

**Annual  
Review**  
2012







## We are National Australia Bank Limited, an Australian-based financial services organisation.

Welcome to our third integrated Annual Review. This review provides you with information on the opportunities and challenges in our operating environment, our strategy and our performance. It's about giving you the big picture, beyond just the numbers, and it's a chance for you to hear directly from our Chairman, Michael Chaney, and Group CEO, Cameron Clyne.

We have engaged both formally and informally with our investors, analysts, employees, consumer advocate groups and community groups to ensure that this report is focused on the issues that matter most. Our approach has also been informed by the International Integrated Reporting Council's (IIRC) guidance on integrated reporting. As one of only 80 members of the IIRC Pilot Program, we are actively participating in the development of this reporting framework.

It's great to be recognised for the improvements we have made to the way we do business and the impact that we have had on our customers, our people and our communities.

- Winner of Best Business Lender, AB+F Corporate and Business Banking Awards 2011.
- The Adviser's Third Party Banking Report – Major Lenders, 2012. Homeside ranked first.
- Best Regional Mortgage Lender – Yorkshire Bank and Best Mortgage Lender Scotland – Clydesdale Bank (Your Mortgage Awards).
- Winner of Outstanding Wealth/Investment Adviser (Australian Private Banking Awards).
- Money magazine 2012 'Socially Responsible Bank of the Year (Listed)'.
- The only Australian bank listed in the top 20 of the Bloomberg Markets Magazine 'The World's Greenest Banks'.
- Recognised in 2012 in the Ethisphere Institute's 'World's Most Ethical Companies' for the second year running.

### Introducing nabtrade The new way to trade



nabtrade makes online trading simpler and smarter. nabtrade has been shaped by the needs of online investors, based on extensive user research.

#### New features

- **More research**  
Quality providers and more ASX research recommendations than any other Australian online broker.\*
- **Innovative tools**  
To seize opportunities as they happen.
- **Simple and intuitive trading experience**  
With aggregated information and the ability to customise trading, research and total wealth dashboards.

[nabtrade.com.au](http://nabtrade.com.au)

#### Important information

\* As at 22 October 2012. The nabtrade service (nabtrade) is provided by WealthHub Securities Limited ABN 83 089 718 249, AFSL No. 230704, a Market Participant under the ASIC Market Integrity Rules and a wholly owned subsidiary of NAB. NAB doesn't guarantee the obligations or performance of its subsidiaries or the products or services its subsidiaries offer. The information about nabtrade is general only and before acting on it you should consider whether it is appropriate for your individual financial circumstances and objectives. You can obtain the relevant Product Disclosure Statements and terms and conditions at [www.nabtrade.com.au](http://www.nabtrade.com.au) or by calling 131 380 (Australia only).





## Contents

<b>Our business</b> .....	<b>2</b>
<b>Chairman's message</b> .....	<b>4</b>
<b>Group CEO's message</b> .....	<b>6</b>
<b>Risk management</b> .....	<b>10</b>
<b>Our strategy</b> .....	<b>12</b>
Focusing on our strong Australian franchise and managing international businesses for value .....	12
Maintaining balance sheet strength .....	16
Reducing complexity and cost .....	17
Enhancing our reputation .....	18
<b>Group performance</b> .....	<b>20</b>
Business unit performance .....	22
<b>Corporate responsibility</b> .....	<b>26</b>
<b>Our governance</b> .....	<b>28</b>
<b>Board and Executive profiles</b> .....	<b>30</b>
<b>Shareholder information</b> .....	<b>32</b>
<b>Assurance report</b> .....	<b>33</b>
<b>Glossary</b> .....	<b>34</b>

### About this Annual Review

This Annual Review includes financial summaries and information from the Company's 2012 Annual Financial Report and 2012 Full Year Results Announcement. This is our third year of providing an integrated report on our business. Our 2011 integrated Annual Review supplemented with *Dig Deeper* papers received the Australasian Reporting Awards Sustainability Reporting Award (Private Sector). This document is not a concise report prepared under section 314(2) of the *Corporations Act 2001 (Cth)*. The Company has not prepared a concise report for the 2012 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', 'NAB', the 'National', 'National Australia Bank' or the 'Company' are to National Australia Bank Limited ABN 12 004 044 937. The 'Group' refers to the National Australia Bank Limited and its controlled entities. All references are as at 30 September 2012 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 key financial performance measure used by NAB, the investment community and NAB's Australian peers with a similar business portfolio. It is calculated by excluding certain items which are included within the statutory net profit attributable to owners of the Company. These specified items are excluded in order to better reflect what NAB considers to be the underlying performance of the Group. It is not a statutory measure and it is not presented in accordance with Australian Accounting Standards nor audited or reviewed in accordance with Australian Auditing Standards. Many of the adjustments are more effectively applied on a consolidated basis and therefore at a divisional level cash earnings reflect the performance of the business segment as it is managed. It does not refer to, or in any way purport to represent the cash flows, funding or liquidity position of the Group. It does not refer to any amount represented on a cash flow statement. A full reconciliation of cash earnings to net profit attributable to owners of the Company is included on page 21. Section 5 of the 2012 Full Year Results Announcement includes the Consolidated Income Statement of the Group, including statutory net profit attributable to owners of the Company.

### Annual Financial Report

The Group's audited financial statements, prepared in accordance with the *Corporations Act 2001 (Cth)* and Australian Accounting Standards, are published in our 2012 Annual Financial Report, which is available in hard copy on request and can be viewed at [www.nabgroup.com](http://www.nabgroup.com) from 19 November 2012.

### Additional Corporate Responsibility Information

Information in this report is also included in our *Dig Deeper* papers available online from 12 November 2012 which provide detailed information for analysts and other stakeholders on our Corporate Responsibility (CR) performance, including historic trends. Further information about our approach to CR, including independent assurance, and a copy of our full GRI Index (applying the Global Reporting Initiative's G3 guidelines) can be viewed at [www.nabgroup.com/annualreport](http://www.nabgroup.com/annualreport)



# 2012 Results

## Cash earnings

0.5% decrease from 2011

# \$5.4<sup>b</sup>

## Dividend per share

8 cent increase from 2011

# \$1.80

## Cash return on equity

1 percentage point decrease from 2011

# 14.2%

## Business unit cash earnings (millions)

Business Banking	\$2,409
Personal Banking	\$1,045
Wholesale Banking	\$1,092
NAB Wealth	\$556
NZ Banking	\$575
UK Banking	\$(213)
Great Western Bank	\$98

Source: NAB 2012 Full Year Results Announcement

## Community

Contribution to our communities this year<sup>1</sup> 23% decrease from 2011

# \$55.7<sup>m</sup>

## Net profit

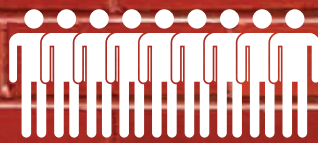
Attributable to owners of the company 21.8% decrease from 2011

# \$4.1<sup>b</sup>

## Employee

Employee engagement result in this year's 'Speak Up, Step Up' survey<sup>2</sup> 1 percentage point increase from 2011

# 70%



## Environment

Invested in renewable energy over the past six years

# \$1.3<sup>b</sup>

## Customer Funding Index<sup>3</sup>

1 percentage point increase from 2011

# 66%

## Highlights

**#1 in Personal Banking customer satisfaction<sup>4</sup>**

**Equal #1 in Business Bank customer satisfaction<sup>5</sup>**

**One million new customers since our 'Break Up' campaign commenced in 2011<sup>6</sup>**

**Launched nabtrade – an innovative online trading platform**

**EOWA Employer of Choice for Women (6th year running)<sup>7</sup>**

**65% increase in Wholesale Banking cash earnings over the year**

**Australia's leading financier (by market share) of renewable energy in Australia<sup>8</sup>**

**Awarded 5 Star GBCA Green Star Interiors (Australian excellence) for two of our major office refurbishments<sup>9</sup>**

1 While our overall community investment contribution has dropped this year (as a result of no significant natural disasters in our region), we have maintained our commitment to and investment in our major community programs.

