executing flawlessly and relentlessly.

Our people are the key enablers of our strategy and NAB's ability to achieve its goals. **See pages 17-20** for details on NAB's culture and human capital management.

## Realising our vision

We know that in order to be Australia and New Zealand's most respected bank, we need to deliver on our strategy. Part of our strategic priority customer segment focus over the past year has been on micro, small and medium business customers in the Agribusiness sector.

A constant focus on innovation and sound land management has underpinned the success of Parilla Premium Potatoes Pty Ltd since their establishment in 1990. NAB has taken a long-term view to our relationship with Parilla, supporting it through market and seasonal fluctuations, to help see it established as one of Australia's largest potato growers – currently producing over 55,000 tonnes of potatoes, carrots and onions each year.

Parilla has a sound reputation as an early adopter of technology to drive improved business outcomes. Central to their efficient use of water, energy and fertiliser has been the adoption of modern centre pivot technology. In 2015, NAB supported Parilla to acquire a new advanced centre pivot, expected to use 15% less energy and water and 20% less fertiliser, with our 0.7% energy efficiency bonus for equipment finance. This bonus is delivered with the support of the Clean Energy Finance Corporation, to enable NAB customers to invest in assets to reduce their energy costs and improve natural capital management.

We will continue to innovate and make things simple for our 29,000 Agribusiness customers across Australia and New Zealand to achieve our vision of becoming Australia and New Zealand's most respected bank.

<sup>1</sup> Net Promoter Score measures how likely a customer would be to recommend NAB to a friend or colleague on a scale of 0-10. The overall score is calculated by subtracting the percentage of customers that answer 6 or below ('detractors') from the percentage of customers that answer 9 or 10 ('promoters'). Peers refers to three major Australian banks (ANZ, CBA, WBC).

<sup>2</sup> Source: 'Speak Up, Step Up' survey conducted by Right Management in May 2015.

<sup>3</sup> Excluding specified items as detailed on page 20 of the 2015 Full Year Results Announcement, cash return on equity for the year ended 30 September 2015 was 13.8%.

# Our strategy

## Priority segment focus

In a low growth environment with intense competition, we are concentrating resources on NAB's priority customer segments within Australia and New Zealand.



Within the Australia and New Zealand markets, we are focused on the customer segments that are most attractive and where we are best positioned to compete, taking into account factors such as segment size, return on equity and growth rates, as well as our market share, capabilities and performance.

Within the business banking market, we are most focused on the micro, small and medium business customer segments<sup>1</sup>. As the leader in business lending in Australia<sup>2</sup> and with the second largest business banking market share in New Zealand<sup>3</sup>, NAB is strongly positioned to compete in these segments, particularly in the agriculture and health industries.

Personal Banking also remains a priority focus for us, particularly the mortgage and debt free customer segments. NAB's strong competitive capabilities in these segments have enabled us to grow our share over the past five years.

We are actively reweighting resources towards parts of the business that support the priority segments to strengthen our capabilities and deepen our relationships with customers. In FY15, this included:

- Increasing the share of Australian Banking operational expenditure and number of full time equivalent employees dedicated to priority segments.
- Hiring more frontline bankers to serve priority segment customers.
- Increasing marketing spend, targeting our priority segments.
- Re-focusing major projects and initiatives towards priority segments.

To allow greater focus on our Australia and New Zealand customers, we are addressing some low returning and legacy assets. In FY15, we:

- Completed a full divestment of Great Western Bancorp, Inc.
- Sold a £1.2 billion parcel of higher risk loans from our UK Commercial Real Estate portfolio.
- Reduced the size of our Specialised Group Assets portfolio from \$4.1 billion to \$2.1 billion in risk weighted assets.
- Committed to fully divesting our Clydesdale Bank and Yorkshire Bank operations through a demerger and IPO in February 2016.
- Released \$0.5 billion of CET1 capital by entering into a major life reinsurance agreement.

On 28 October 2015, NAB announced it has entered into an agreement to sell 80% of NAB Wealth's life insurance business to Nippon Life Insurance Company for \$2.4 billion, while NAB will retain the remaining 20%. ▶

<sup>1</sup> Micro business refers to businesses with turnover less than \$1 million, Small business (\$1 million - <\$5 million) and Medium business (\$5 million - <\$50 million).

<sup>2</sup> Source: By market share, APRA Banking System - September 2015.

<sup>3</sup> Source: TNS Business Finance Monitor - September 2015. Market share for businesses with annual turnover of \$NZD1 million - \$150 million.

# Our strategy

## Customer experience

As we face into the challenges and opportunities brought about by digital transformation and the external environment in which we operate, NAB understands that delivering a great experience for our customers is critical to success in our priority segments.

We have developed a clear and standard definition of how we want NAB to be experienced by our customers. These are to be easy to deal with, to be personal in all our dealings and to support our customers with advice and insight. We know that this is easy to say and hard to deliver. To make this come to life, we have focused on:

- Making it simple for customers.
- Deepening our relationships with customers.
- Innovating for customers.

### Making it simple for customers

We made significant progress in making our services simpler and easier for customers by reducing customer pain points.

In FY15, we improved the customer experience across a range of financial products by simplifying our policies, processes, products and technology. As a result, approximately 500,000 customers' sales and service experiences per annum have been improved.

These improvements included:

- Improving the turn-around times for customers making simple variations to their mortgages.
- Reducing the time we take to approve simple business loans.
- Reducing the paper work we require from customers applying for simple business loans, equipment finance and commercial cards.

### Deepening our relationships with customers

Our aim is to build deep, long lasting and personal relationships with our customers. We seek to meet more of our customers' banking and wealth needs and become their main financial provider.

NAB continued to improve customer experiences by strengthening its network of skilled bankers, including recruiting additional business banking relationship managers and mobile bankers. A professional training program was implemented for our business bankers, along with NAB View, an improved customer information tool to better equip bankers with insights into specific customer needs.

We adopted the Net Promoter System (NPS) to measure customer advocacy and improve our understanding of how we can deliver a better customer experience for our priority segments.

### Innovating for customers

We are focused on innovating to deliver great customer experiences and support our customers. An example of this is the NAB Village at Docklands in Melbourne. NAB Village is an innovative space that we provide for our business customers and community partners to connect with clients, work between meetings and learn from each other. Its value to customers is demonstrated by the fact that over 25% of members have started a banking relationship with NAB in order to access NAB Village.

During FY15, we continued to invest in and improve our internet banking and mobile application services. We also delivered new innovative solutions such as enabling our small business customers to link their internet banking directly into their Xero online accounting package.

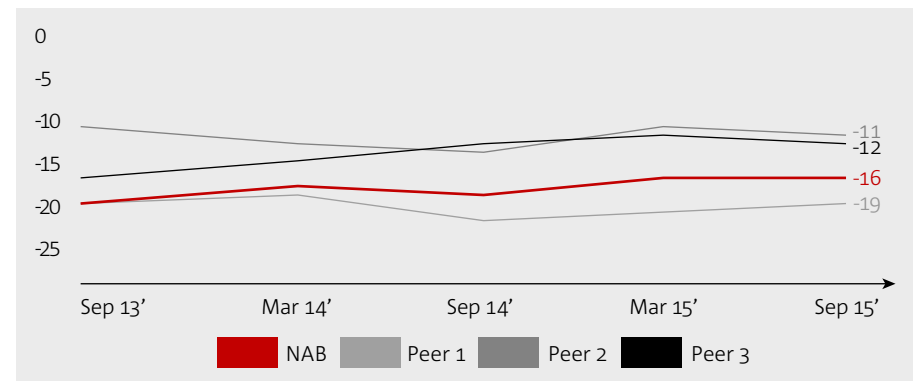
We recently announced the launch of NAB Prosper, which will provide customers with

an affordable online option for simple wealth advice. We also announced an additional investment of at least \$300 million over the next four years in our NAB Wealth superannuation, platforms, advice and asset management business, which will allow us to deliver a great customer experience while driving a closer relationship between our banking and wealth businesses.

NAB Labs, an innovation hub, was established to drive innovation and customer-led design. NAB Ventures, a \$50 million innovation fund, will enable us to access leading ideas and capabilities through investments in innovative companies globally.

With the support of the Clean Energy Finance Corporation, we launched a \$120 million funding program to provide our business customers with discounted financing for energy efficiency or generating renewable energy. This will help our customers better manage their energy usage and expenses.

## Priority Segments NPS vs peers<sup>1</sup>



<sup>1</sup> Priority Segments NPS is a simple average of the NPS scores of four priority segments: Mortgage Customers, Micro (<\$1m) Business, Small (\$1m-<\$5m) Business and Medium (\$5m-<\$50m) Business. The priority segments NPS scores are based on six month moving averages from Roy Morgan Research and DBM BFSM. NAB compared with the NPS of the three major Australian banks (ANZ, CBA, WBC).

# Our strategy

## Execute flawlessly and relentlessly

By focusing on execution, we aim to improve the way we run our business, and the way we manage change. In FY15, NAB made progress towards becoming a more performance driven organisation.

### Driving performance

NAB has embedded its new performance management framework within the operating rhythm of our Australian performance units. The new framework provides a more granular performance assessment of the Australian performance units, fosters greater performance discipline and drives clearer accountability. BNZ's performance framework is also being refreshed to leverage the tools and learnings from NAB.

### Executing change well

We are finalising the execution of some large, transformative technology investments. One example is our customer pilot for the new Personal Banking Origination Platform (PBOP). PBOP will significantly improve new loan processes for both customers and bankers, including pre-filling application data and enabling customers to track the status of their application or upload information, such as pay slips, online.

Further, we have completed all migration activities and associated server decommissioning of our East Melbourne data centre. This will deliver a more stable and lower risk operating environment as well as reduce carbon emissions, energy and water use.

### Transforming processes for speed and reliability

NAB continues to improve the speed and reliability of our processes by leveraging operational and management excellence in key business areas. Our Kaizen Plus capability is focused on delivering improved customer experiences and increased productivity through eliminating "re-work" in our processes.

