

# Group Strategy and Technology Update

13 March 2013

**Cameron Clyne**  
Group Chief Executive Officer

National Australia Bank Limited ABN 12 004 044 937



**Note:** Information in this document is presented on a cash earnings basis, unless otherwise stated.

Cash earnings is a 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 Group. 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 calculated by excluding some items which are included within the statutory net profit attributable to owners of the Company. A definition of cash earnings is set out on page 146 of the 2012 Full Year Results Announcement. A discussion of non-cash earnings items and a full reconciliation of the cash earnings to statutory net profit attributable to owners of the Company for the September 2012 full year is included on pages 22 and 137 of the 2012 Full Year Results Announcement. The Group's audited financial statements, prepared in accordance with the *Corporations Act 2001* (Cth) and Australian Accounting Standards, are included in its 2012 Annual Financial Report dated 19 November 2012.

**Disclaimer:** This document is a presentation of general background information about the Group's activities current at the date of the presentation, 13 March 2013. It is information in a summary form and does not purport to be complete. It is to be read in conjunction with the National Australia Bank Limited Full Year Results filed with the Australian Securities Exchange on 31 October 2012. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice, when deciding if an investment is appropriate.

This document contains certain "forward-looking statements". The words "anticipate", "believe", "expect", "project", "forecast", "estimate", "outlook", "upside", "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 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 in the Group's Annual Financial Report.

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# Introduction

- Significant progress against 2009 objectives
- Post GFC operating environment requires new capabilities
- Technology a key enabler
- Refreshed strategic agenda

# Our strategy from 2009

## To deliver sustainable, satisfactory returns to shareholders

### Balance sheet strength

- Keep the bank safe
- Strong capital, funding and liquidity
- Tight controls and risk settings

### Efficiency, quality & service

- Transform the way we do business
- More competitive cost structure
- Reduce operational risk
- Replace ageing infrastructure
- Improve customer experience and service delivery

### People, culture & reputation

- Differentiate NAB for our people, customers and communities
- Shape our future environment

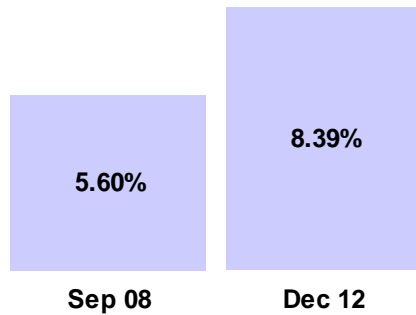
### Portfolio (focus on core Australian franchise)

- Focus in Australia
- Maintain value and options internationally
- Wholesale Banking refocused on core franchise

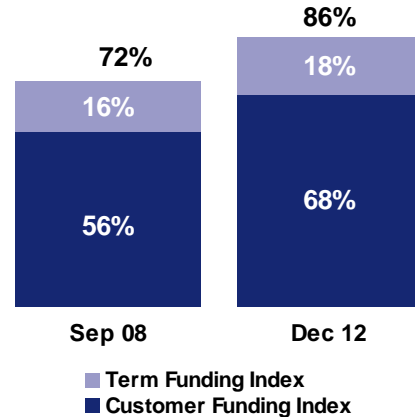
# Good progress since 2009

## Funding and capital ratios strengthened

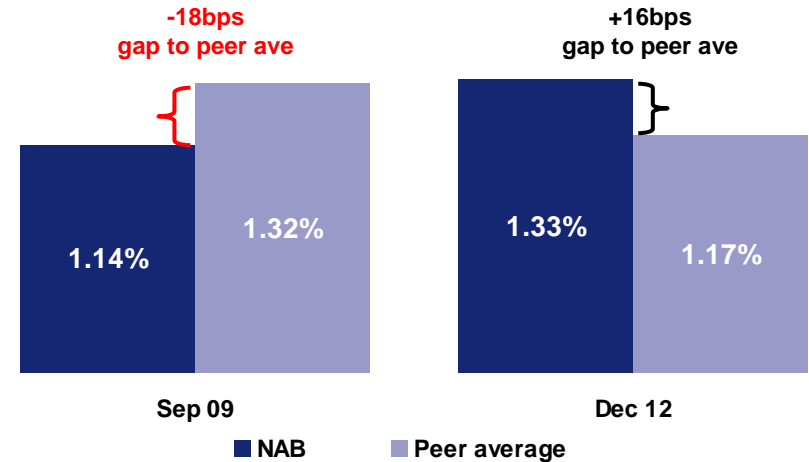
Basell II Core Tier 1 capital ratio



Group Stable Funding Index (SFI)<sup>1</sup>

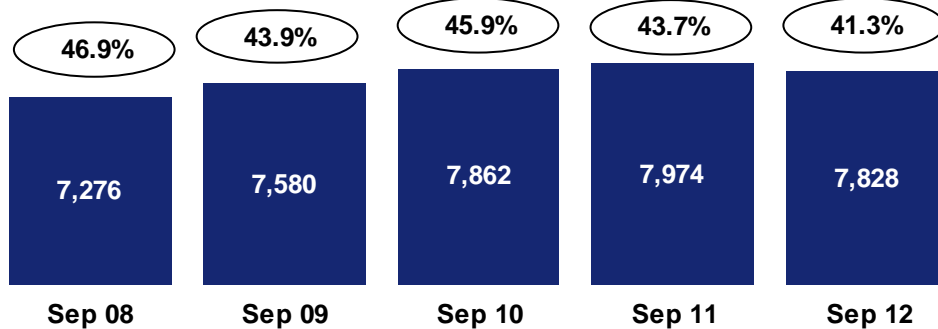


## Higher collective provision coverage<sup>2</sup>



## More competitive cost structure

(\$m)