2 'Speak Up, Step Up' survey conducted by Hay Group, March 2012 with an 85% response rate.

3 Customer Funding Index is defined as Customer Deposits divided by Core Assets.

4 Source: Roy Morgan Research, September 2012. Australian Main Financial Institutions, population aged 14+, six-month moving average. Customer satisfaction is based on customers who answered very/fairly satisfied. NAB compared with the three major banks (ANZ, CBA, WBC).

5 Source: DBM Business Financial Services Monitor September 2012 - Whole of Market (Australian Business Banking) six month rolling averages. Overall satisfaction with main financial institution based on a scale from 0-10 (extremely dissatisfied to extremely satisfied). Ranking based on statistically significant differences.

6 Refers to new Business and Personal Customer profiles opened in Australia since 14 February 2011. This figure does not reflect closed customer profiles and is therefore not an indication of the overall increase in customer numbers.

7 As recognised by the Equal Opportunity for Women in the Workplace Agency for 2012.

8 Source: Project Finance International 2006-12, NAB analysis.

9 Assessed by the Green Building Council of Australia for interiors of our sites at 500 Bourke Street, Melbourne and 22 King Street, Adelaide.



# Our business

## Who we are

National Australia Bank is a financial services organisation with over 43,000 people, operating more than 1,800 stores and business banking centres, and is responsible to more than 480,000 shareholders.

While our core franchise is Australian-based, we also have interests in New Zealand, Asia, the United Kingdom and the United States. Each of our brands is built with a common aim: to have fair products and services, fair fees and charges and world-class relationships built on the principles of help, guidance and advice.

## Our goal

Our goal is to deliver sustainable and satisfactory returns to our investors. We believe that what is good for our customers is also good for business. So by focusing on the customer, offering fair products and services – and by simply being a better bank for our people and the community – we can achieve great results for all our stakeholders.

We are not just looking at the short term – our strategy is about planning for the future. That is why we will continue to build on and deliver the strategy we announced in 2009 to:

- focus on our strong Australian franchise and manage international businesses for value.
- maintain balance sheet strength.
- reduce complexity and cost.
- enhance our reputation.

## Our responsibility

Our purpose is to do the right thing and help our people and customers realise their potential. This is part of who we are and guides how we do business.

Our corporate responsibility (CR) approach is founded on this purpose. It is focused on getting the fundamentals right for our customers, being a good employer and addressing our broader responsibility to society.

We believe that when we get it right for our customers and make NAB a great place to work, our investors stand to benefit. Put simply, our purpose and commitment to CR is good for our business.

As part of our approach to integrated reporting, we have incorporated our CR strategy and performance throughout this review. Further information on our approach can be found on pages 26-27 and in our series of *Dig Deeper* papers (available at [www.nabgroup.com/annualreport](http://www.nabgroup.com/annualreport)).

## Our services

- **Business Banking** provides a diverse range of commercial banking services to business customers. Business Banking also provides specialist industry expertise in the Agribusiness, Property, Healthcare, Natural Resources, Education and Government sectors.
- **Personal Banking** provides products and services to individual and small business customers. These products and services are delivered through a range of distribution channels and brands including NAB, Homeside, UBank and a variety of broker and 'mortgage manager' brands.
- **Wholesale Banking** provides funding, investment and risk solutions to financial institutions and global banks, as well as business, personal and wealth customers of NAB. Wholesale Banking also provides custody support through Asset Servicing.
- **NAB Wealth** provides superannuation, investments, insurance and private wealth solutions to retail, corporate and institutional clients. NAB Wealth operates one of the largest networks of retail financial advisers in Australia.
- **NZ Banking** comprises the Retail, Business, Agribusiness, Corporate, Private Banking, Wealth and Insurance franchises in New Zealand, operating under the Bank of New Zealand (BNZ) brand.
- **UK Banking** operates under the Clydesdale Bank and Yorkshire Bank brands. It offers a range of banking services for personal and business customers through retail branches, Business and Private Banking Centres, direct banking and brokers.
- **Great Western Bank** provides a range of traditional and banking wealth management products delivered through a community banking model with more than 180 locations across the midwestern United States.

## National Australia Bank



## Proudly Australian, with a global perspective



**480,000+**  
shareholders

**12.9<sup>m</sup>**   
**customers**

  
**employees**

**43,336**



**1,800+**  
**stores and business  
banking centres**

# Chairman's message



Welcome to the 2012 National Australia Bank Annual Review. In the 2012 year Group cash earnings were \$5.4 billion. Statutory net profit attributable to the owners of the Company was \$4.1 billion. The Group achieved good progress against its strategic agenda, demonstrating strong management in a challenging environment.

The final dividend was 90 cents per share fully franked. The total dividend for 2012 was 180 cents, an increase of 8 cents per share fully franked.

Global uncertainty and market volatility resulted in a weakening in business confidence and a broad-based slowdown in the advanced economies during the year. The Euro-zone recession has been heightened by concerns about how the sovereign debt crisis might unfold. While recent data suggests the UK's recession ended in the September quarter, we remain very cautious about the outlook. Global growth has been predominantly reliant on the emerging economies, particularly China, India and Brazil, but these have also experienced

slower growth as exports were hit by the sluggish performance of the advanced economies. Nevertheless, the emerging economies are expected to underpin growth in the world economy in 2013.

Australia and New Zealand have been some of the best-performing advanced economies over the past five years. In Australia, output, employment and real income levels remain relatively high, supported by a strong financial system. While the economy continues to grow at around trend rates, there is ongoing consumer and business uncertainty. Tighter fiscal policy – both at the state and federal level – and a high dollar, despite falling commodity prices, add to a complex mix of economic forces. As a result, we are experiencing a period of transition with mixed conditions across sectors.

Banks, as an important part of the economy, have a legitimate interest in public policy. We continue to work with government and regulators to deliver a robust and profitable banking sector that works in the interests of

all Australians. As a country, we need to achieve the right balance between the costs and benefits of regulation to deliver stability and growth.

The Company's balance sheet strength was maintained with sound capital, funding and liquidity positions. Core asset growth was fully funded by deposit growth.

The Australian franchise remains the Bank's key strategic focus and produced some good results and market share gains in 2012. NAB's differentiated customer proposition continued to gain momentum with the achievement of a significant milestone – one million new customers since the launch of the award-winning 'Break Up' campaign in February last year.