### Maintaining foundations

Our strategy is supported by maintaining strength in our balance sheet, risk management capability and technology platforms. **See pages 24-27** for more information on our foundations.





## Culture and values

A strong culture is central to the successful execution of NAB's strategy and vision to be Australia and New Zealand's most respected bank.

In FY15, we articulated a set of five values to describe the culture we are striving for. These values, as described in the adjacent table, are designed to work alongside each other and provide a direct link between NAB's culture and strategy.

We know that understanding how values influence organisational decision-making can be difficult. We have therefore placed a strong emphasis on measurement in our annual engagement survey, so we can see how closely our people believe that we are living our values.

A subset of questions in the survey have been used to create an 'Alignment to Our Values' index. In 2015, 87% of our people agreed or strongly agreed that NAB has a clear set of values and behaviours, that everyday work is guided by these, and that the values and behaviours are demonstrated every day throughout the organisation.

In FY15, to make sure that our values become the core of our culture, we incorporated them into our performance management system. We believe this change means improved outcomes for our customers, our people and our communities – through improved conduct, stronger relationships and increased focus on high performance.

## How we are living our values

<p><b>Passion for customers</b> <i>Putting ourselves in customers' shoes, understanding what they need and building genuine connections</i></p>	<p>In 2015, we held two NAB-wide 'Customer Connect Days', where we harnessed the collective ability of NAB to call customers, thanked them for their loyalty and checked that our products and services were still meeting their expectations. While our frontline employees interact with customers daily, these 'Customer Connect Days' encourage employees in non-customer facing roles to have direct and meaningful conversations with our customers. They also gave our people the opportunity to see first-hand how much of an impact they can have on our customers. On our most recent 'Customer Connect Day', a total of 38,780 calls were placed to our customers, leading to over \$4.7 billion in further opportunities.</p>
<p><b>Will to win</b> <i>Collaborating across our business to create value for all stakeholders</i></p>	<p>In the face of intense competition, we have maintained our position as Australia's largest business bank<sup>1</sup> and we continue to back businesses that back themselves. We are investing in attracting, developing and retaining great people, and continue to innovate so we can make things simpler for our customers. We continue to be active advocates for the interests of small business, demonstrating our support for the Australian business community.</p>
<p><b>Be bold</b> <i>Not being afraid to ask the tough questions and try something different</i></p>	<p>We were the first major Australian bank in 2015 to announce plans to raise additional capital, taking decisive action to strengthen our balance sheet ahead of anticipated regulatory changes and to facilitate our proposed UK exit. Raising \$5.5 billion culminated in the largest capital raising in Australian corporate history. Execution of the capital raising was testament to an outstanding team effort and strong demand from our shareholders and the market.</p>
<p><b>Respect for people</b> <i>Embracing the things that make us different and encouraging an inclusive culture</i></p>	<p>As family dynamics continue to change, we made our 12-week paid parental leave entitlement more accessible to new dads and other non-birth parents. Our people can now take paid primary carers' leave anytime within the first 12 months of their child's life. Our return-to-work rate following primary carers' leave (and any consecutive extended leave) has increased from 80% in 2013 to 89% in 2015.</p>
<p><b>Do the right thing</b> <i>Making good decisions for our customers, people and communities even when it is difficult</i></p>	<p>Together with Good Shepherd Microfinance and more than 200 community organisations, we helped over 394,000 low income Australians with low and no interest loans to date. In addition, we continue to invest in innovative solutions that offer an alternative to predatory lending. We launched our fourth Good Money Store in Salisbury, South Australia, which provides safe and affordable finance in a prominent high street location. In New Zealand, our award-winning<sup>2</sup> Community Finance initiative has been running successfully for over a year and is saving StepUP loan customers an estimated \$2,000 in fees and interest over the life of their loans<sup>3</sup> (compared to borrowing the same amount through alternative lenders).</p>

<sup>1</sup> Source: By market share, APRA Monthly Banking Statistics - September 2015.

<sup>2</sup> Institutional Banking Innovation Award, Institute of Finance Professionals New Zealand (INFINZ) Awards May 2015.

<sup>3</sup> Based on a rate of 30% over an average loan value of approximately \$3,500 and average term of 32.4 months. Estimated fees are based on a \$250 establishment fee and a \$10 per month administration fee.

# Our people

## Building capability

Investing in our people and their development is essential to the successful execution of our strategy.

NAB has a targeted learning curriculum that is aligned to our values and the delivery of our strategy. We bring it to life across the organisation through role specific training, leadership and professional development programs, and mandatory compliance learning. Through targeted training, we can be sure our people are engaged, confident and capable in their roles, so they can focus on delivering a great customer experience and help deliver superior returns to our shareholders.

NAB recognises the challenge of delivering consistent learning opportunities regardless of time and geography and we know there is further work to be done in this area. The introduction of self-paced learning programs and smaller “bite sized” learning has shown early signs of success and we will continue to develop this across the organisation in 2016.

We have seen evidence of a reduction in ‘year one attrition’ for new employees that participated in our ‘Job-Ready’ induction and on-boarding programs.

## Developing and retaining talent

NAB’s talent management processes help prepare our high performing, high potential employees for future roles. Supporting, developing and accelerating our talent into critical roles puts us in the best possible position to execute our strategy, create role models for our values, inspire teams and deliver results. The availability of career development opportunities is also a clear driver of employee engagement.

Our end-to-end talent management process identifies high performing and high potential employees who undertake assessment and experience accelerated development to strengthen our talent pipeline.

At the start of FY15, 416 high-potential leaders (48% female, 52% male) were participants in the NAB Group’s Talent Pool, and 95% are still with us. In Australia, 23% of these leaders have received a promotion over the past 12 months.

NAB’s 2015 Reconciliation Action Plan includes a commitment to developing leadership capability of Indigenous employees. This year, we completed the second Indigenous Emerging Leader program, with 25 employees having now completed the curriculum including face-to-face and reflective learning, and practical workplace activities designed to help participants develop their ability to manage, lead and mentor others. The program also included a session to discuss career development with NAB Group CEO Andrew Thorburn.

## Succession planning

We have ‘Ready Now’ successors in place for all 60 Executive General Manager level roles. 58% of these roles have female successors.

81% of new senior executives were internal appointments, highlighting the strength of NAB’s succession planning and talent development programs.

## Graduate Program

We want to continue bringing fresh, innovative talent into the NAB Group. This year, 104 graduates have accepted positions to commence in NAB’s 2016 Australian Graduate Program. 55% of the 2016 cohort are female and 45% are male.

Since the launch of our Enterprise Graduate Program in 2012, the retention of Graduates has been 91%.



## Diversity and inclusion

Investing in a diverse and inclusive workforce provides benefits for our people, builds stronger relationships within the communities in which we operate and enables NAB to attract and retain great people.

NAB's Diversity and Inclusion strategy reflects the changing needs and expectations of our people, customers and shareholders, with the strategic imperatives of inclusion, life stage and gender equity being driven by leadership and flexibility. We continue to take a proactive approach to meeting regulatory requirements with respect to diversity and inclusion and in FY15 we updated our 'Australian Diversity and Inclusion' policy to include both emerging practices and our NAB values.

The table below represents our 2015 workforce composition by age and gender.<sup>1</sup>

Age profile	% Female	% Male	%Total
<25	4	3	7
25-34	18	14	32
35-44	16	13	29
45-54	13	9	22
55+	6	4	10
<b>Total</b>	<b>57</b>	<b>43</b>	<b>100</b>

Source: Internal.

## Gender equity targets

Measure	2015 Female representation	2015 Target
Executive management <sup>2</sup>	32%	33%
Group subsidiary boards	36%	30%
NAB Board (non-executive directors)	22%	-
2016 Graduate Program (Australia) <sup>3</sup>	55%	50%

Source: Internal.

In FY15, NAB met a number of its gender equity targets. Whilst there was an increase of female representation in executive management in FY15, up two percentage points to 32%, we did not meet our target of 33%. This will have renewed focus in the year ahead, led by the Group CEO and the Executive Leadership Team, to continue to drive gender equity at NAB.

## Gender pay equity

We are committed to fair and equitable remuneration, consistent with our market and performance remuneration framework. Our Group CEO remains a member of the Workplace Gender Equality Agency's Pay Equity Ambassadors program as part of their national awareness and education campaign to eliminate gender pay bias.

The gender pay gap within NAB is below the current industry average<sup>4</sup>, but we recognise there is still work to be done.

To continue reducing the gender pay gap and driving greater consistency and alignment, we actively monitor and manage:

- The setting of variable reward targets.
- Annual remuneration recommendations for specific roles.
- Performance outcomes.

In addition, all employees receive a remuneration review when returning from parental leave to ensure their level of remuneration remains appropriate and the terms of NAB's Enterprise Agreement are applied.

## Inclusion

At NAB, we value the diversity that unique backgrounds, capabilities and life experiences bring to the workplace. In 2015, we continued to deliver training, improve processes and update policies as part of our commitment to inclusion in the workplace. Our people recognise these initiatives, with 80% of employees stating that they feel NAB's culture is inclusive<sup>4</sup>. While this is an encouraging result, we know that there is room for improvement.

## Life stage

As the demographics of Australian society change, NAB is faced with new challenges and opportunities. Continuing to develop a mature age offering that meets the needs of both the business and the individual is essential to prepare NAB for changes in the composition of the workforce.

At NAB, we recognise that attracting and retaining mature age workers is a competitive advantage. Mature age workers bring more life experience and industry expertise into our business. We encourage our people to remain in the workforce to help them achieve

their retirement goals and to retain valuable expertise and customer relationships.

NAB also educates its people leaders about how to lead effectively in a work environment that is rapidly changing from a demographic perspective.

This is the fifth year that NAB offered 'MyFuture' workshops, which provided leaders and mature-age employees the opportunity to see how prepared they are for their future. The workshops covered everything from career, flexibility, health and finances to relationships and the transition to retirement. Participants in this year's program have reported an increase in flexible working uptake, proactive health management and in planning and discussing their future goals.