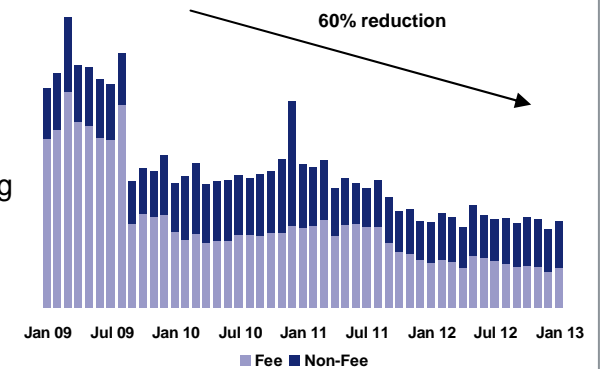


% Banking CTI Ratio

## Reputation improved

- Lowest SVR of major banks since June 2009
- First major bank to abolish overdrawn and monthly account service fees on personal transaction accounts; more than halving of mortgage fees
- Customer satisfaction<sup>3</sup> improved to 1.1% above peer avg from 5.3% below

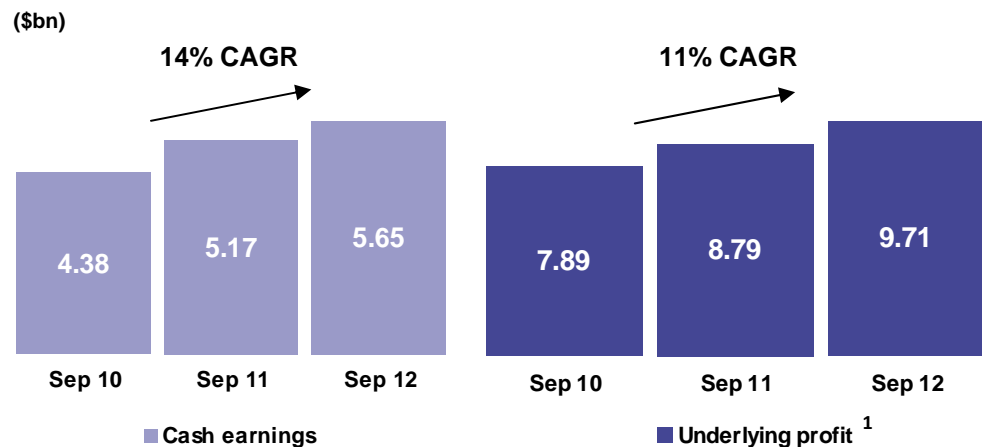
Retail customer complaints



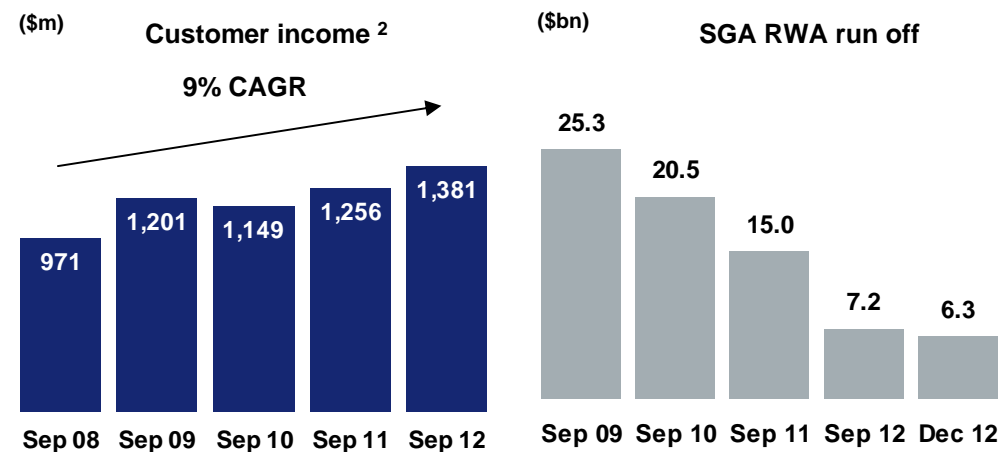
1) Funding ratio methodology changed in FY12. Net working capital is no longer adjusted from core assets and central bank deposits are now excluded from customer deposits  
 2) Collective provisions and GRCL top-up to credit risk weighted assets peer comparison at December 2012 (peers are CBA, ANZ and WBC). Source: December 2012 Risk and Capital Reports  
 3) Roy Morgan Research, Aus MFIs, Australian population aged 14+, six month moving average. Customer satisfaction is based on customers who answered very/fairly satisfied. NAB compared with the average of the three major banks (ANZ, CBA and WBC) – 6 months to January 2013 (comparison is to 6 months to March 2009)