The Group remains committed to carefully managing expenses and pursuing sustainable productivity improvements. Technology and innovation are key priorities for the Board; we recognise that they are an enabler of our customer service.



We have been pleased with the Bank's progress as it transitions from 40-year-old legacy technology to new technology. This year also saw the introduction of nabtrade, an online trading platform providing innovative tools that will further enhance the Bank's service offering.

A central pillar of the Bank's strategic agenda is to enhance and strengthen the Group's reputation. The Bank produced good progress against this agenda during the year, moving to first in personal banking customer satisfaction of the major Australian banks, a position we have now retained for six months. This has given NAB the highest ever customer satisfaction score for a major bank since the Roy Morgan Research customer survey began in 1996.<sup>1</sup>

At a time when the industry is frequently criticised, employee engagement and confidence are critical to performance. The Bank's people are an important asset and a key driver of company performance. As such, it is pleasing to note that there have been steady gains in employee engagement. The results of the employee survey confirm that NAB is still above Hay Group's financial services average for employee engagement scores.<sup>2</sup>

The Board recognises that a diverse and inclusive workforce is not only important for employees but is also central to the Bank's ability to create and sustain value. Increased diversity in people generates diversity in thought, greater innovation and stronger decision-making. It is also linked to the improved retention and engagement of employees.

The Bank continues to make good progress towards its gender diversity targets announced by the Board in 2011 and discussed in more detail in the Diversity section of the 2012 Annual Financial Report.

Mature age employees remain a key focus of the Group's diversity agenda, with the Australian Bureau of Statistics noting that the number of workers aged over 55 has almost doubled in the past 10 years to two million.

**“This has given NAB the highest ever personal banking customer satisfaction score for a major bank since the Roy Morgan Research customer survey began in 1996.”**

The Bank is proactive in its management of this rapid change in workforce composition and associated risk of loss of talent. More information on diversity and inclusion at the Bank is available throughout this review.

The Board understands that a challenging economic environment also affects the Bank's customers and people. It will come as no surprise that in this environment customer hardship, primarily driven by unemployment and underemployment, is a key issue for the Australian economy, including the Bank, and one that will remain a focus for some time. The Bank is committed to supporting its customers in all economic conditions and is conscious that the earlier we are able to intervene in a situation where there is financial hardship, the better the long-term outcome for both the customer and the business.

The Board is also conscious of the related issue of financial exclusion that the broader community faces during these times. The Bank is committed to supporting the communities in which we operate. In 2012 we continued to demonstrate thought-leadership and delivered a range of safe and affordable personal and business credit programs in collaboration with community partners and government.

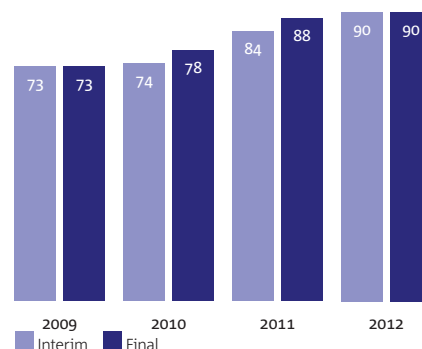
In addition, this year the Group invested \$55.7 million in our communities. This is an important contribution to society and to our business. It creates new and deeper relationships with our customers, boosts employee engagement and builds our reputation. Finally, on behalf of the Board, I would like to thank NAB's people for their innovation, enthusiasm and commitment throughout the year.



**Michael Chaney**  
Chairman

## Dividend per share

cents



Source: NAB internal.

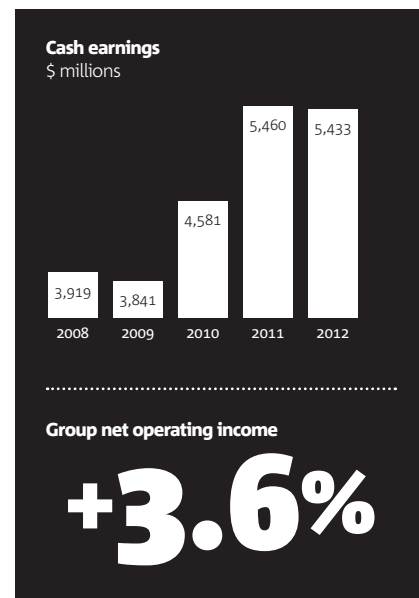
<sup>1</sup> Roy Morgan Research, September 2012. Australian Main Financial Institutions customers, population aged 14+, six-month moving average. Customer satisfaction is based on customers who answered very/fairly satisfied. NAB compared with the three major banks (ANZ, CBA, WBC).  
<sup>2</sup> 'Speak Up, Step Up' survey conducted by Hay Group, March 2012.

# Group CEO's message



“The Group’s performance for the year reflects the strength of the core Australian and New Zealand banking businesses and challenges in the UK. **Our Australian and New Zealand businesses have performed well**, reflecting the success of our strategy.”

Cameron Clyne,  
Group CEO





## The Group

The Group's performance for the year reflects the strength of the core Australian and New Zealand banking businesses and challenges in the UK.

Increased revenue in the Australian franchise was offset by a higher charge for bad and doubtful debts (B&DDs), reflecting the charge in UK Banking and an increase to the economic cycle. This resulted in a fall in Group cash earnings and statutory net profit attributable to the owners of the Company.

NAB has continued to transform the way it does business, achieving solid progress against the strategic priorities announced in 2009:

- focusing on our strong Australian franchise and managing international businesses for value.
- maintaining balance sheet strength.
- reducing cost and complexity.
- enhancing our reputation.

## Focusing on our strong Australian franchise and managing international businesses for value

The core Australian franchise achieved good results with positive momentum across the business. Personal Banking performed strongly, gaining market share in mortgages and household deposits as it continued to build on NAB's differentiated customer proposition and deliver fair value. The success of our 'fair value' strategy was reflected in the Bank's number one personal banking customer satisfaction ranking, the highest bank customer satisfaction score ever recorded by the Roy Morgan Research customer survey. Personal Banking cash earnings increased by \$113 million or 12.1%, driven by a 4.4% growth in revenue and a decrease in the charge for B&DDs as asset quality improved.

Business Banking remained focused on deepening customer relationships during the year, with more bankers in more places. This customer-centric approach has been reflected in an improvement in Business Banking's customer satisfaction and market leading position in business lending. Business Banking cash earnings were

down \$36 million or 1.5% against the September 2011 year largely due to a higher charge for B&DDs as customers were affected by a slow-down in the domestic economy.

Wholesale Banking performed strongly in volatile markets, recording a \$431 million or 65.2% increase in cash earnings to \$1.1 billion with higher revenue in the Customer and Risk business. Revenue growth was driven by an increase of \$520 million in Risk income as trading conditions improved, and an increase in Customer income through increased sales of foreign exchange and risk management products to Group customers. Wholesale Banking strengthened its presence in the superannuation, funds and insurance sectors by leveraging its strong customer relationships and leading market position in Asset Servicing. Wholesale Banking was sole or joint lead arranger on a number of landmark transactions.