## Diversity Leader Award

Won by BNZ at the Deloitte Top 200 Awards

## 2015 Australian Workplace Equality Index

9th place out of 58 submissions  
Improvement from 14th place in 2014

<sup>1</sup> Data based on permanent population only (excludes external employees such as casual employees and contractors).

<sup>2</sup> Executive management positions (also known as senior executive positions) are those held by Executive Leadership Team members, Executive Leadership Team members' direct reports and their direct reports. Support roles reporting in to these roles (for example, Executive Manager and Executive Assistant) are not included in the data. As at 30 September 2015, the proportion of females reporting directly to the Group CEO on the Group Executive Leadership Team was 33%.

<sup>3</sup> As at 30 September 2015, 55% of the graduates who accepted positions in NAB's 2016 Australian graduate program are women.

<sup>4</sup> 2014 Gender Equality Benchmark Report, Workplace Gender Equality Agency.

## Employee engagement and advocacy

We understand how closely employee engagement is linked to delivering superior shareholder returns. That's why we set ourselves the goal of achieving the global high performing organisation benchmark of 60%<sup>1</sup> in employee engagement as part of our strategy.

For the second year in a row, NAB engaged Right Management, our independent survey provider, to measure the overall engagement of our people. The methodology applied in the survey measures our people's commitment, advocacy, satisfaction and pride in both their job (four questions) and in the organisation (four questions). The overall enterprise engagement score measures the proportion of our people who answer favourably to all eight of these questions. Results of the survey have been included in the table below:

	2015	2014
Job Engagement	62%	55%
Organisation Engagement	64%	52%
<b>Enterprise Engagement score</b>	<b>52%</b>	<b>42%</b>

Source: 'Speak Up, Step Up' survey conducted by Right Management in May 2015.

We recognise that higher employee engagement is linked with a number of business performance factors including higher productivity, lower levels of employee turnover and increased profitability.

Through our employee survey, we found that the key drivers of engagement across NAB are making sure that:

- Our people have challenging and interesting work.
- Our people see career opportunities for themselves.
- Senior leaders are seen to be communicating an inspiring vision for NAB.
- Our people experience NAB as inclusive and ready to respond to changes in the external business environment.

Understanding and responding to these drivers plays an important role in achieving our goal of reaching the enterprise engagement global high performing benchmark of 60%<sup>1</sup>.

## Ethical conduct

Our Code of Conduct (Code) sets out the standards of responsibility and behaviour we expect of our people. It is the responsibility of everyone working on NAB's behalf, including contractors, consultants and directors, to make sure they comply with this Code. Our people are required to complete a mandatory online learning module that requires them to attest to understanding and complying with the Code.

NAB recognises that the real work in bringing our Code to life is through our daily actions, decisions and behaviours. To this end, our Executive Leadership Team regularly engages with our top 200 leaders, reinforcing the importance of the 'tone from the top'. We also encourage our people to speak up when they witness behaviour that is in conflict with the Code.

There are a number of ways to escalate any complaints or concerns including through people leaders, Workplace Relations, confidential email alerts and NAB's whistleblower program.

If it is proven that individuals have engaged in conduct that does not meet our expectations, or in conflict with the Code, then disciplinary action is taken including formal warnings or termination of employment. For more information on how we manage conduct risk in our business, [see page 25](#).



## Mental health and wellbeing

Supporting the physical and psychological wellbeing of our employees is a key focus for NAB because we know how important it is to create a healthy environment where our people feel supported, can perform, feel resilient in times of change and ultimately, achieve their personal and career goals. While there is no 'one size fits all' approach to creating a mentally healthy workplace, the role of leadership is vital.

Our people leaders are given training to help them identify the early warning signs of mental ill health in the workplace (without diagnosing), respond to these signs and access the support resources available. They also have 24/7 access to Manager Assist to help with more difficult people issues.

Consistent with greater community awareness of mental health issues and our strategic focus on improving mental health and wellbeing, reporting of psychological incidents has increased at a greater rate over time compared to other specific causes of injury. Removing the stigma attached to mental ill health issues and recognising the early warning signs, helps us to better support our people to manage the issues before they start impacting on their ability to remain at work. The positive sign in 2015 has been an increase in employees seeking assistance whilst still at work.

<sup>1</sup> Source: 'Speak Up, Step Up' survey conducted by Right Management in May 2015.

# Board of Directors



With a range of skills and expertise, the NAB Board is a group of diverse and highly experienced business leaders who work together to guide NAB's strategic agenda and oversee its implementation. Long-term value creation for stakeholders is a key priority for

the NAB Board, as is making sure management maintain a high standard of accountability and integrity.

Board succession planning is ongoing at NAB. Two director appointments have been recently announced and are expected to

occur by February 2016, which will bring fresh perspectives to the NAB Board while still retaining a deep understanding of our business. When a NAB Board vacancy is anticipated, the Nomination Committee considers a range of factors to identify suitable

candidates. Current skills and competencies that highlight the depth of the NAB Board's capabilities include strategy and organisational leadership, understanding global trends and the local finance industry, risk management, governance and information technology.

<b>Back row</b>	<b>Paul Rizzo*</b> NAB: Non-executive director since 2004. Member of the Risk, Audit, Information Technology and Nomination Committees.	<b>David Armstrong</b> NAB: Non-executive director since 2014. Chairman of the Audit Committee. Member of the Information Technology and Nomination Committees.	<b>Geraldine McBride</b> NAB: Non-executive director since 2014. Member of the Information Technology and Nomination Committees.	<b>Michael Chaney AO*</b> NAB: Chairman since 2005, non-executive director since 2004. Chairman of the Nomination Committee.	<b>Anthony Yuen</b> NAB: Non-executive director since 2010. Member of the Risk, Audit and Nomination Committees.	<b>Daniel Gilbert AM</b> NAB: Non-executive director since 2004. Chairman of the Remuneration and Information Technology Committees. Member of the Nomination Committee.	<b>Peeyush Gupta</b> NAB: Non-executive director since 2014. Member of the Risk, Remuneration and Nomination Committees.
	<b>Front row</b>	<b>Kenneth Henry AC**</b> NAB: Non-executive director since 2011. Chairman of the Risk Committee. Member of the Remuneration and Nomination Committees.	<b>Jillian Segal AM</b> NAB: Non-executive Director since 2004. Member of the Risk, Remuneration, Information Technology and Nomination Committees.	<b>Andrew Thorburn</b> NAB: Managing Director and Group CEO since 2014. Member of the Information Technology Committee.	<p>* Retiring December 2015</p> <p>** Will succeed Michael Chaney AO as Chairman, immediately following NAB's Annual General Meeting in December 2015.</p> <p><b>New appointments</b> Anne Loveridge - from December 2015 Doug McKay - from February 2016</p>		

For detailed information on the skills and experience of each director, see pages 20-22 of the 2015 Annual Financial Report.

# Executive Leadership Team



The Group Executive Leadership Team has a wealth of experience and expertise in the banking sector, with the majority of the team having spent their careers in the industry. Led by Group CEO Andrew Thorburn, the

team is focused on high performance and accountability to deliver for our shareholders. They are united by a shared commitment to our customers, with the CEO and each executive sponsoring customers across our

business to gain a better understanding of their needs and to improve our service. Sharing the same core NAB values and integrity, the Group Executive Leadership Team work collaboratively across the

organisation so that decisions are made for the benefit of the NAB Group as a whole and not for individual business units.

**Back row**

**Anthony Healy**  
Managing Director and Chief Executive Officer, BNZ

**Gavin Slater**  
Group Executive, Personal Banking

**Angela Mentis**  
Group Executive, Business Banking

**Andrew Hagger**  
Group Executive, NAB Wealth

**David Gall**  
Group Chief Risk Officer

**Antony Cahill**  
Group Executive, Product and Markets

**Front row**

**Andrew Thorburn**  
Managing Director and Group CEO

**Craig Drummond**  
Group Executive, Finance and Strategy

**Michaela Healey**  
Group Executive, Governance and Reputation

**Renée Roberts**  
Group Executive, Enterprise Services and Transformation

For detailed information on the backgrounds and experience of each member of the Group Executive Leadership Team refer to our website [nab.com.au/about-us/our-business](http://nab.com.au/about-us/our-business)

# Our foundations and governance

## Governance

Our strong governance culture and framework underpins effective decision making and accountability across our business.

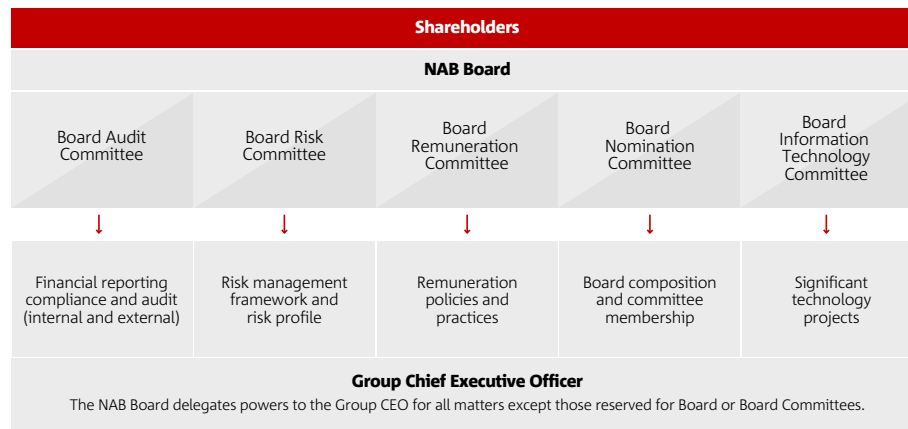
Effective governance practices and processes are vital to creating and delivering value to our customers and shareholders. They provide transparency and accountability, promote investor confidence and encourage innovation. They also make sure we are getting the right things done in the best possible way.

As part of our vision to be Australia and New Zealand's most respected bank, NAB sets itself high standards in corporate governance and complies with the 'ASX Corporate Governance Principles and Recommendations, 3<sup>rd</sup> edition' which sets out governance practices for listed companies.