# Strong performance of core Australia franchise

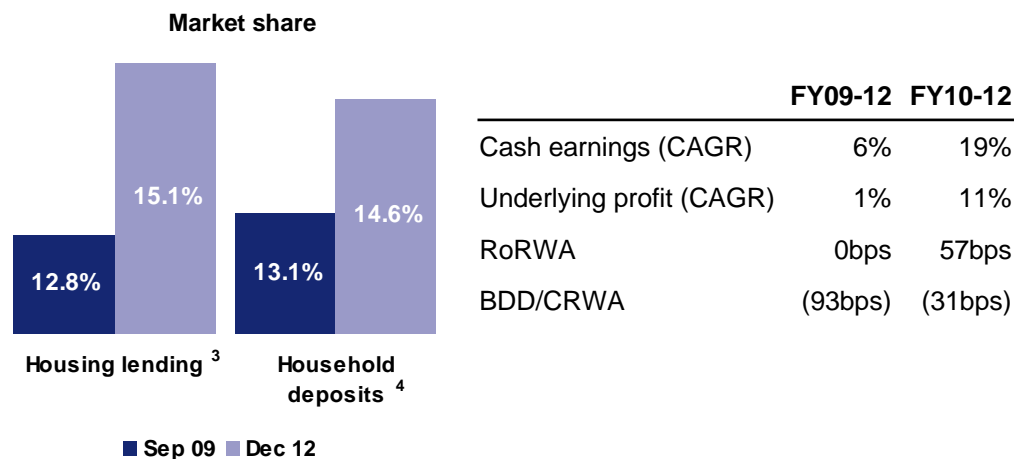
## Strong earnings excluding UK



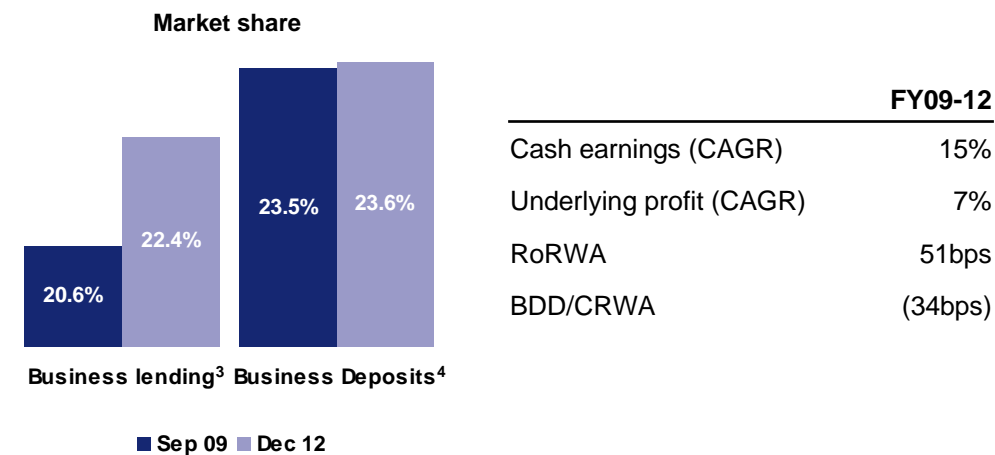
## Wholesale Banking refocused



## Personal Banking strengthened



## Leading Business Banking position



1) Revenue less operating expenses on a cash earnings basis

2) Customer comprises Corporate and Business Risk Management Sales, Asset Servicing, Specialised Finance and Financial Institutions Group

3) RBA Financial System / NAB

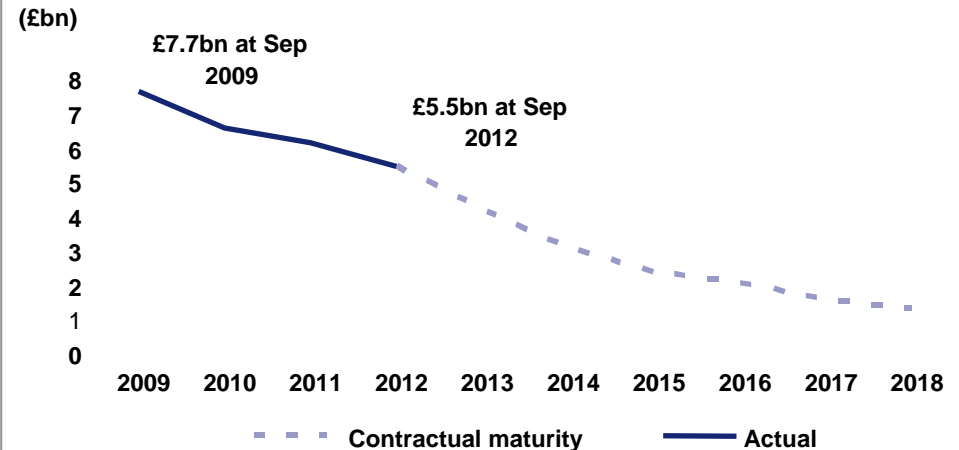
4) APRA Banking System / NAB, Business Deposits (non-fin corps only)

# Work in Progress: UK and Wealth

## UK Banking restructured

- Economic and regulatory environment challenging
- Divestment options limited, restructure best option at the time
- Clydesdale Bank restructure well advanced:
  - FTE reductions of 1,079 by Dec 2012 (1,400 planned)
  - ~90% customer funded
  - ~200bps increase in Tier 1 capital to 11.5%

## UK CRE run off <sup>1</sup>

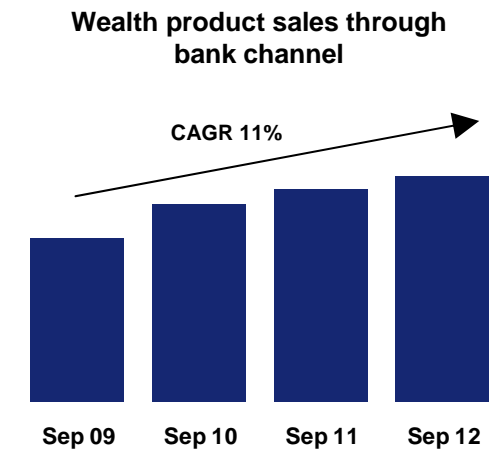


## Leverage investment in NAB Wealth

- Aviva and JBWere acquisitions complete
- Launch of nabtrade in Sep 2012
- Significant product refresh largely complete with retirement solutions product launched in 2013
- Successful migration of legacy wrap platform to MLC Wrap
- Well positioned ahead of regulatory reform including Future of Financial Advice