NAB Wealth cash earnings before IoRE and non-controlling interest of \$519 million increased by \$15million or 3.0% compared with September 2011, reflecting higher average funds under management (FUM) and increased revenue from the annuities portfolio and direct asset management. This was partially offset by a deterioration in lapse experience. Adviser numbers in the aligned channel increased by 82 and the business continued to undertake significant investment in its product and service capabilities to respond to customers' needs. These included the pilot of MLC Direct and the launch of the Group's new online trading platform, nabtrade.

The Group continues to manage its international businesses for value. Bank of New Zealand (BNZ) performed strongly, building on its ongoing commitment to deliver a differentiated customer experience and innovative products. Cash earnings increased by NZ\$129 million or 21.1% to NZ\$741 million compared with September 2011, reflecting an increase in net interest margin. This was largely driven by continued demand for variable rate mortgages, repricing of the business lending portfolio and good management of costs. Retail deposits grew strongly over the year as the business continued

to focus on growing deposits to support asset growth, reducing reliance on offshore funding markets and improving liquidity and capital positions.

We have progressed key outcomes of the UK Banking strategic review to simplify the UK Banking business model and improve its balance sheet structure. This is important progress but there is still more that needs to be done to ensure the business contributes value to the Group. While data in October suggests the UK's recession ended in the September quarter, we remain cautious about the outlook. For the September year, UK Banking delivered a cash earnings loss of £139 million, reflecting the challenges arising from prolonged economic weakness that has particularly affected the commercial real estate market.

Great Western Bank (GWB) delivered growth in its core Agribusiness and Small and Medium Enterprise segments. Cash earnings were US\$10 million higher over the year with a US\$34 million reduction in the charge for B&DDs.

**“Personal Banking performed strongly, gaining market share in mortgages and household deposits as it continued to build on NAB's differentiated customer proposition.”**

# Group CEO's message

## Maintaining balance sheet strength

The Group continued to strengthen its capital, funding and liquidity positions. Despite a challenging environment, the Group successfully raised \$31.3 billion in wholesale funding with an average term to maturity of five years. There was also pleasing growth in deposits – a key source of balance sheet strength – with deposit growth funding all core asset growth over the year. As a result, the Group's Customer Funding Index has risen 1 percentage point over the year to 66% at September 2012, consistent with improvements in our deposit market share.

The Group Basel II Tier 1 capital ratio of 10.27% at 30 September 2012 is consistent with its objective of maintaining a strong capital position. The estimated Basel III Common Equity Tier 1 ratio on an APRA basis was 7.9% and includes the impact of APRA's draft counterparty credit risk capital reforms. This compares with our Board-approved target of above 7.5% and APRA's regulatory minimum of 4.5% applicable from 1 January 2013 (with APRA applying a further capital conservation buffer of 2.5% applicable from 1 January 2016, increasing APRA's effective regulatory minimum to 7.0%).

We are always looking towards tomorrow, and our focus on balance sheet strength supports our Basel III capital, funding and liquidity transition strategy. That's why we have initiatives in place to improve the quality of deposits and the Group's liquid asset portfolio, and extend the duration of short-term funding.

## Reducing cost and complexity

We have maintained a disciplined approach to cost management during 2012 through process improvement and simplification. These measures have resulted in a reduction in expenses compared with 2011.

Technology and innovation are key priorities for the Group because we understand that they are core to our customer service. There have been several key milestones achieved in our transformation project including the launch of nabtrade, the deployment of a virtual contact centre and the migration of UBank customers on to NAB's new banking platform, which has delivered a significant upgrade in the customer experience through enhanced functionality.

Key investments in reducing operational risk, including improvements to the robustness of NAB's overnight processing activities and IT security, have enhanced NAB's day-to-day service delivery. While technology remains a challenge for the industry, we achieved a 28% reduction in the number of significant technology incidents over the year, contributing to a 25% reduction in complaint volumes in Australia.

## Enhancing our reputation

Reputation is central to sustainable, long-term business success. We have been consistent and vocal in that view, even when it has been unpopular with the other banks, because we recognise that an authentic difference that puts our people and customers first is good for them and good for business.

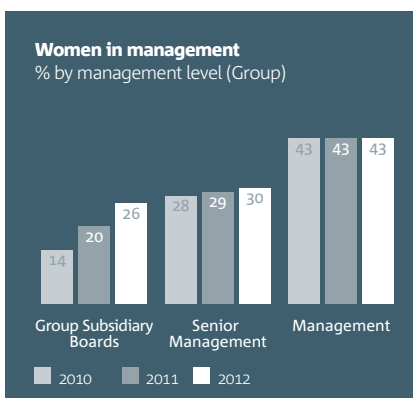
NAB continues to lead the industry in offering fair products and services that respond to what our customers tell us they want, rather than what we tell them they need. We listen to our customers – with many bankers in many places with many conversation channels available. This year I started regular talkback radio sessions to ensure that we continue to have an open dialogue with our customers and the public. We have been transparent in our approach to interest rates, committing to offering the lowest standard variable rate of the major Australian banks for 2012. Our decision to remove overdraft, monthly account keeping and early exit fees continues to drive strong momentum in customer numbers and customer satisfaction.

Improved access to financial services for all sections of the community is important for our business, our customers and our communities. We have extended financial support to more than 50,000 financially excluded individuals and businesses since 2007 and, while we recognise more needs to be done to address long-term hardship, it is pleasing to see the impact our microfinance initiatives have had on individuals and the economy. NAB also continued to support the communities in which we operate. We contributed \$55.7 million during the year.

“There was also pleasing growth in deposits – a key source of balance sheet strength – with **deposit growth funding all core asset growth** over the year.”



**“NAB’s employee engagement score increased to 70% for the year, continuing to put the Bank above Hay Group’s financial services average.<sup>1</sup>”**



Group Subsidiary Boards refers to the proportion of female directors on Group subsidiary boards. Data calculated using total headcount as at 30 September 2012.

Note: For details of female representation in Executive Management, refer to page 18 of this review.

NAB’s employee engagement score increased to 70% for the year, continuing to put the Bank above Hay Group’s financial services average.<sup>1</sup> We will continue to pursue work process improvements and invest in our people and their potential as we look to further improve that score in the future. NAB is on track to achieve its gender diversity targets and led the industry in conducting a gender pay equity audit in collaboration with the Finance Sector Union. This is a good start, but we know that there is still a long way to go to close the gap. Flexible work conditions are another key driver of employee engagement and enablement and, pleasingly, NAB’s return-to-work rate of employees on primary carer’s leave is now 89%.

### Summary

While operating conditions remain challenging, we have the right strategy and have taken decisive action at the right time. The work we have done to transform the way we do business has put us in a good position to achieve future success.

**Cameron Clyne**  
Group CEO

<sup>1</sup> ‘Speak Up, Step Up’ survey conducted by Hay Group, March 2012.