As the representative of NAB's shareholders, the NAB Board is responsible for the governance of the NAB Group. The NAB Board is assisted by its committees, as shown in the adjacent diagram.

At a high level, the NAB Board's main responsibilities include overseeing and monitoring:

- Strategic and operational planning.
- Risk management and compliance.
- Financial management and integrity of external reporting.
- Succession planning and culture.



### Governance framework

Some of the components of NAB's corporate governance framework and approach include:

- A highly skilled, diverse and independent Board.
- Strong, co-ordinated management.
- Robust risk management system.
- Compliance with external regulation and internal policies<sup>1</sup>.
- Timely, comprehensive communication with stakeholders.
- Long-term genuine commitment to sustainability.

Authority is delegated by the NAB Board to the Group CEO, who is responsible for the day-to-day management of NAB's business. The Group CEO further delegates authority to senior executives and management committees who are empowered to make certain decisions to specified levels, beyond which they must be escalated back to the NAB Board.

The governance framework, along with the specific delegations within it, are reviewed and approved by the NAB Board and the Group CEO every year.

### Effective leadership

The NAB Board regularly reviews its composition to make sure that it consists of directors with a diverse range of skills, expertise and experience that are directly relevant to our business. The majority of NAB's directors are independent, non-executive directors and all of them must have unquestionable integrity and good character. The Chairman is not a former executive of NAB and the role of Chairman and Group CEO are not exercised by the same person. See the Board of Directors section on **page 21** of this report for more details.

NAB's Board Nomination Committee annually considers the individual skills of each director, as well as the overall capability of the NAB Board to make sure that its composition remains appropriate and effective. The NAB Board also conducts an annual assessment of the performance and effectiveness of the NAB Board as a whole, of each of its committees, and of individual directors.

### Responsible remuneration

We have built our remuneration policy around linking rewards to shareholder value, promoting long-term growth and attracting and retaining high-performing employees.

We create appropriate incentives through variable components of remuneration, which are based on individual and organisational performance and also include risk outcomes. We publish the remuneration of the Group CEO and our senior executives in NAB's 2015 Annual Financial Report.

### Transparent communication with our shareholders

We are committed to maintaining a level of disclosure that gives all of our shareholders timely and equal access to information.

We communicate this information in a number of ways including direct written communication, publication of all relevant NAB Group information on our website and the webcasting of significant market briefings and meetings, including the Annual General Meeting.

### Risk governance

Maintaining an active focus on risk and compliance is non-negotiable and it underpins how we run our business. We identify and actively manage risk as part of a Group-wide 'Risk Management Framework' for which the NAB Board is ultimately accountable. The Risk Committee, which is made up of non-executive independent directors, helps the NAB Board to carry out certain responsibilities within the Governance Framework. For more on our risk management, **see page 25**.

<sup>1</sup> Including conflicts of interest, continuous disclosure, ethics and behaviours, remuneration, trading in NAB securities, and the whistleblower program.

# Our foundations and governance

## Balance sheet strength

We continued to maintain strong capital, funding and liquidity positions in line with our ongoing commitment to maintain NAB's balance sheet strength. This provides us with confidence to respond to changing market and regulatory conditions facing the finance sector in Australia and globally.

This year, NAB continued to access a diverse range of wholesale funding across senior, subordinated and secured debt markets, as well as the domestic retail hybrid market. We raised \$26.5 billion of term wholesale funding, fulfilling our 2015 funding requirements.

We continued to grow deposits and improved our Customer Funding Index, which represents the proportion of our core assets that are funded by customer deposits, from 70.4% in 2014 to 71.5% in 2015.

Our Liquidity Coverage Ratio (LCR) of 115% (quarterly average at 30 September 2015) exceeds the minimum regulatory requirement of 100%.

NAB's capital management strategy is focused on adequacy, efficiency and flexibility. We focus on holding capital in excess of our internal risk-based assessment of required capital, while meeting regulatory requirements, being consistent with our balance sheet risk appetite and making sure stakeholder expectations are met.

Our balance sheet strength means NAB is well placed to meet regulatory change and respond to future challenges.

In June 2015, the NAB Group completed a \$5.5 billion capital raise through a 2 for 25 fully underwritten pro rata accelerated renounceable rights issue, adding 141 basis points of CET1 capital. The additional capital will help to address APRA's announcement in July 2015 of an increase in mortgage risk weights from 1 July 2016 for internal ratings-based approach accredited Authorised Deposit-taking Institutions to an average of 25% in response to the Financial System Inquiry. The capital raised will also help to facilitate the proposed exit from our Clydesdale Bank and Yorkshire Bank operations.

In July 2015, NAB completed its full divestment of GWB, our former US banking subsidiary. The total sale was undertaken as three separate tranches, and increased the NAB Group's CET1 capital ratio by 1 basis point during the six months to March 2015 and by 36 basis points during the six months to September 2015.

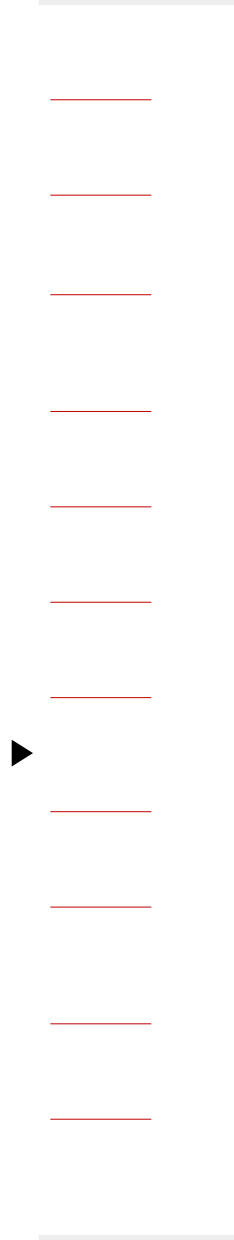
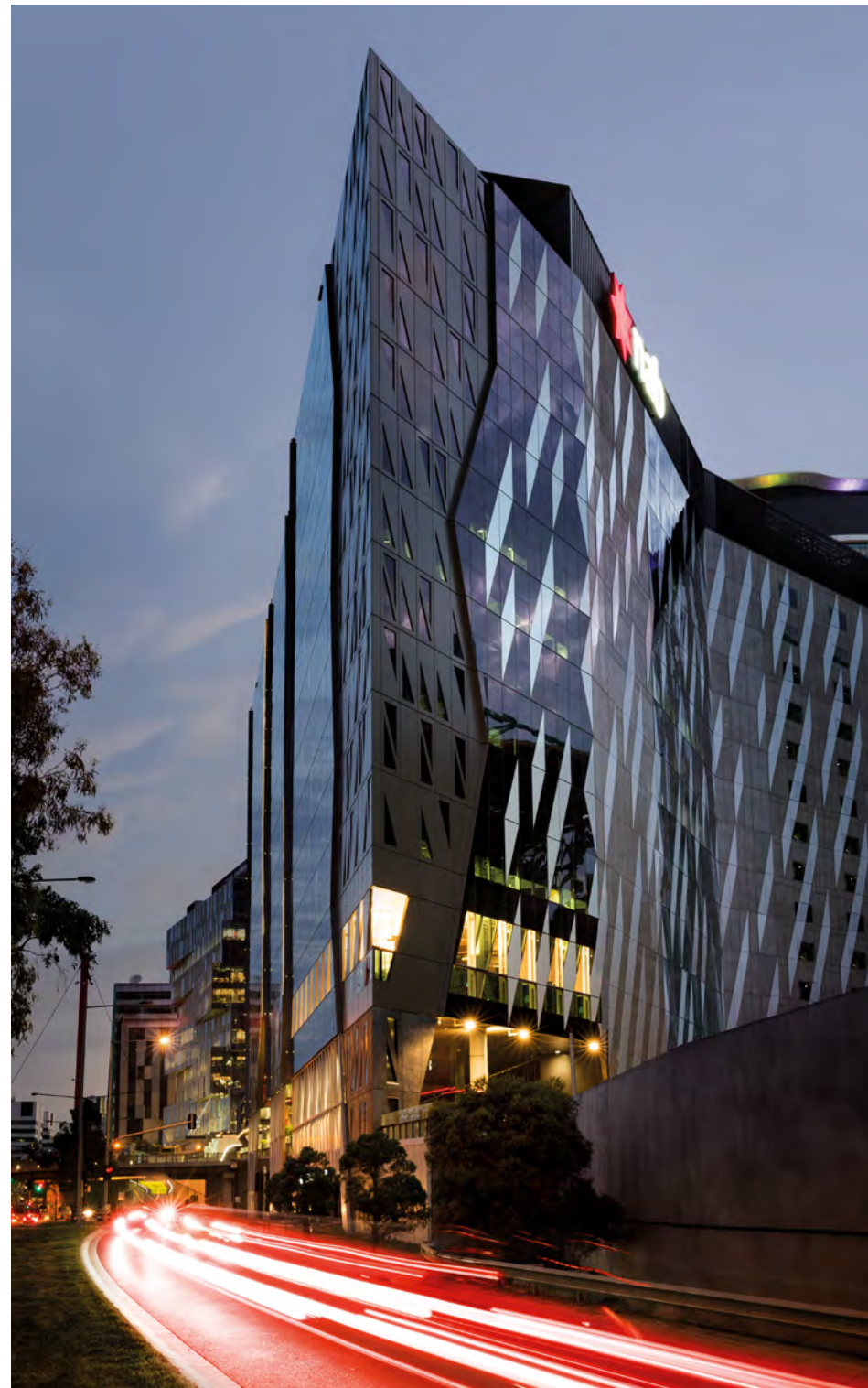
As at 30 September 2015, NAB's CET1 ratio was 10.24% (13.53% on an Internationally Comparable basis<sup>1</sup>) and we remain well capitalised. The NAB Group's CET1 operating target remains between 8.75% and 9.25%, based on current regulatory requirements. As at 30 September 2015, our Leverage ratio was 5.5% on an APRA basis and 6.0% on an Internationally Comparable basis.<sup>1,2,3</sup>

We will continue to regularly review our operating target levels and aim to retain flexibility in executing capital initiatives in order to support NAB's balance sheet strength.