## NAB Wealth - closer ties with the bank

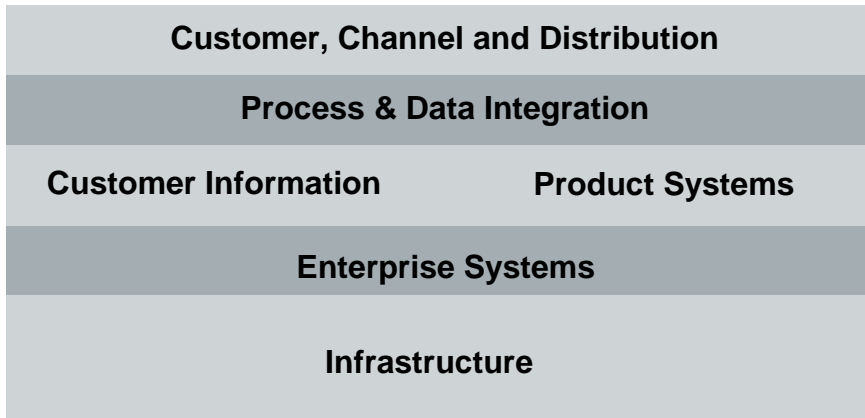
- Improved banker referrals<sup>2</sup> to financial planners – YTD Jan 2013 sales up 30% on PCP
- Strong corporate superannuation in-flows
- Improved products and incentives for retail - 10% increase in sales to Personal Banking customers in FY12



1) CRE portfolio in UK Banking to 2012; UK CRE run-off portfolio from 2013 onwards  
 2) nabbusiness, agri and health

# Work in Progress: Technology and Operations Transformation

## Total environment transformation



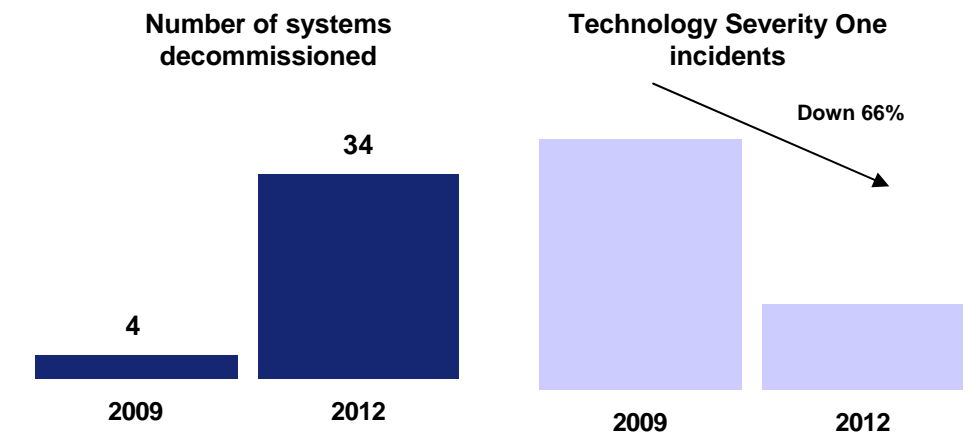
## Replacing ageing infrastructure

- Implementation of NextGen, including securitisation and funds transfer pricing
- New single general ledger and upgrade of HR and procurement systems
- 9 hardwired voice systems converged to 1 IP-based Virtual Contact Centre
- Migrated 300K Ubank customers to NextGen and NAB On-Line Trading customers to nabtrade
- New data centre built (migration 2014)

## Better customer experience and service delivery

- DIY channel launches (Ubank, nabtrade)
- Providing financial insights to customers (Moneytracker, PeopleLikeU, MLC Tiered advice)
- Faster home loan processing (eg broker channel approval times down from 23 days in 2009 to 6 days)
- Mobile apps on all major platforms and devices
- Payment process improvements (eg 7 day a week, same day merchant settlement)

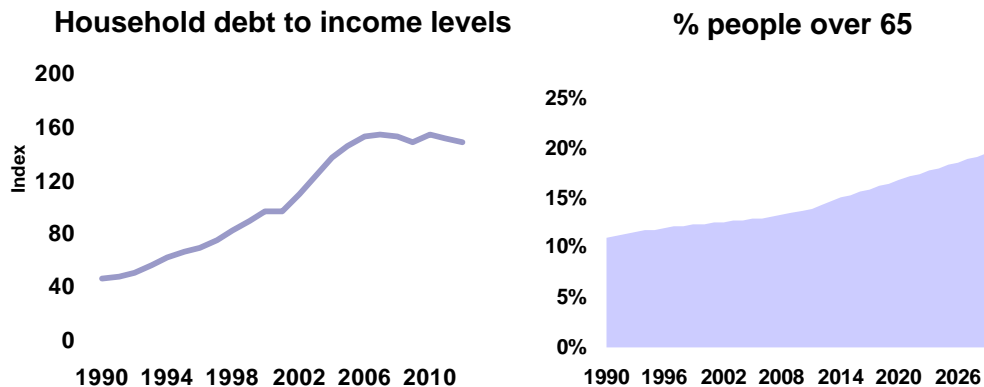
## Reducing operational risk





# Changing landscape

## Shifting customer dynamics



ABS, NAB, RBA  
Income is disposable income after tax and before interest payments. Household sector excludes unincorporated enterprises

## Regulation

- Basel 3 reforms:
  - Reduced wholesale funding reliance
  - Higher liquidity
  - Increased capital for offshore operations
  - Full capital deductions for investments in Wealth business
- Potential changes to superannuation
- Increased scrutiny of fees, interest charges and sales practices

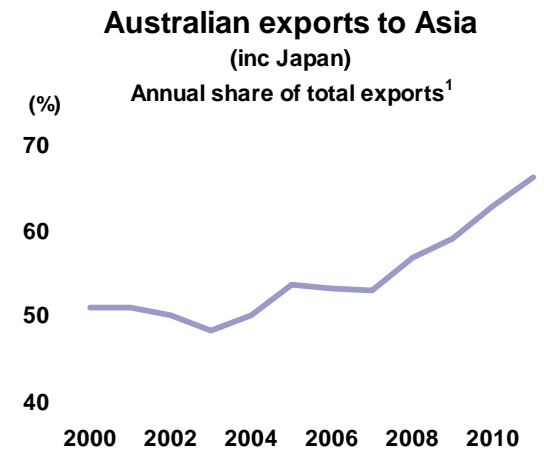
## Digitisation

- Shift from traditional banking to digital channels is accelerating (>40% of internet banking logins via mobiles since mobile apps launched in 2009)
- Exponential growth in transaction activity levels
- Real time payments
- Straight-through processing
- Cloud computing
- Opportunities from big data / smart analytics