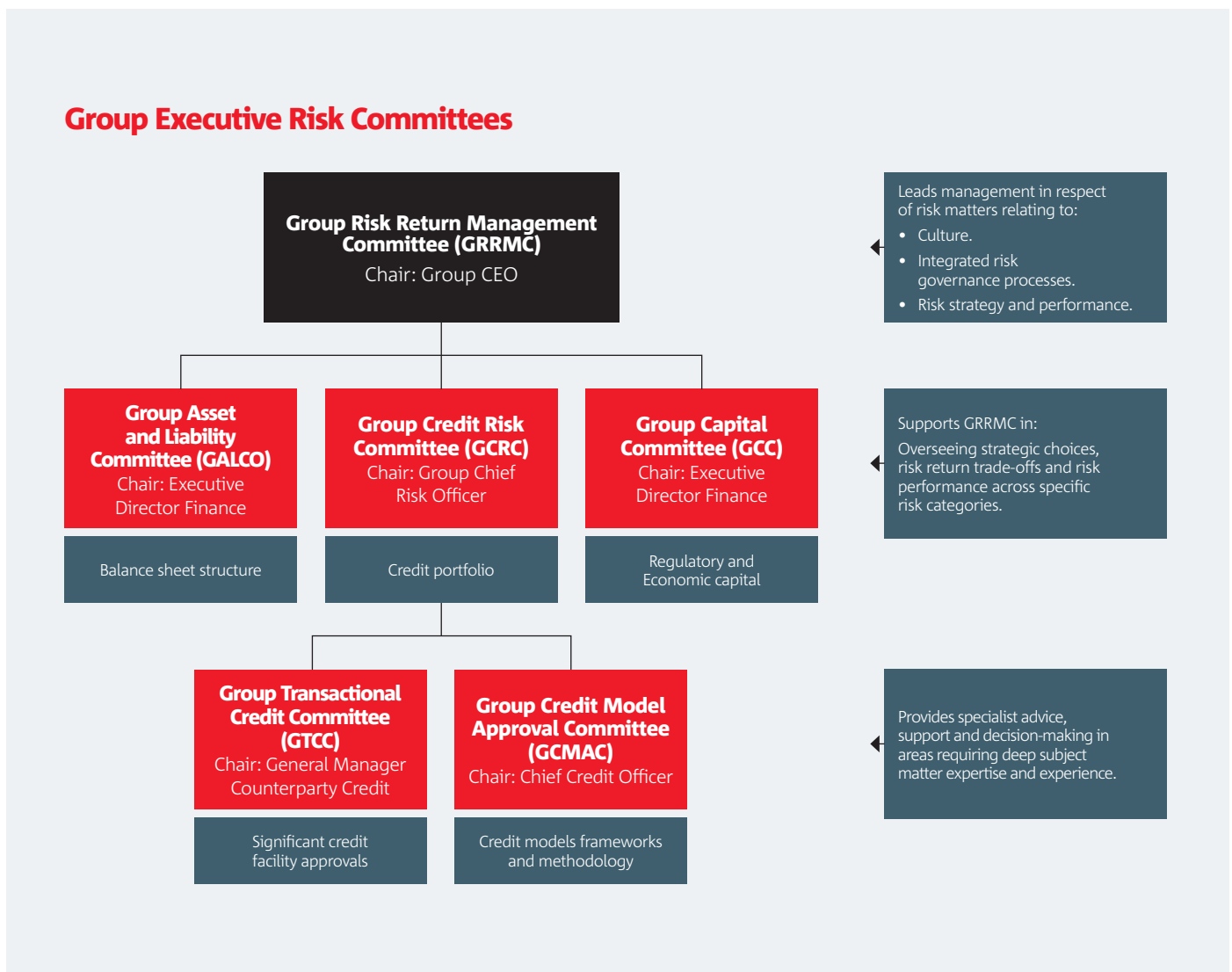
# Risk management

Risk exists in all aspects of our business and the environment in which we operate. The Group's collective risk management capability and competency supports successful implementation of our strategic priorities. It also enables the development of a sustainable and resilient business that is appropriately responsive to an ever-changing environment.

Risk is identified and managed as part of a Group-wide Risk Management Framework that starts with the Board-approved Strategy, Risk Appetite, Capital, Funding and Operational Plans. Risk Appetite is translated and cascaded to our businesses qualitatively (through our risk postures, policies, standards and operating procedures) and quantitatively (through our risk limits, settings and decisioning authorities). Compliance with our Risk Management Framework is non-negotiable. When we make mistakes, we reflect on our experience, share our learnings and hold ourselves accountable through the application

of balanced performance scorecards and a risk-adjusted performance and rewards framework.

At an executive level, risk is overseen by the Group Chief Executive Officer through the Group Risk Return Management Committee (GRRMC) and its supporting sub-committees, as shown in the figure below:





The Group identifies key categories of material risk that it is exposed to (referred to as the Group Risk Inventory or GRI). Currently the GRI comprises the following risk categories:

- Credit Risks.
- Operational Risks.
- Regulatory and Compliance Risks.
- Market and Non Traded Market Risks.

- Strategic Positioning and Strategic Execution Risks.
- Life Insurance Risks.

The systems and processes to identify, assess, measure, monitor, mitigate and report against these risks on a consistent basis are documented in our internal Risk Management Systems Descriptions.

On a six monthly basis, the Group informs a range of market participants of the principal risks and uncertainties that could materially impact our financial performance and position. This is available in the Shareholder Centre (under the ASX Announcements section) in the Group's website at

[www.nabgroup.com](http://www.nabgroup.com)

While every employee of our organisation is responsible for managing risk as part of their performance scorecard, our operating model differentiates accountabilities using a 'three lines of defence' approach, which is represented in the diagram below.

### Risk accountability across our three lines of defence

Management (1st Line) Ownership	Risk (2nd Line) Insight, Appetite, Oversight	Internal Audit (3rd Line) Independent Assurance
<ul style="list-style-type: none"> <li>• Execute and manage risk appetite.</li> <li>• Identify, control and monitor risks.</li> <li>• Establish and maintain a robust risk and control environment.</li> <li>• Ensure business activities are conducted in an appropriate control environment.</li> </ul>	<ul style="list-style-type: none"> <li>• Develop and maintain policies, frameworks, tools and processes.</li> <li>• Define minimum standards and oversee related consequence management.</li> <li>• Establish Group-wide and specific risk appetite.</li> <li>• Oversee, monitor and challenge the business.</li> <li>• Provide insight.</li> </ul>	<ul style="list-style-type: none"> <li>• Independently review, monitor and test across the 1st and 2nd lines.</li> <li>• Activities to be informed by, and respond to, issues raised by Risk.</li> <li>• Independent assurance on compliance requirements by regulators.</li> <li>• Assess the overall effectiveness of the business's risk and control environment and ability to self assess.</li> </ul>

### During 2012 we:

- Increased our focus on risk and return to better understand, debate and decide on the more significant trade-offs that we face in running our business.
- Continued to reinforce risk accountabilities across our three lines of defence (including expected risk management activity across each).
- Made progress in maturing our risk insight, appetite and oversight processes to help inform strategic choices and reposition of the portfolio.
- Strengthened our preparedness in responding to potentially significant risk events in the global environment.
- Deployed an enhanced credit risk training and accreditation programme and increased the rotation of employees from across the Enterprise into the Risk function (and vice versa) to strengthen NAB's risk management capability.
- Increased our focus on engagement with key regulators and improved our approach to managing regulatory change.
- Invested in improving our stress testing capability.
- Completed development of a set of environmental, social and governance (ESG) risk principles to further embed ESG risk considerations into our day-to-day business decisions.
- Delivered risk awareness training, including ESG risk, to more than 28,000 employees in Asia and Australia.