<sup>1</sup> Internationally Comparable ratios at 30 September 2015 align with the APRA study entitled "International capital comparison study" released on 13 July 2015.

<sup>2</sup> Leverage ratio calculated using an Internationally Comparable Tier 1 capital measure includes transitional relief for non-Basel III compliant instruments.

<sup>3</sup> For more information on NAB's Capital Management and Funding, see pages 32 - 35 and pages 111 - 112 of our 2015 Full Year Results Announcement.





# Our foundations and governance

## Risk management

Risk exists in every aspect of our business and the environment in which we operate. Maintaining our focus on risk and compliance is a 'non-negotiable', as we continue to improve the customer experience.

### Managing our risk

Risk management starts with the annual strategic planning, risk appetite and operational planning processes, all of which are strongly inter-related to ensure NAB establishes financial objectives that are compatible with its risk appetite.

On a day-to-day basis, we manage risk using a 'Three Lines of Defence' model, with risk management responsibilities for all employees being clearly articulated through our 'Risk Management Accountability Model'.

### Improving risk performance

Risk@nab is our core program of initiatives we are delivering across NAB to ensure risk management is effective, sustainable and measurable. A key element of this program is continuing to strengthen our 'Risk Management Framework', ensuring alignment with APRA's increased expectations under prudential standard CPS 220. This includes continuing work on bringing our

'Risk Management Accountability Model' to maturity, and driving behaviours to support a robust risk culture.

We have improved our operational risk and compliance management practices through introducing a single set of streamlined processes and the rolling out of a skills matrix and operational planning tools. The new integrated operational risk and compliance system 'risk<sup>smart</sup>' goes live across the organisation in November 2015.

So we can continue to enhance our risk capability, we have also released across Risk, Management Assurance and Audit, the first three mandatory training programs from the 'Risk Professionals Learning Framework'.

### Risk culture

Sound risk culture is considered a core element of an effective risk management framework and is influenced by everyone across NAB, from the NAB Board to our bankers. At NAB, we describe risk culture as

*"Our people understanding and living 'Do the right thing'. It's about taking the right risk, with the right controls, for the right return".*

The risk culture dashboard provides key insights into the transparency of risk and how employees across the NAB Group acknowledge, respect and respond to risk.

### Conduct

When carrying out our day-to-day business activities, NAB advocates customer fairness and strives to act in the best interests of our customers and the outcomes they desire. As well as continuing to leverage learnings from our experience in the UK, the heightened regulatory focus on conduct risk (customer fairness) both in Australia and internationally is also helping to shape the way our approach to risk management is evolving. In 2016, a Conduct framework will be finalised to enable NAB to more effectively manage and mitigate conduct related exposures.

### Risk accountability across our three lines of defence

1 Line management	2 Risk	3 Internal Audit
<p><b>Responsible for managing the risks originating within the business.</b></p> <ul style="list-style-type: none"> <li>Identify, assess, control and monitor risks.</li> <li>Manage risks within risk appetite.</li> <li>Establish and maintain a robust risk and control environment.</li> </ul>	<p><b>Responsible for ensuring that the risk and control environment is actively and appropriately managed through the provision of risk insight, risk appetite and oversight.</b></p> <ul style="list-style-type: none"> <li>Establish NAB Group-wide and specific risk appetite.</li> <li>Develop and maintain policies, tools and processes for risk management.</li> <li>Oversee, monitor and challenge the business on risk-related activities.</li> <li>Define minimum standards and oversee related consequence management.</li> <li>Provide insight.</li> </ul>	<p><b>Provides independent assurance over the risk and control framework.</b></p> <ul style="list-style-type: none"> <li>Independently review, monitor and test first and second line risk activities.</li> <li>Independent assurance on compliance requirements by regulators.</li> <li>Assess the overall effectiveness of the business' risk and control environment and ability to self assess.</li> </ul>

# Our foundations and governance

## Material risk categories

The table below represents the nine key material risk categories which may impact NAB's reputation and our actual or potential risk exposures. These key material risk categories are inter-related and NAB views and manages them collectively to deliver a better customer experience.

Risk category	The risk of loss from
Credit risk	the potential that a counterparty or customer will fail to meet its obligations to NAB in accordance with agreed terms.
Operational risk	inadequate internal processes and controls, people and systems or external events.
Compliance risk	failing to understand and comply with applicable laws, regulations, licence conditions, supervisory requirements, self-regulatory industry codes of conduct and voluntary initiatives, as well as internal policies, standards, procedures and frameworks.
Balance sheet and liquidity risk	NAB's banking book activities, including capital, funding, liquidity, interest rate, foreign exchange and equity.
Traded market risk	adverse changes in fair value of positions from the NAB's book trading activities, as a result of movements in foreign exchange and interest rates, volatilities and credit spreads.
Life insurance risk	when payments under life insurance policies exceed those anticipated in the premiums collected and underlying investment income earned.
Regulatory risk	failing to identify and monitor changes in the regulatory environment, damaging NAB's relationship with its regulators, and failing to take the opportunity to help shape the development of emerging legislative framework and / or to effectively implement the required changes.
Defined benefit pension risk	the Group's defined benefit pension scheme being in deficit (i.e. the pension fund assets are at a value below the discounted value of current and future pension fund obligations).
Strategic risk (including positioning and execution risk)	positioning - associated with the strategic choices that we make and their ongoing viability in response to, or in anticipation of, changes in the environment. execution - failing to execute the chosen strategy.

## Managing ESG risk

NAB's ESG Risk Principles provide an overarching framework for us to integrate ESG risk considerations into our day-to-day decision-making.

During 2015, NAB experienced growing demand from stakeholders, including customers and investors, for more detailed information to help them better understand carbon risk in investment and lending portfolios. In response, we made public our commitment to carbon risk disclosure. NAB remains committed to identifying, developing and implementing ways to improve disclosure on carbon risk exposure through collaboration with other financial institutions in Australia and internationally.

In 2015, we undertook the following activities to deliver on this commitment:

- Increased relevant disclosures on our lending to the energy and natural resources sectors in our Results Investor Presentations<sup>1</sup>.
- Continued to participate in the United Nations Environment Program Finance Initiative (UNEP FI) and World Resources Institute Carbon Portfolio Initiative, to assist the development of standardised disclosure on carbon-related risk exposure for financial institutions.
- Collaborated with our Australian Banking peers on disclosure of carbon-related risk exposure for financial institutions.

In addition, we progressed on the commitments we made in our 'Improper Land Acquisition Policy Statement', reaffirming that we consider the practice to be unacceptable. The Statement helps stakeholders understand our views on the matter and provides detail on how we manage ESG risk issues. More information is provided in our 2015 Dig Deeper report.

<sup>1</sup> See page 112 of our 2015 Half Year Results Investor Presentation and page 115 of our 2015 Full Year Results Investor Presentation for more information.

# Our foundations and governance

## Technology

We aim to deliver a market leading customer experience through simple, agile, stable and secure technology services.

### Strategy and focus

Customers today expect to be able to perform their banking anywhere at any time. Our technology strategy is to enable this experience through simple, agile, stable and secure technology services.

Our focus is to reduce incidents impacting our customers, deliver projects faster and simplify the technology landscape over time. We are making significant investment in agile technologies to remain competitive in this dynamic market, embedding agile and continuous delivery techniques that are founded on automation, customer-centric design and the development of a high performance delivery culture. One key example is the creation of NAB Labs, an innovation hub that is focused on creating new viable offers to meet our customer needs. NAB Ventures is part of this hub, a \$50 million fund set up this year to accelerate customer-led innovation, particularly in the digital environment.

In addition to emerging technologies, we continue to invest in technology infrastructure and core banking technology to de-risk aging systems. This includes a core banking replacement and a core infrastructure upgrade that allows for more efficient use of computing hardware. This investment also reduces our environmental impact and allows consolidation of data centres which reduces energy consumption in our facilities.

### Our performance

In 2015, we made significant progress in delivering large projects that enhance customer experience, de-risk aging technology, and capabilities that drive efficiency in both the front and back offices. Some of the key deliverables include:

- The rollout of the new Personal Banking Origination Platform (PBOP) pilot which will significantly reduce the time for our frontline bankers serving personal banking customers.
- Consolidation of data centre facilities into Knox and Deer Park in Victoria to reduce environmental impact and costs, while at the same time transforming our hosted infrastructure to more agile, cloud ready and lower cost hardware.
- Significant upgrades to both our business and personal digital banking offerings to build our capabilities, future proof growth in consumer usage and improve performance and resilience.
- Deployment of improved Foreign Exchange and Fixed Income trading platforms to enable faster settlement and automation of various backend administration processes.

In 2015, many of NAB's customers experienced significant issues with our e-commerce service, NAB Transact, including login difficulties, time-outs and slow performance. These issues created significant flow-on disruption for our business customers.

During this period, NAB implemented changes to improve the performance and stability of NAB Transact and communicated to all affected parties in an open and transparent manner, including apologising for any inconvenience and business disruption caused by the issues.

Our challenges with NAB Transact have highlighted the importance of striking the right balance between achieving speed to market for new technology investments, with the need to deliver stability and reliability of our systems. Overall, in FY15 our relentless focus on technology reliability and stability has seen a significant reduction in the total number of customer impacting incidents relative to FY14. This will continue to be a focus moving forward as customers reasonably expect more of our offerings to be available through digital channels, 24x7.

Improving our technology, including provision of remote access solutions, also has a positive impact on the wellbeing and engagement of our employees through supporting our culture of flexible working.<sup>1</sup>

	2015	2014	2013
Percentage of employees with remote access to NAB's systems	70	61	39

Source: Internal.