1) ABS; NAB

## Increasing linkages with Asia

- ~70% of Australia's exports to APAC
- Australia/Asia trade flows growing at 10-12% pa (valued at \$286bn in 2010)



# Aligning our business to the changing landscape and customer needs

## Changing landscape

### Economic outlook

- Low credit growth

### Regulatory and funding environment

- Structural funding gap
- Basel III requirements
- Deposit competition

### Digital trends

- Banking and wealth increasingly online / mobile
- Efficiency opportunities

### Ageing population

- Changing customer requirements
- Increasingly significant superannuation

### Australia in Asia

## Our response

### Simplification and digitisation

- Automation of product delivery
- Simplify and standardise products
- Simplify technology
- Centralise product management, operations and support

### Customer management

- Enable self service
- Reconfigure channels
- Enhance customer data insight and analytics
- Improve sales capability
- Direct to customer opportunities

### Opportunities in the changing landscape

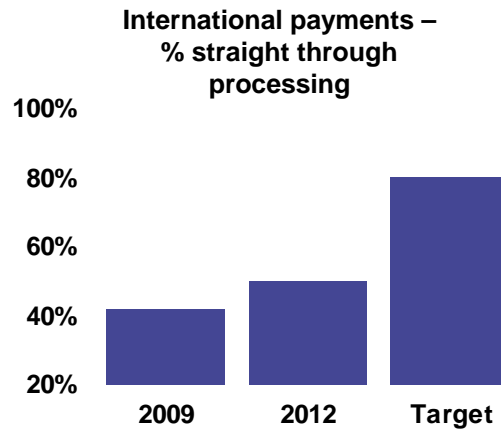
- Further develop customer propositions for ageing population and superannuation industry
- Broaden support to customers with links to Asia

Underpinned by NextGen technology and organisational changes

# Simplification and digitisation

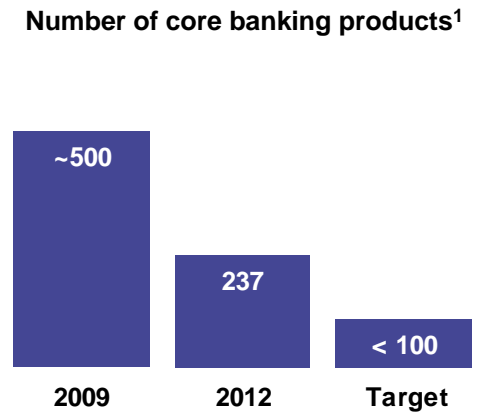
## Automation of product delivery

- Increase straight-through processing
- Automate fulfilment and servicing activity
- Automate transaction processing
- Digitise manual and paper-based processes



## Product simplification

- Simplify and rationalise product portfolio
- Standardise product development and management processes
- Standardise processes across the Group



## Simplify technology

### Now

Bespoke solutions, highly customised across the enterprise

Fragmented technology solutions limit innovation and product development

Low conversion rates and high customer turnover

Ageing infrastructure and fragmented systems increase operational risk

### Future

Standardised systems reduce complexity and the risk of out-dated technology

Faster speed to market and agility to respond to customer demands

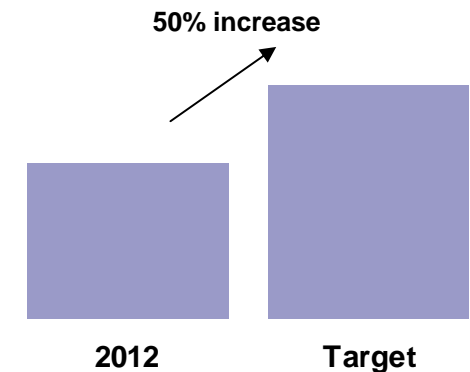
Improved customer service and employee experience

Reduced risk of system failure; technology cost savings

## Centralise product management, operations and support

- Move to Functional Model
- Define clear accountabilities between customer, product and operations
- Centralise duplicated / fragmented functions
- Right-size support functions

### Operational FTEs Centralised



1) Core retail and business banking products (excludes Wealth and Wholesale Banking)

# Customer management

## Enable self service

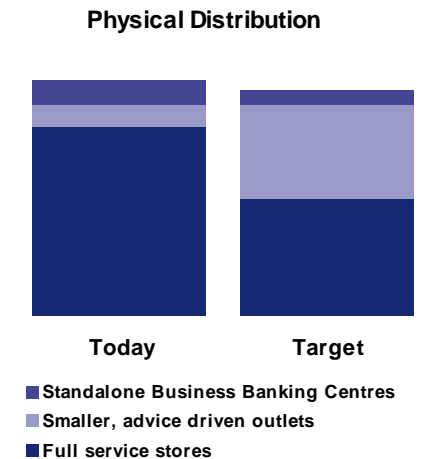
- DIY sales and service
- Continue to develop UBank
- Build self-service functionality for wholesale markets products (eg electronic distribution platform for FX, fixed income and other markets products)
- Automated telling to reduce manual telling service across branches eg Intelligent Deposit Machines

## Customer data, insights and analytics

- NextGen will enable single customer view
- Enhanced customer segmentation
- Deliver proprietary information and insights
- Provide innovative digital information based solutions for customers (eg.billing analytics, cash flow forecasting and liquidity management)
- Enable differential pricing and build new tiered / scaled customer insight & advice models