# Our strategy

## Progress against our strategy

Our strategy drives how we do business right across our Group – a set of priorities that inform everything we do. Three years ago, we set ourselves four strategic priorities to:

- focus on our strong Australian franchise and manage international businesses for value.
- maintain balance sheet strength.
- reduce complexity and cost.
- enhance our reputation.

We have made good progress against our priorities, proving that we have the right strategy in a challenging operating environment.



## 1 Building our business Focusing on our strong Australian franchise and managing our international businesses for value

Everything we do is underpinned by a desire to understand our customers' needs while delivering value. Over the past year we have further strengthened our Australian franchise. We have developed a set of compelling products and services that deliver fair value for our customers. We have invested in a set of capabilities that allow us to continue to provide value in the future. We have built on our strong and lasting customer relationships.

### Our focus on customer relationships

The core of our business is the individual relationships we have with our customers. By embedding our 'fair value' philosophy, we have differentiated ourselves from our competitors, creating lasting relationships and providing better products and advice to our customers.

In a challenging economic environment we have continued to show strong commitment to our customers, driven by a long-term, holistic view of customer relationships.

We are focused on broadening our understanding of our customers to better serve their needs by providing a range of products and services from across the breadth of the business.

Ensuring our own people are engaged and proud of our organisation is central to forming deeper customer relationships. For this reason we've built our business on a diverse group of talented and engaged employees. This year we have invested \$41.1 million in our people through our training and development programs. Over the same period we have also seen an increase in employee engagement and enablement across our business.<sup>1</sup>



### Taking aim for tomorrow

The needs of our customers are changing rapidly, encouraging us to build new capabilities to serve them better over the long-term. This involves becoming more efficient in our ability to integrate advances in technology into banking. It also includes the development of product capabilities to facilitate increasing trade between Australia, New Zealand and Asia and to respond to changes in the environment and an ageing Australian population.

Over the year, we have made investments in the development of digital channels and payment systems. These investments have improved customer experience and functionality and reflect our strong focus on ensuring accessibility for all customers:

- A major platform upgrade of the UBank system has delivered customers a quicker and more simplified online banking experience.
- The launch of nabtrade was one of the most significant achievements for us this year, providing customers with the latest online share research and a world-class trading platform.
- We piloted MLC Direct, which provides customers with more choice on how they receive advice.
- Digital innovations in Personal Banking have allowed us to launch mobile banking applications for Google Android, Apple and Windows devices.
- Enhanced NAB Connect functionality has provided customers with access to live foreign exchange rates and real-time NAB Foreign Currency account transactions and balances.

While these achievements are pleasing, we recognise there is still more that needs to be done. Technology remains a key challenge for NAB and the broader industry.

Recognising the growing importance of Asia to our customers, we are investing in the region to allow us to serve our customers better. During the year we opened our Shanghai and Mumbai branches, which will allow us to build our capabilities in Asia and facilitate increased business flows in the future.

Responding to the changing demographics of the ageing Australian population, we've taken a leadership position on advice delivery and superannuation in Australia. We believe this is crucial to ensure Australia's ageing population has an adequate understanding of the range of retirement income solutions needed to guarantee their income and capital.

We are committed to ensuring we continue to support business customers to access the capital they need to grow. A deeper and more liquid domestic corporate bond market will play an integral role in providing diversification of funding. NAB has been heavily involved in discussions with government, regulators and industry about the development of a corporate bond market, and will continue to advocate for growth in this area.

In line with our environmental agenda, we have taken advantage of new market opportunities, acting as the leading provider of project finance to renewable energy projects in Australia over the past seven years. We have been involved in the financing of approximately 70% of Australia's wind energy projects since 2000 and we arranged the first two privately financed Environmental Upgrade Agreements, providing an innovative new funding source for environmental retrofits of commercial buildings.

**14.2%**  
cash return  
on equity

**\$18,224m**  
net operating  
income

1. 'Speak Up, Step Up' survey conducted by Hay Group, March 2012 with an 85% response rate.



# Our strategy

## Business units strategic achievements

### Personal Banking

In 2012, Personal Banking continued to build on its momentum with record customer satisfaction, continued gains in market share in both mortgages and deposits, and deeper customer relationships.

Personal Banking marked the third year of delivering our fair value philosophy, and pledged to offer the lowest standard variable rate of the major banks in 2012.

We also celebrated our one millionth customer joining NAB since we broke up with the other banks. We continued to develop our customer relationships by helping our customers to better manage their money and have the right products for their needs.

We continued to strengthen our distribution through broker channels, opened six new-design retail stores, delivered key banking applications for mobile devices and rolled out a digital platform for our Australian-based contact centres.

In September, we achieved the highest customer satisfaction score of any major Australian bank in the history of the Roy Morgan Research customer survey<sup>1</sup>.

### Business Banking

Our deep customer relationship model puts credit and pricing decisions closer to the customer and allows our bankers to better respond to customer needs. We have continued to develop and improve this model through a series of initiatives that facilitate increased time with our customers. We are responding to more of our customer needs through our customer-led innovation strategy – developing our capabilities to identify and respond to customer requirements.

Wholesale Banking performed well in 2012, delivering a

# 65%

increase in cash earnings over the previous year.

We have also made progress in improving our specialised advice in key industries, and enhancing our trade and payments platforms to better serve our customers. This customer-centric approach has been reflected in improved customer satisfaction<sup>2</sup>.

This year business customers were affected by the slowdown in the domestic economy, driving a higher charge for bad and doubtful debts for the business. That said, Business Banking has continued to support its customers in good and bad economic times, maintaining its leading market position in business lending of 24.8%<sup>3</sup>.

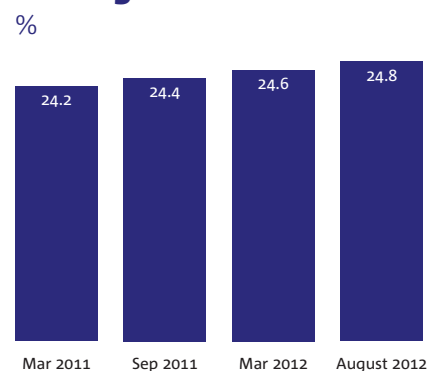
### Wholesale Banking

We are committed to deepening the relationship with our customers by understanding and anticipating their needs, championing solutions on their behalf and ensuring that it is easy for them to do business with us. We have continued to build on our market-leading debt issuance and distribution capabilities and have successfully delivered foreign exchange and risk management solutions for our business, financial institutions and wealth customers.

We are also differentiating ourselves in the financial institution sector where we have a market-leading position in asset servicing. It has enabled us to strengthen our offering in the superannuation, funds and insurance sectors.

Another achievement has been the development and distribution of innovative Basel III compliant deposit and investment products to our customers, which further contributes to the Group's funding strength.

### Business Banking lending market share



Source: APRA Banking System 2012.