## The future

We continue to make progress on projects that will deliver significant benefits to NAB. We recognise four major technology trends that will influence the way we operate our business:

### Digitisation

We see an ongoing integration of in-person and digital services, whereby we need to provide consistency of experience irrespective of whether this happens in stores or online using various devices. PBOP will see new automation and digital tracking tools that complement the banker giving support and advice and the customer progressing with a new product.

### Trust and security

We recognise the increasing volumes and sophistication of cyber threats and continue to monitor and invest in new security capabilities to protect our customers and our business.

### The cloud

This technology enables us to utilise systems and services on a shared basis with other organisations in a secure, efficient and agile manner.

### Data analytics

New, innovative and scalable technology to collect, host and analytically process the vast amount of data gathered to derive real-time business insights that relate to consumers, risk, profit, performance, productivity management and enhanced shareholder value. One example is our recently completed NAB Oracle Customer Hub which enables us to extract valuable insights from over 135 million customer records, to better service our customers.

# Our performance

## 2015 Group financial performance<sup>1</sup>

Results (\$m) <sup>2,3</sup>	2015	2014
Net interest income	14,017	13,451
Other operating income	5,262	5,036
IoRE	19	34
<b>Net operating income</b>	<b>19,298</b>	<b>18,521</b>
Operating expenses	(9,899)	(9,987)
<b>Underlying profit</b>	<b>9,399</b>	<b>8,534</b>
Charge to provide for bad and doubtful debts	(823)	(869)
<b>Cash earnings before tax and distributions</b>	<b>8,576</b>	<b>7,665</b>
Income tax expense	(2,562)	(2,430)
<b>Cash earnings before distributions</b>	<b>6,014</b>	<b>5,235</b>
Distributions	(175)	(180)
<b>Cash earnings</b>	<b>5,839</b>	<b>5,055</b>
Reconciliation of cash earnings to statutory net profit <sup>4</sup>		
Non-cash earnings items (after tax):		
Distributions	175	180
Treasury shares	4	(43)
Fair value and hedge ineffectiveness	497	83
Life insurance economic assumption variation	13	(20)
Amortisation of acquired intangible assets	(94)	(74)
Sale and demerger transaction costs	(77)	-
<b>Net profit from continuing operations</b>	<b>6,357</b>	<b>5,181</b>
Net (loss)/profit after tax from discontinued operations <sup>5</sup>	(19)	114
<b>Net profit attributable to owners of NAB</b>	<b>6,338</b>	<b>5,295</b>

<sup>1</sup> Refer to 'Glossary of terms' on page 35 for definitions of the financial metrics. All key performance measures and Group performance indicators are calculated on a cash earnings basis unless otherwise stated.

<sup>2</sup> Figures are in Australian dollars, unless otherwise stated.

<sup>3</sup> Information is presented on a continuing operations basis including prior period restatements. Refer to Glossary of terms on page 35 for definition of continuing operations and discontinued operations.

## Continued

Key indicators	2015	2014
Statutory earnings per share (cents) - basic <sup>6</sup>	252.7	219.0
Statutory earnings per share (cents) - diluted <sup>6</sup>	245.4	215.4
Cash earnings per share (cents) - basic <sup>3</sup>	233.7	211.2
Cash earnings per share (cents) - diluted <sup>3</sup>	227.6	208.0
Statutory return on equity	13.1%	12.1%
Cash return on equity (ROE) <sup>3</sup>	12.0%	11.6%
<b>Profitability, performance and efficiency measures</b>		
Dividend per share (cents)	198	198
Dividend payout ratio <sup>3</sup>	84.7%	93.8%
Cash earnings on average assets <sup>3</sup>	0.62%	0.59%
Banking cost to income (CTI) ratio <sup>3</sup>	50.8%	53.1%
Net interest margin	1.87%	1.91%
<b>Capital</b>		
Common Equity Tier 1 ratio	10.24%	8.63%
Tier 1 ratio	12.44%	10.81%
Total capital ratio	14.15%	12.16%
<b>Asset quality</b>		
90+ days past due and gross impaired assets to gross loans and acceptances <sup>3</sup>	0.71%	1.19%
Specific provision to gross impaired assets <sup>3</sup>	32.7%	35.5%
<b>Other</b>		
Full Time Equivalent Employees (FTE) (spot) <sup>3</sup>	41,826	41,420

<sup>4</sup> Section 5 of the 2015 Full Year Results Announcement includes the NAB Group's Income Statement, including statutory net profit. The NAB Group's audited financial statements, prepared in accordance with the *Corporations Act 2001 (Cth)* and Australian Accounting Standards, will be published in its 2015 Annual Financial Report on 16 November 2015. **Full reconciliations** between statutory net profit and cash earnings are included on pages 5–8 of the 2015 Full Year Results Announcement. Page 4 of the 2015 Full Year Results Announcement contains a description of each non-cash earnings item for September 2015 and for the prior comparative periods.

<sup>5</sup> Included within discontinued operations are the post-tax profit/loss of GWB and the post-tax gain/loss recognised on the disposal of the assets relating to GWB. Refer to page 95 of the 2015 Full Year Results Announcement for further details on discontinued operations.

<sup>6</sup> Earnings per share is restated for prior periods by adjusting the weighted average number of ordinary shares in order to incorporate the bonus element in the 2015 rights issue, as per AASB 133.

# Our performance

2015 Group non-financial performance <sup>1</sup>	2015 <sup>2</sup>	2014	2013
Net Promoter Score (Mortgage Customers) (Australia) <sup>3</sup>	-18	-24	-27
Net Promoter Score (Micro business) (Australia) <sup>3</sup>	-18	-19	-21
Net Promoter Score (Small business) (Australia) <sup>3</sup>	-19	-19	-15
Net Promoter Score (Medium business) (Australia) <sup>3</sup>	-7	-10	-13
Net Promoter Score (Priority Segments) (Australia) <sup>3</sup>	-16	-18	-19
% change in customer complaints (Australia)	+17%	+25%	+3%
Number of branches and business banking centres <sup>4</sup>	1,590	1,771	1,819
Number of ATMs	4,412	4,578	4,613
% of customers that are active users of internet banking (Australia)	50%	50%	52%
Number of microfinance loans written (Australia) <sup>5</sup>	23,475	25,526	23,785
Value of microfinance loans written (Australia) (\$m) <sup>5</sup>	28.3	33.6	31.7
Cumulative number of low income Australians assisted with microfinance products/services <sup>5</sup>	394,277	335,934	268,864
Number of customers assisted experiencing financial hardship (Australia)	20,174	15,033	13,029
SUSU: NAB Group overall engagement score <sup>6</sup>	52%	42%	N/A
SUSU: NAB 'Alignment to our values' score (Australia) <sup>6</sup>	87%	N/A	N/A
Number of breaches of our Code of Conduct (Australia) <sup>7</sup>	870	N/A	N/A
% women in total workforce <sup>17</sup>	57%	57%	57%
% of women in executive management <sup>8,17</sup>	32%	30%	30%
% of women on NAB Group subsidiary Boards	36%	32%	31%
% of employees 50 years of age or over <sup>9,17</sup>	19%	19%	18%
Return to work rate for employees following primary carer's leave and any consecutive extended leave (Australia)	89%	87%	80%
Total employee turnover rate <sup>10,17</sup>	12%	13%	15%

Continued	2015	2014	2013
Voluntary employee turnover rate <sup>11,17</sup>	10%	10%	11%
Retention of high performing employees (Australia) <sup>12,17</sup>	95%	95%	95%
Absenteeism (Australia) <sup>13</sup>	7.46	7.55	7.52
Community investment (\$m)	59.2	67.6	66.5
Cumulative number of volunteer hours (Australia) (mission 1 million) <sup>14</sup>	1,084,712	922,001	764,816
Cumulative value of volunteer hours (Australia) (\$m) <sup>14</sup>	52.0	43.5	35.2
% of project finance portfolio invested in renewable energy	12.0%	10.4%	12.5%
Greenhouse gas emissions (net of renewable energy purchase) tCO <sub>2</sub> -e <sup>15</sup>	255,940	274,498	288,410
% of material suppliers that are signatories to NAB Group Supplier Sustainability Principles <sup>16</sup>	47%	32%	N/A

1 NAB Group non-financial performance table data is described in detail in our 2015 Dig Deeper report available at [nabgroup.com/annualreports](http://nabgroup.com/annualreports). 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 not been restated. Refer to Glossary of terms on page 35 for definition of continuing operations and discontinued operations.

3 Source: Roy Morgan Research 6 month moving AFI advocacy, DBM (BFSM) 6 month moving AFI advocacy. Priority Segments Net Promoter Score (NPS) is a simple average of the NPS scores of four priority segments: Mortgage Customers, Micro (<\$1m) business, Small (\$1m-<\$5m) business and Medium (\$5m-<\$50m) business. Net Promoter, Net Promoter Score and NPS are registered trademarks of Bain & Company Inc., Satmetrix Systems Inc. and Fred Reichheld.

4 Includes retail agencies, agribusiness branches, and private banking suites.

5 Delivered in partnership with Good Shepherd Microfinance. Cumulative data has been collected since 2005. Minor restatements have been made to historical data to reflect the number of StepUP loans drawn down, as opposed to number of StepUP loans approved.

6 'Speak Up, Step Up' (SUSU) survey conducted by Right Management in May 2015. The Right Model (E8) measures employee's commitment, advocacy, satisfaction and pride in both their job (four questions) and in the organisation (four questions). Employees need to answer favourably to all eight items to be considered "engaged". Prior to 2014, a different methodology to calculate engagement was used and figures are not directly comparable. Information on historical data can be found in our 2015 Dig Deeper report available at [nabgroup.com/annualreports](http://nabgroup.com/annualreports).

7 Code of Conduct breaches represent confirmed breaches managed through our Workplace Relations team. These breaches include categories such as conflicts of interest, privacy and confidentiality, legal and regulatory compliance (including discrimination and corruption) or issues such as inappropriate workplace behaviour or conduct inconsistent with NAB's values. Figures reported on our website prior to 2015 are not directly comparable due to changes in the data capture process.