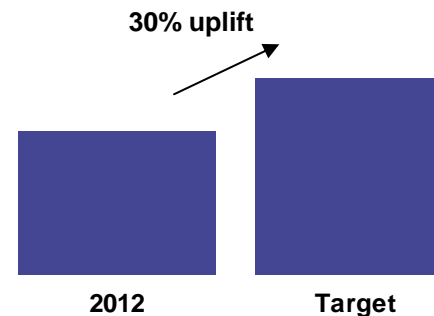
## Reconfigure channels

- Reshape physical network – reduce square meterage by 25%, but no material change in outlet numbers
- Integrated customer experience across channels
- Technology to extend sales force productivity & reach (eg video conferencing, mobility hardware & apps)

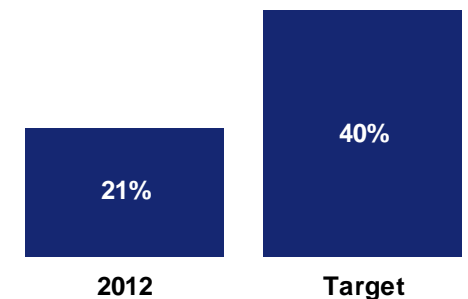


## Improve sales capability

Personal Banking  
Sales per hour per branch



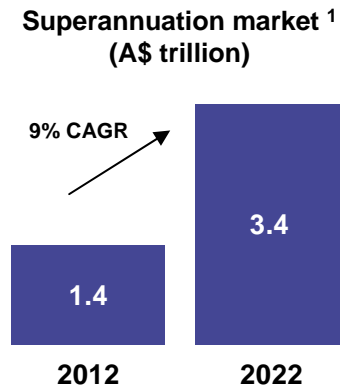
Business Banking  
% of time in front of customers



# Capitalise on opportunities in changing landscape

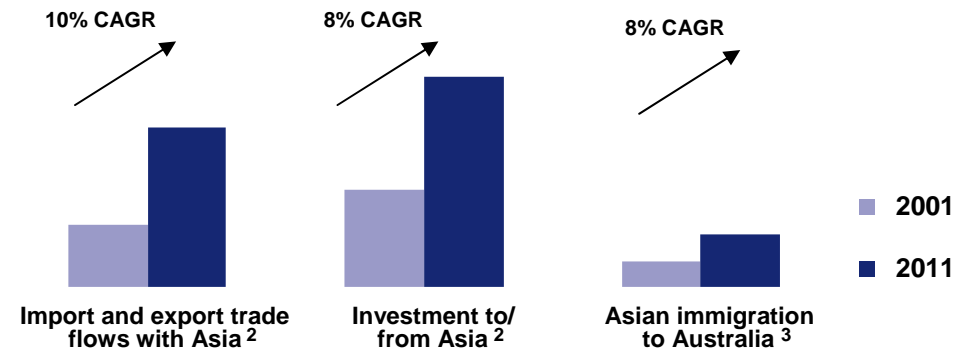
## Ageing and superannuation

- Banking services to superannuation industry
- Further develop banking and wealth products for superannuation members
- Improve service offering to SMSFs
- Improved and simplified wealth-bank solutions for retail customers and capture flow in retirement solutions



Segment	Strategies
Industry and corporate superfunds	<ul style="list-style-type: none"> <li>• Develop stronger Wholesale Banking and NAB Wealth relationships with superfunds</li> <li>• Leverage leading positions in asset servicing and consulting</li> </ul>
SMSFs	<ul style="list-style-type: none"> <li>• Leverage our strong relationships in Australian business and high net worth</li> <li>• Improve product and service</li> <li>• Leverage nabtrade</li> </ul>
Retail	<ul style="list-style-type: none"> <li>• Further evolve product set including retirement solutions</li> <li>• Bundle with other banking and wealth products</li> <li>• Link to retirement-centric solutions</li> </ul>

## Australia in Asia



- Our strategy is franchise focused, supporting:
  - Our customers' trade and investment between Australia and Asia
  - Migrants in Australia
- NAB has the leading share of businesses and private wealth customers in Australia<sup>4</sup>
- Over 25% of our business customers and over 40% of our large corporate customers are Asia-active
- Continue to broaden product offering and geographic presence
- Build out partnerships to seamlessly support our customers in Asia
- Service customers with Asia payments and merchant needs through China UnionPay offerings

1) Rice Warner Superannuation Projections Report, 2011, real amounts translated to nominal by increasing % growth by 3% per annum