### NAB Wealth

In the wealth industry, we continue to respond to significant shifts in customer behaviours and an evolving regulatory environment through the development of new services and product offerings including the ongoing development of a range of innovative retirement products for Australia's retirees and pre-retirees.

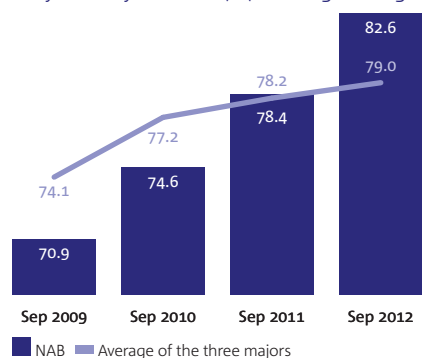
Throughout the year, we enhanced our aligned adviser footprint to support customers, while maintaining our number two market share position in the retail superannuation and life insurance segments<sup>4</sup>.

We have continued to build our direct asset management capability and build value in our largest boutique fund managers.

Our ongoing investments in Wealth have delivered enhanced products and services that respond to our customers' needs. These include MLC Wrap, MasterKey Fundamentals, MLC Insurance, our new online trading platform, nabtrade, and MLC Direct.

### Personal Banking customer satisfaction

Very or fairly satisfied (%). Average ratings.



Source: Roy Morgan Research, September 2012. Australian Main Financial Institutions, population aged 14+, six-month moving average. Customer satisfaction is based on customers who answered very/fairly satisfied. NAB compared with the three major banks (ANZ, CBA, WBC).

1 See source data statement in chart 'Personal Banking customer satisfaction'.  
2 Refer to Group Non-Financial Performance table (page 20) for customer satisfaction ratings across key business segments.  
3 Source: APRA Banking System 2012.  
4 Source: Plan for Life Australian Retail & Wholesale Investments Market Share & Dynamics Report – June 2012.

## NZ Banking, UK Banking and Great Western Bank

This year we announced the outcome of a strategic review of our UK Banking business designed to simplify the business model and improve balance sheet strength. In New Zealand and the US we continued to focus on our customers' needs to deliver value to the Group.

### NZ Banking

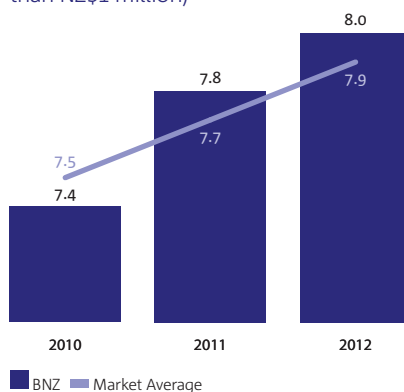
Operating under the Bank of New Zealand (BNZ) banner, we continued to build on our strengths in developing innovative products and delivering a differentiated customer experience. Supported by high employee engagement and enablement<sup>1</sup>, we performed well in both business and retail customer satisfaction<sup>2</sup>.

By delivering on our strategy, we overcame tough market competition to achieve above-system growth in deposits<sup>3</sup> and continued to support our customers' lending needs. Business banking (BNZ Partners) and the retail business performed well, with BNZ Partners maintaining a strong market share position. As a result, BNZ's balance sheet has been further strengthened through the year.

We are continuing to support our communities through initiatives including our 'Closed for Good' community volunteer program. BNZ's 'Kaizen' program is progressing initiatives to develop a culture of continuous improvement, reduce complexity and manage costs.

### BNZ Partners customer satisfaction

(Turnover equal or greater than NZ\$1 million)



Source: TNS NZ Brand and Voice of Customer Tracker (note: the survey was conducted by Gandar Associates before 2012). Overall satisfaction with main bank based on a scale from 1-10, where 1 is extremely dissatisfied and 10 is extremely satisfied. For BNZ Partners, the market average is based on five major banks: ANZ, ASB, BNZ, Westpac and National Bank.

### UK Banking

We conducted a strategic review of UK Banking during the year in response to the deterioration in economic and operating conditions in the UK. Since the announcement of the review we have:

- simplified the business model to focus on retail operations and small to medium enterprise business lending in Scotland and Northern England.
- improved the UK Banking balance sheet structure by transferring the vast majority of its commercial real estate (CRE) assets to NAB. This was completed in October 2012.

Going forward, NAB will manage the transferred portfolio separately and place it in run-off.

### Great Western Bank

We continue to focus on Agribusiness and small to medium enterprises in the US. Despite weakened economic conditions, Great Western Bank displayed healthy growth due to strength in these core industries. The bank grew its loan book organically by 6% to US\$5.6b during 2012, while also finalising its merger with First Federal Savings Bank of Iowa.

Personal Banking marked the third year of delivering its 'fair value' philosophy, and pledged to offer the **lowest standard variable rate** on mortgages of the major banks in 2012.



<sup>1</sup> 'Speak Up, Step Up' survey conducted by Hay Group, March 2012.

<sup>2</sup> As measured by TNS NZ Brand and Voice of Customer Tracker, refer to *Customer Dig Deeper* paper for more information.

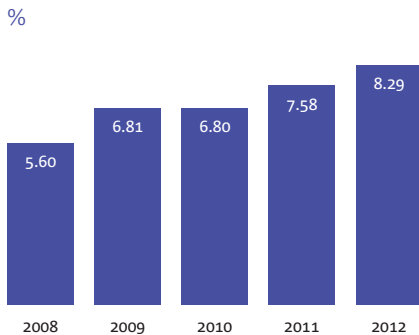
<sup>3</sup> Source: RBNZ August 2012 (historical market share rebased with latest revised RBNZ published data).

# Our strategy

## 2 Maintaining balance sheet strength

The Group continues to strengthen its capital, funding and liquidity positions to ensure it is well placed to respond to future challenges and opportunities. We have implemented initiatives such as diversifying funding sources and building on deposits, and have continued to strengthen our risk management framework.

### Core Tier 1 ratio



Source: NAB internal.

### A strong funding position

Despite a challenging environment, the Group successfully raised \$31.3 billion of term wholesale funding – completing the 2012 financial year term-funding task and pre-funding some 2013 maturities.

The Group has focused on deposits as a key source of balance sheet strength, with deposit growth funding all core asset growth over the year. As a result, the Group's Customer Funding Index<sup>1</sup> has risen 1 percentage point over the year to 66% at 30 September 2012.

### Looking to long-term sustainability

The Group maintains a well-diversified and high-quality liquid asset portfolio, with \$91 billion of liquid assets held at 30 September 2012.

It's important that the Group's term wholesale funding raised during the year came from a diverse range of sources. These included NAB Ltd raising \$6.5 billion of covered bonds and \$1.2 billion of subordinated debt.

In addition, the weighted average maturity of term wholesale funding raised in the 2012 financial year was approximately five years, higher than the 2011 financial year average of 4.5 years.

### Building capital base

The estimated Basel III Common Equity Tier 1 ratio (on an APRA basis) was 7.91% compared with 7.09% at 30 September 2011. The Group has introduced a Basel III Common Equity Tier 1 ratio target of above 7.5% on an APRA basis to apply from 1 January 2013, and will look to operate at a comfortable buffer to this target.