8 Executive management positions (also known as senior executive positions) are those held by Executive Leadership

Team members, Executive Leadership Team members' direct reports and their direct reports. Support roles reporting into these roles (for example, Executive Manager and Executive Assistant) are not included in the data.

9 Total number of employees aged 50 and over as a percentage of headcount.

10 Number of all employees who exited NAB each year, as a percentage of the average permanent headcount for each respective year.

11 Number of all employees who voluntarily exited NAB each year, as a percentage of the average permanent headcount for each respective year.

12 The percentage of employees recognised as high performing during their 2014 performance review that remain employed at 30 September 2015.

13 Absenteeism represents 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.

14 Volunteer hours calculated by multiplying total completed number of days by 7.75. Cumulative data has been collected since 2002.

15 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. Figures have been restated for the 2013 and 2014 environmental reporting years due to a reclassification of some organic waste to landfill in NZ. See our 2015 Dig Deeper report and 2015 Group Environmental Performance Summary for further information.

16 Supply chain data is as at 31 August 2015. 2013 was measured at an Australian and New Zealand region level and is not comparable to other periods disclosed. For the definitions of material supplier across the NAB Group, please refer to our 2015 Dig Deeper report available at [nabgroup.com/annualreports](http://nabgroup.com/annualreports).

17 Data is based on permanent population only (excludes external employees such as casual employees and contractors).

N/A = Not previously reported

# Our performance

2015 Business unit performance <sup>1,2</sup>	Australian Banking <sup>3</sup>		NZ Banking		NAB Wealth		UK Banking		Corporate functions and other <sup>4</sup>	
\$m <sup>5</sup>	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Net interest income	10,727	10,277	1,504	1,382	–	–	1,501	1,367	285	425
Other operating income	2,681	2,640	434	449	1,567	1,406	374	376	271	224
IoRE	–	–	–	–	19	34	–	–	–	–
<b>Net operating income</b>	<b>13,408</b>	<b>12,917</b>	<b>1,938</b>	<b>1,831</b>	<b>1,586</b>	<b>1,440</b>	<b>1,875</b>	<b>1,743</b>	<b>556</b>	<b>649</b>
Operating expenses	(5,558)	(5,267)	(766)	(737)	(941)	(950)	(1,437)	(1,233)	(1,262)	(1,859)
<b>Underlying profit/(loss)</b>	<b>7,850</b>	<b>7,650</b>	<b>1,172</b>	<b>1,094</b>	<b>645</b>	<b>490</b>	<b>438</b>	<b>510</b>	<b>(706)</b>	<b>(1,210)</b>
(Charge to provide for)/Writeback of bad and doubtful debts	(665)	(741)	(124)	(80)	–	–	(75)	(145)	41	97
<b>Cash earnings/(deficit) before tax</b>	<b>7,185</b>	<b>6,909</b>	<b>1,048</b>	<b>1,014</b>	<b>645</b>	<b>490</b>	<b>363</b>	<b>365</b>	<b>(665)</b>	<b>(1,113)</b>
Income tax (expense)/benefit	(2,074)	(1,962)	(286)	(276)	(181)	(125)	(56)	(81)	35	14
<b>Cash earnings/(deficit)</b>	<b>5,111</b>	<b>4,947</b>	<b>762</b>	<b>738</b>	<b>464</b>	<b>365</b>	<b>307</b>	<b>284</b>	<b>(630)</b>	<b>(1,099)</b>
<b>Key indicators</b>										
Net interest margin	1.58%	1.61%	2.39%	2.34%	N/A	N/A	2.13%	2.22%	N/A	N/A
Cash earnings on average assets	0.68%	0.72%	1.20%	1.24%	N/A	N/A	0.40%	0.43%	N/A	N/A
Cost to income ratio	41.5%	40.8%	39.5%	40.2%	59.3%	66.0%	76.7%	70.8%	N/A	N/A

1 Refer to 'Glossary of terms' on page 35 for definitions of the financial metrics.

2 Information is presented on a continuing operations basis including prior period restatements. Refer to Glossary of terms on page 35 for definition of continuing operations and discontinued operations.

3 Australian Banking includes the Australian banking operations, offshore branches and New Zealand markets operations.

4 Corporate Functions & Other includes Group Funding, NAB UK Commercial Real Estate, specified items, other supporting units and the results of Specialised Group Assets. Specified items are detailed on page 20 of the 2015 Full Year Results Announcement.

5 Figures are in Australian dollars, unless otherwise stated.

# Shareholder information

## 2015 Annual Reporting Suite

You can view our 2015 Annual Reporting Suite online at [nabgroup.com/annualreports](http://nabgroup.com/annualreports) or request a printed copy our 2015 Annual Financial Report and 2015 Summary Review from the Share Registry either by email at [nabservices@computershare.com.au](mailto:nabservices@computershare.com.au) or by 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 [nabgroup.com](http://nabgroup.com).

## Helping convert your shares to benefit Australian charities

ShareGift Australia is a not-for-profit organisation that provides 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 \$1,000,000 to over 390 charities, helping to unlock a new stream of funds for the Australian community. ShareGift Australia is proudly supported by NAB and is endorsed by The ASX Group and the Australian Shareholders' Association.

For further information about ShareGift Australia visit [sharegiftaustralia.org.au](http://sharegiftaustralia.org.au) or call 1300 731 632.

## Annual General Meeting

### When

Thursday, 17 December 2015

### Time

9.30am (Australian Western Standard Time – Perth time)

### Where

Riverside Theatre, Perth Convention and Exhibition Centre

### Address

21 Mounts Bay Road, Perth, Western Australia, Australia

## Dividend package

NAB provides its shareholders with a range of options when it comes to receiving dividends.

For more information, please call 1300 367 647 or visit [nabgroup.com/shareholder](http://nabgroup.com/shareholder).

## Join us in cutting paper use

Many shareholders have chosen to receive electronic rather than paper communications through NAB's PaperCuts program.

Join them and help us cut paper use by following the prompts at [computershare.com.au/easyupdate/nab](http://computershare.com.au/easyupdate/nab) or by calling 1300 367 647 within Australia. When calling from outside Australia, please call +61 3 9415 4299.

## 2016 Financial calendar<sup>1</sup>

<b>Half Year Results and Interim Dividend Announcement</b>		<b>Thursday, 5 May 2016</b>
Ex - dividend date for Interim Dividend		Tuesday, 17 May 2016
Record date for Interim Dividend		Wednesday, 18 May 2016
Payment date for Interim Dividend		Tuesday, 5 July 2016
<b>Full Year Results and Final Dividend Announcement</b>		<b>Thursday, 27 October 2016</b>
Ex - dividend date for Final Dividend		Friday, 4 November 2016
Record date for Final Dividend		Monday, 7 November 2016
Payment date for Final Dividend		Tuesday, 13 December 2016
<b>Annual General Meeting</b> – to be held at the Adelaide Convention & Exhibition Centre		<b>Friday, 16 December 2016</b>

# Shareholder information

## Contact details

### Principal Share Register

Computershare Investor Services Pty Ltd  
Yarra Falls  
452 Johnston Street  
Abbotsford VIC 3067  
Australia

### Postal address

GPO Box 2333  
Melbourne VIC 3001  
Australia

**Local call:** 1300 367 647

**F:** +61 3 9473 2500

### Outside Australia

**T:** +61 3 9415 4299

**F:** +61 3 9473 2500

**E:** nabservices@computershare.com.au

**W:** nabgroup.com/shareholder

### United Kingdom Share Register

Computershare Investor Services PLC

The Pavilions

Bridgwater Road

Bristol BS99 6ZZ

United Kingdom

**T:** +44 370 703 0197

**F:** +44 370 703 6101

**E:** nabgroup@computershare.co.uk

**W:** nabgroup.com/shareholder

### United States ADR Depository Transfer Agent and Registrar Contact details for NAB ADR holders:

Deutsche Bank Shareholder Services

American Stock Transfer

& Trust Company

Peck Slip Station

PO Box 2050

New York NY 10272-2050

United States of America

**Toll-free:** +1 866 706 0509

**Direct dial:** +1 718 921 8137

**E:** DB@amstock.com

### Contact details for ADR brokers and institutional investors:

**US T:** +1 212 250 9100

**UK T:** +44 207 547 6500

**E:** adr@db.com

### Registered office

National Australia Bank Limited  
Level 1

800 Bourke Street

Docklands VIC 3008

Australia

**T:** 1300 889 398

### Company Secretary

Louise Thomson

National Australia Bank Limited

800 Bourke Street

Docklands VIC 3008

Australia

**T:** +61 3 8872 2461

### Corporate Responsibility

Postal address:

Corporate Responsibility

National Australia Bank Limited

700 Bourke Street

Docklands VIC 3008

Australia

**E:** corporate.responsibility@nab.com.au

### Auditor

Ernst & Young

Level 23, 8 Exhibition Street

Melbourne VIC 3000

Australia

**T:** +61 3 9288 8000

**F:** +61 3 8650 7777







Ernst & Young  
8 Exhibition Street  
Melbourne VIC 3000 Australia  
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000  
Fax: +61 3 8650 7777  
ey.com/au

## Independent limited assurance report in relation to National Australia Bank Limited's 2015 Annual Review

To the management and directors of National Australia Bank Limited ('NAB'),

### Our conclusion

Based on our limited assurance procedures, nothing has come to our attention that causes us to believe that the Subject matter, as detailed below and as presented in the 2015 Annual Review, is not presented fairly, in all material respects, in accordance with the Criteria as presented below.

### Subject matter

The subject matter for our limited assurance engagement for the year ended 30 September 2015 is NAB's material sustainability issues and associated disclosures in the 2015 Annual Review (the 'Report') and the Performance Metrics and Disclosures as detailed below.

The Performance Metrics and Disclosures for the year ended 30 September 2015 are comprised of:

- ▶ 27 key non-financial metrics<sup>1</sup> and the performance disclosures included in the Report related to these key metrics, and
- ▶ the financial metrics included in the Report in the Group Financial Performance table on page 28 of the Report.