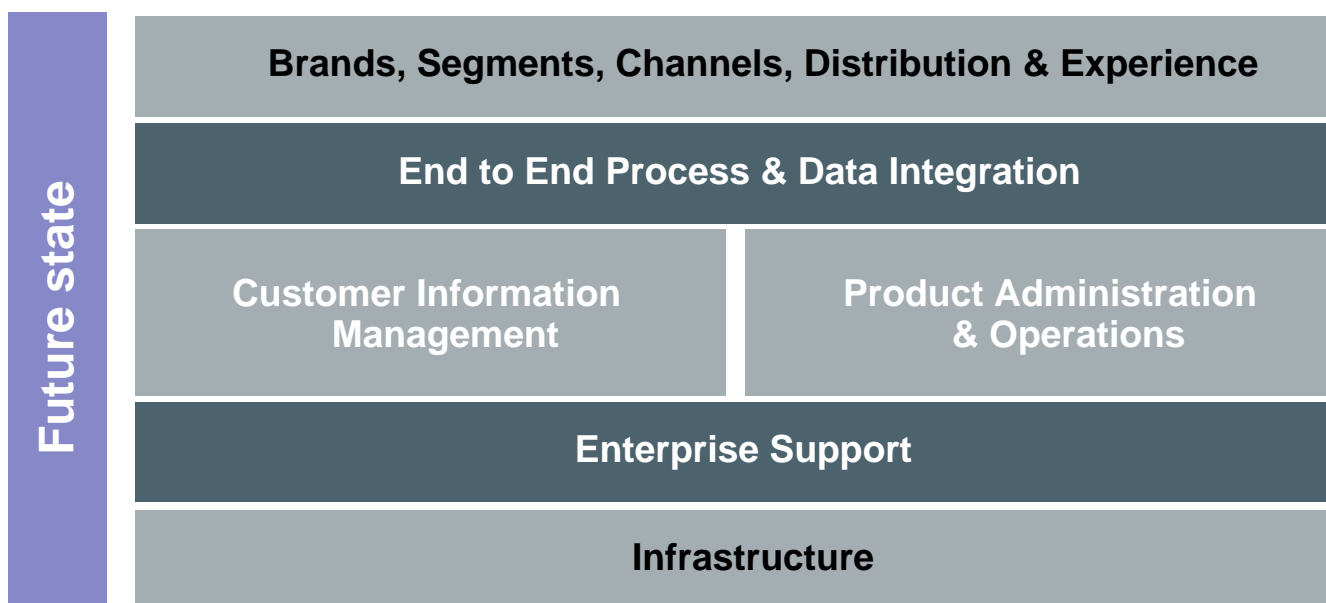
2) Australian Bureau of Statistics

3) Department of Immigration

13 4) Business lending - RBA Financial System / NAB; Private Wealth - Australian Private Banking Council (APBC) annual benchmarking 2012

# More integrated operating model

Current state	Business Banking	Personal Banking	Wholesale Banking	NAB Wealth	NAB Asia
	Distribution	Distribution	Distribution	Distribution	Distribution
	Customer Info Mgt	Customer Info Mgt	Customer Info Mgt	Customer Info Mgt	Customer Info Mgt
	Process & Data Interfaces	Process & Data Interfaces	Process & Data Interfaces	Process & Data Interfaces	Process & Data Interfaces
	Product Administration	Product Administration	Product Administration	Product Administration	Product Administration
	Enterprise Support	Enterprise Support	Enterprise Support	Enterprise Support	Enterprise Support
	Infrastructure	Infrastructure	Infrastructure	Infrastructure	Infrastructure



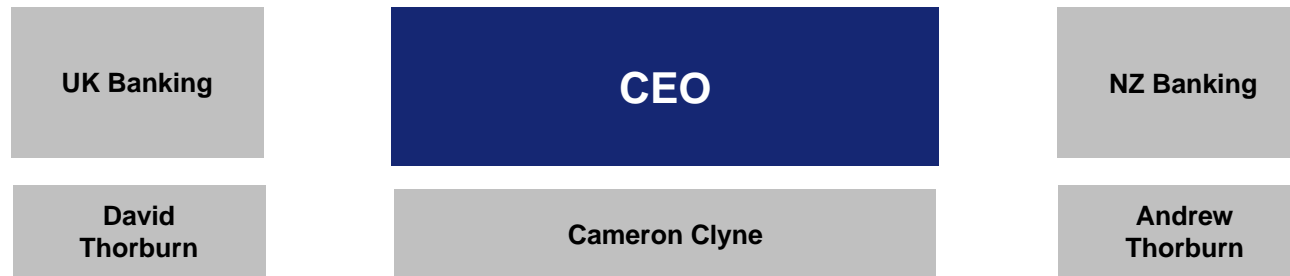
## Duplicated architecture

- Limits distribution capability, low agility, high change costs
- No single customer view
- Multiple interfaces add cost and complexity
- Limits analytics capability

## Integrated architecture

- Channels built on a common framework and using common services
- Rapid deployment and agile change
- Common product platforms
- Limited replication across operations support platforms
- Single customer file and a common enterprise CRM deployed
- Single back-end across enterprise

# Operating structure and management changes



Personal Banking	Business Banking	NAB Wealth	Product & Markets	Enterprise Services & Transformation	People Communications & Governance	Risk	Finance & Strategy
Gavin Slater	Joseph Healy	Andrew Hagger	Rick Sawers	Lisa Gray	Michaela Healey	Bruce Munro	Mark Joiner
<ul style="list-style-type: none"> <li>• Retail</li> <li>• Small Business</li> <li>• 3<sup>rd</sup> Party Distribution</li> <li>• Direct banking</li> <li>• Marketing</li> </ul>	<ul style="list-style-type: none"> <li>• SME</li> <li>• Corporate &amp; Specialist</li> <li>• Institutional</li> <li>• Financial Institutions</li> <li>• Specialised sales</li> <li>• Private Banking</li> <li>• Asia</li> </ul>	<ul style="list-style-type: none"> <li>• Wealth Advice</li> <li>• JBWere</li> <li>• Asset Management</li> <li>• Retail Wealth</li> <li>• Corporate &amp; Institutional Wealth</li> <li>• Insurance</li> <li>• Wealth Operations</li> </ul>	<ul style="list-style-type: none"> <li>• FICC</li> <li>• Debt Capital Markets</li> <li>• Specialised Finance</li> <li>• Deposits &amp; Lending</li> <li>• Payments</li> <li>• Trade Finance</li> <li>• Asset Servicing</li> <li>• UBank</li> <li>• nabtrade</li> </ul>	<ul style="list-style-type: none"> <li>• Fulfilment</li> <li>• Customer Servicing</li> <li>• Processing &amp; Payments</li> <li>• Technology</li> <li>• Transformation Programs</li> <li>• Project and Change</li> <li>• Commercial Network Services</li> </ul>	<ul style="list-style-type: none"> <li>• People &amp; Culture</li> <li>• Governance &amp; Legal</li> <li>• Communications</li> <li>• Corporate Responsibility</li> <li>• Government Affairs</li> </ul>	<ul style="list-style-type: none"> <li>• Risk strategy, appetite and policy</li> <li>• Risk oversight</li> </ul>	<ul style="list-style-type: none"> <li>• Finance</li> <li>• Treasury</li> <li>• Strategy</li> <li>• Group Development</li> <li>• Audit</li> <li>• Economics</li> <li>• Investor Relations</li> </ul>