Our assurance did not include:

- ▶ Data sets, statements, information, management's forward looking statements, systems or approaches relating to areas other than Performance Metrics and Disclosures selected
- ▶ Any comparisons made against historical data. For metrics expressed as a cumulative total, our assurance included testing of the 2015 data, and the summation of prior year data<sup>2</sup> only.

### Criteria

The following criteria have been applied to the Report and Performance Metrics and Disclosures described above:

- ▶ Global Reporting Initiative G4 Sustainability Reporting Guidelines principles of materiality and completeness
- ▶ NAB's reported criteria for the key non-financial metrics detailed within the Report
- ▶ NAB's accounting policies as defined in NAB's AFR and financial reporting policies and principles as defined in NAB's 2015 Results Announcement as detailed online at [www.nabgroup.com](http://www.nabgroup.com) (together 'the Criteria').

### The responsibility of management

The management of NAB is responsible for the preparation and presentation of the Performance Metrics and Disclosures in the Report in accordance with the above Criteria, and is also responsible for the selection of methods used in the Criteria. No conclusion is expressed as to whether the selected methods used are appropriate for the purpose described above. Further, NAB's management is responsible for establishing and maintaining internal controls relevant to the preparation and presentation of the Performance Metrics and Disclosures that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate criteria; maintaining adequate records and making estimates that are reasonable in the circumstances.

### Assurance practitioner's responsibility

Our responsibility is to express a limited assurance conclusion in accordance with the International Federation of Accountants' *International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ('ISAE 3000') and in accordance with the terms of reference for this sustainability assurance engagement as agreed with NAB. Our responsibility is also to express a limited assurance conclusion

based on our financial metric assurance engagement in accordance with *Auditing Standard on Review Engagements ASRE 2405 Review of Historical Financial Information Other than a Financial Report*.

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. The procedures performed depend on the assurance practitioner's judgement including the risk of material misstatement of Performance Metrics and Disclosures, whether due to fraud or error. While we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our 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, which would have been performed under a reasonable assurance engagement.

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

### Work performed

In order to form our conclusions our assurance procedures included, but were not limited to:

- ▶ Interviews with NAB executive management and other key personnel relating to NAB's identification and inclusion of material issues in the Annual Review in line with the materiality and completeness principles
- ▶ A media and peer review to check NAB included and reported its material issues in line with the materiality and completeness principles
- ▶ For key non-financial metrics provided by third parties, checked the metrics had been correctly transcribed
- ▶ For the other non-financial and financial performance metrics, checked for the correct application of criteria and methodologies, undertook analytical reviews, identified and tested assumptions supporting calculations, tested a sample of underlying source information, assessed the reliability of specific non-financial performance information and checked the performance disclosures
- ▶ Checked the clerical accuracy of financial metrics and where applicable agreed financial metrics to core financial systems and the 2015 Results Announcement.

Further details of all assured non-financial performance metrics can be found in the full independent assurance report at <http://digdeeper.nab.com.au/assurance>

### Use of our report

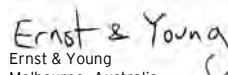
We disclaim any assumption of responsibility for any reliance on this assurance statement or on the Performance Metrics and Disclosures to which it relates, to any person other than management and directors of NAB, or for any purpose other than that for which it was prepared.

### Independence, competence and experience

In conducting our engagement we have met the independence requirements of the APES 110 *Code of Ethics for Professional Accountants*. We have the required competencies and experience to conduct this assurance engagement.

### Electronic presentation of information

Our engagement 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 the Report after the date of this assurance statement.

  
Ernst & Young  
Melbourne, Australia  
16 November 2015

<sup>1</sup> The selected sustainability disclosures for inclusion in the scope were determined based on the outcomes of NAB's materiality review and are in line with its 15 business wide commitments which is part of its Wealth of Opportunity strategy. A list of the 27 key non-financial metrics can be found at <http://digdeeper.nab.com.au/assurance>

<sup>2</sup> For the 'cumulative number of volunteer hours' metrics, EY has previously provided limited assurance over the data from 2011 to 2014.

# Additional information

## Being accountable

NAB's 2015 Annual Review Steering Committee is responsible for ensuring the integrity of NAB's integrated report (the 2015 Annual Review). The Steering Committee is comprised of representatives from key business functions including Investor Relations, Finance and Corporate Affairs. Other business functions including Strategy, Governance, Risk, Legal, Treasury, People and Technology have collectively contributed to the preparation the 2015 Annual Review. The Steering Committee concludes that the 2015 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 2015 financial year. All figures quoted are in Australian dollars unless otherwise stated.

A reference to '\$' is to an amount in Australian dollars and a reference to '£' is to an amount in British pounds sterling. 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 2015 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.

## 2015 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 our 2015 Annual Financial Report, which is available in hard copy on request and can be viewed at [nabgroup.com/annualreports](http://nabgroup.com/annualreports) from 16 November 2015.

Additional Corporate Responsibility information is available in our 2015 Dig Deeper report, available online from 16 November 2015. 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 made.

## 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 11-19 of our 2015 Annual Financial Report under 'Disclosure on Risk Factors'.



## Glossary of terms

### AASB

Australian Accounting Standards Board.

### Amortisation of acquired intangible assets

The amortisation of acquired intangibles represents the amortisation of intangible assets arising from the acquisition of controlled entities and associates such as core deposit intangibles, brand names, value of business and contracts in force.

### ADIs

Authorised Deposit-taking Institutions.

### APRA

Australian Prudential Regulation Authority.

### ASIC

Australian Securities and Investments Commission.

### AUSTRAC

Australian Transaction Reports and Analysis Centre.

### Banking cost to income ratio

Represents banking operating expenses (before inter-segment eliminations) as a percentage of banking operating revenue (before inter-segment eliminations).

### Basel III

Basel III is a global regulatory framework designed to increase the resilience of banks and banking systems and is effective for Australian Banks from 1 January 2013.

### 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 NAB Group. Cash earnings for the September 2015 full year has been adjusted for the following:

- Distributions.
- Treasury shares.
- Fair value and hedge ineffectiveness.
- Life insurance economic assumption variation.
- Amortisation of acquired intangible assets.
- Sale and demerger transaction costs.

In prior comparative periods, cash earnings has not been adjusted for sale and demerger transaction costs.

### Cash earnings per share – basic

Calculated as cash earnings adjusted for distributions on other equity instruments, divided by the weighted average number of ordinary shares adjusted to include treasury shares held by the NAB Group's life insurance business.

### Cash earnings per share – diluted

Calculated as cash earnings adjusted for distributions on other equity instruments and interest expense on dilutive potential ordinary shares.

This adjusted cash earnings is divided by the weighted average number of ordinary shares, adjusted to include treasury shares held by the NAB Group's life insurance business and dilutive potential ordinary shares.

### Cash return on equity (ROE)

Calculated as cash earnings (annualised) divided by average shareholders' equity, excluding non-controlling interests and other equity instruments and adjusted for treasury shares.

### 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 earnings; undistributed current year earnings; as well as other elements as defined under APS111 – Capital Adequacy: Measurement of Capital.

### Common Equity Tier 1 ratio

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

### Company

'Company' or 'NAB' means National Australia Bank Limited ABN 12 004 044 937.

### Continuing operations

Continuing operations are the components of the NAB 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 (classified in comparative periods as investments held to maturity).

### Customer deposits

Interest bearing, non-interest bearing and term deposits (includes retail and corporate deposits).

### Discontinued operations

Discontinued operations are a component of the NAB 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, Trust Preferred Securities, Trust Preferred Securities II and National Capital Instruments.

### Dividend payout ratio

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

### Earnings per share

Basic and diluted earnings per share calculated in accordance with the requirements of AASB 133 "Earnings per Share".

### Fair value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

### Fair value and hedge ineffectiveness

Represents volatility attributable to the NAB Group's application of the fair value option, ineffectiveness from designated accounting and economic hedge relationships and economic hedges of significant approved funding activities where hedge accounting has not been applied.

### Financial year

Year ended 30 September.

### Full-time equivalent employees (FTEs)

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

### 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 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 NAB Wealth.

### Investment earnings on retained earnings (IoRE)

Investment earnings (gross of tax) on shareholders' retained earnings, comprising investment earnings on surplus assets which are held in the statutory funds to meet capital adequacy requirements under the Life Insurance Act 1995 (Cth).

### Life insurance economic assumption variation

The net impact on statutory profit of the change in value of life insurance policy liabilities (net of reinsurance) and investments relating to life insurance business due to changes in economic assumptions (inflation and the risk free discount rate).

### NAB

'NAB' or the 'Company' means National Australia Bank Limited ABN 12 004 044 937.

### NAB Group

'NAB Group' or 'Group' means the Company and its controlled entities.

### Net interest margin (NIM)

Net interest income as a percentage of average interest earning assets.

### Net profit attributable to non-controlling interest

Reflects the allocation of profit to non-controlling interests in the NAB Group.

### Net profit attributable to owners of NAB

Represents the NAB Group's statutory profit after tax and reflects the amount of net profit that is attributable to owners.

### Sale and demerger transaction costs

Sale and demerger transaction costs represent costs incurred in demerging the UK operations, Clydesdale and Yorkshire banks.

### Tier 1 capital

Tier 1 capital comprises Common Equity Tier 1 (CET1) capital and instruments issued by the NAB Group that meet the criteria for inclusion as Addition Tier 1 capital set out in APS111 - Capital Adequacy: Measurement of Capital.

### Tier 1 capital ratio

Tier 1 capital as defined by APRA divided by risk-weighted assets.

### Treasury shares

Shares in NAB held by the NAB Group's life insurance business and in trust by a controlled entity of the NAB Group to meet the requirements of employee incentive schemes. The unrealised mark-to-market movements arising from changes in the share price, dividend income and realised profit and losses arising from the sale of shares held by the NAB Group's life insurance business are eliminated for statutory reporting purposes.

### Weighted average number of shares

Calculated in accordance with the requirements of AASB 133 "Earnings per share".