# Our updated strategy

## To deliver sustainable, satisfactory returns to shareholders

### Enhance Australian franchise

#### Simplify and digitise our business

- Simplify and standardise product offering
- Re-engineer and automate processes
- Simplify technology
- Reshape footprint
- Enhance payments and mobile capability

#### Meet evolving customer needs

- Deliver world class customer management
- Provide DIY digital options for customers
- Enhance banking services for superannuation and ageing
- Broaden services for Asia active customers

### Manage international portfolio for value

- Maintain strong NZ franchise
- Complete SGA and UK CRE run-off
- Complete UK restructure

## NextGen technology and infrastructure

## People, culture and reputation

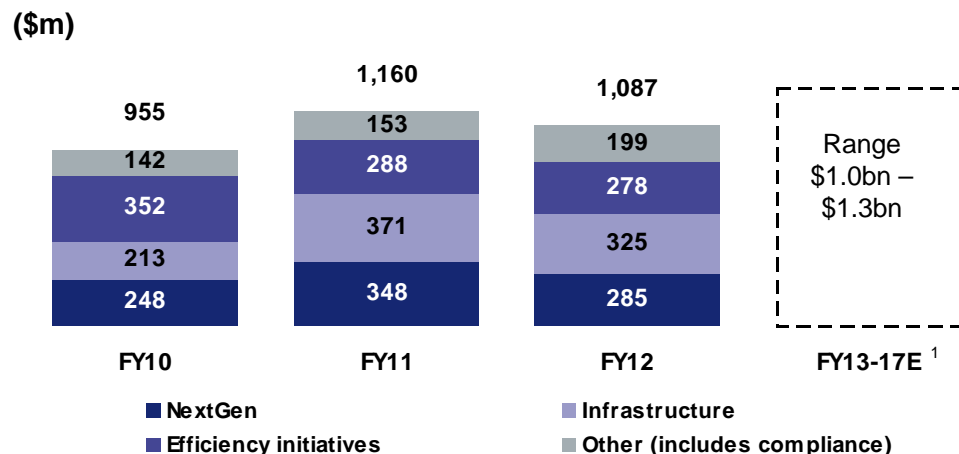
## Balance sheet strength

## Risk and compliance

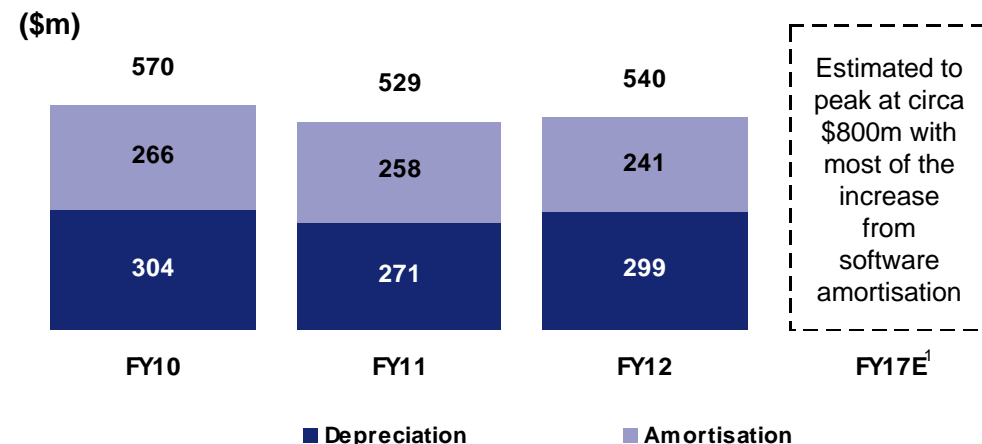


# Financial implications

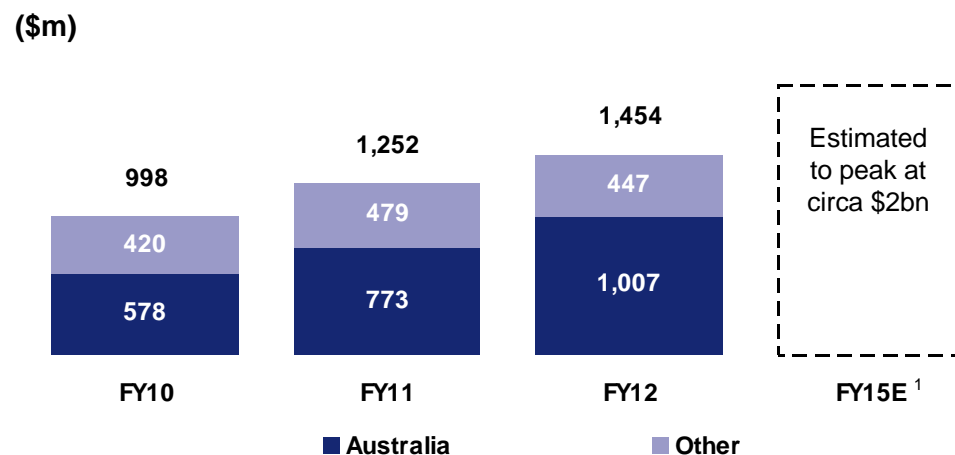
## Investment spend



## Depreciation and amortisation expense



## Capitalised software balance



## Benefits over 5 years

- Annual cost savings of approximately \$800m expected by the end of the fifth year, partly offset by higher amortisation, reinvestment and implementation costs
- Largely centralisation of operational and support functions, automation and simplification of products and processes
- Implementation costs reduced through natural attrition; reported in cash earnings
- Continue to manage to positive “jaws”, although some upfront implementation costs make this less likely in 2013

1) Estimated from current capital expenditure forecasts

# Summary

- The core Australian franchise is performing well – significantly better than 2009
- Rapidly changing landscape presents opportunities to create value
- Our technology investment is comprehensive and well advanced
- Significant annual efficiency savings
- Refreshed organisational structure and executive team
- Significant opportunity to improve returns

# QUESTIONS