### Leading the way to tomorrow

The Group's focus on balance sheet strength supports our Basel III transition strategy, making progress to meet APRA's future capital, funding and liquidity reforms. Examples of initiatives underway to meet these reforms include improving the quality of deposits and the Group's liquid asset portfolio, and extending the duration of short-term wholesale funding and strengthening Common Equity Tier 1 ratio (on a Basel III APRA basis) above target.

# 66%

Customer Funding Index as at 30 September 2012.<sup>1</sup>

### Protecting ourselves from risk

This year we continued to strengthen our risk management framework. Additionally, we have completed development of environmental, social and governance (ESG) risk principles that help us consider a broader set of risks in our day-to-day business decisions.

We believe that by being aware of ESG risk, and having policies and tools to manage those risks, we are better able to deliver sustainable returns over the long-term. We have also delivered ESG risk training to more than 28,000 employees in Asia and Australia over the past 12 months. More information on our risk management framework is available on pages 10-11 of this review.

<sup>1</sup> Customer Funding Index is defined as Customer Deposits divided by Core Assets.



# 3

## A smarter way to do business

### Reducing complexity and cost

Throughout the year, we maintained a disciplined approach to cost management – achieved through simplifying many of our processes, tight expense management and instituting a culture of continuous improvement and productivity.

“Our technology transformation program will continue to improve our customers’ experience by making banking safer, easier and more reliable.”

#### Investing in our core systems

Several milestones have been reached in our technology transformation program. The Group-wide agenda is focused on reducing operational risk, improving cost efficiency and allowing more flexibility to respond to customer needs. Our whole-of-bank approach to technology will deliver benefits for decades to come, as old, bespoke legacy systems are decommissioned.

Some of the highlights include:

- launching nabtrade, the most significant technology innovation in online trading in 15 years.
- replacing nine old telephone systems with one digital Virtual Contact Centre, now in use across the Bank.
- migrating UBank customers onto NAB’s new banking platform, enabling a new website and integrated tools for our people to assist customers.
- ongoing transformation of payments and technology infrastructure including new data centres and networks, while leading global policy development for cloud computing.
- making significant progress in building a consolidated office site at 700 Bourke Street, Melbourne, in line with best practice environmental design standards<sup>1</sup>.

Our technology transformation project will continue to improve our customers’ experience by making banking safer, easier and more reliable.

#### Pursuing operational excellence

This year we’ve made progress in developing a work environment that’s more customer-focused and cost-disciplined. Through an initiative called Kaizen@NAB – a program that empowers our people to make continuous improvements to their day-to-day activities – we are proactively working towards improving our customers’ experience and our internal productivity. This has contributed to the increased satisfaction of our personal and business customers<sup>2</sup>.

Approaching cost management in an intelligent and disciplined way is an important element in delivering benefits to our people, our customers and our shareholders. We are committed to accelerating efficiency through continuous improvements in costs and productivity. In the year to 30 September 2012, we maintained positive revenue growth in excess of expense growth.

A further driver of operational efficiency has been our ‘Environmental Agenda’. In Australia, we’ve continued to invest in resource efficiency projects to further reduce our carbon emissions, waste, water and paper use. Across the Group, we are also working with our suppliers to improve the sustainability of our supply chain. These initiatives are aimed at delivering environmental and social benefits, improving employee engagement and contributing to our business performance. See our *Environment and Supply Chain Dig Deeper* papers for further information.

<sup>1</sup> This includes the adoption of environmental principles from project inception, design and construction phases, to the operation of the building and minimum GBCA 5 star Green Star ratings and NABERS 4.5 star ratings.

<sup>2</sup> Refer to Group Non-Financial Performance Table on page 20 for personal, business banking and Institutional customer satisfaction.

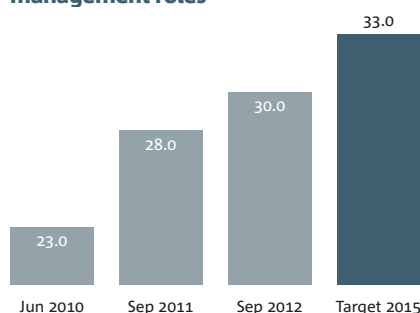
# Our strategy

## 4 Enhancing our reputation

We believe our reputation directly affects the sustainability of our business. That's why we have a genuine commitment to reputation-building initiatives, like doing more for our customers, investing in our own people and addressing our broader role in society. It's a commitment that's making a difference, with encouraging results.

### Women in management

% of women in executive management roles\*



\*Executive management positions (also known as senior executive positions) are those held by Group Executive Committee members, Group Executive Committee members' direct reports and their direct reports.

Note: Support roles reporting in to these roles (for example, Executive Manager and Executive Assistant) are not included in the data.

### Delivering fair value

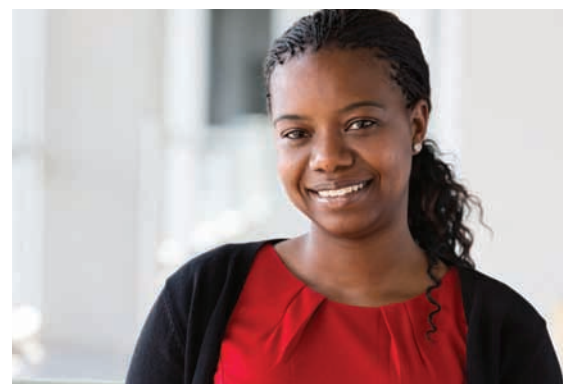
Since 2009, we have continued to make changes to the way we engage with customers, offering a new customer proposition 'fair value' in an effort to stand apart from our competitors. This agenda has assisted our customers and brought us new business. Specifically, we have:

- removed fees such as overdraft, monthly account keeping and early exit fees (putting us ahead of the regulatory curve).
- changed the way payments are made on credit cards to help reduce the cost of credit cards by paying the items accruing the highest interest first.
- committed to offering the lowest standard variable rate of the major banks in Australia until the end of 2012.

These changes have contributed to an increase in customer numbers, with more than one million new customers joining since our 'Break Up Campaign' in February 2011.

# 50,000+

financially excluded individuals and businesses have been assisted by NAB since 2007 – with total lending exceeding \$73 million<sup>1</sup>.



### Help where it's needed

We maintained our support of business and personal customers through the economic downturn, and we continue to provide tailored support to help customers get back on track following hardship through our dedicated and industry-leading NAB Care team<sup>2</sup>.

In Australia, 17.2% of adults are financially excluded<sup>3</sup>, meaning that they don't have access to a basic transaction account, basic insurance or a small amount of affordable credit. In line with our commitment to financial inclusion we have:

- helped more than 50,000 financially excluded individuals and businesses by providing no and low-interest loans since 2007. Our Microenterprise Loans program is having a powerful impact on the economy. For example, \$1.22 of economic benefit is generated for every dollar invested and these loans have contributed to an increased contribution of taxes (\$7.5 million) and reduced reliance on government support (\$7.3 million) by participants<sup>4</sup>.
- led the industry in opening Australia's first community finance store, Good Money, in partnership with the Victorian Government and Good Shepherd Microfinance. The store provides financially excluded Australians with access to microfinance products, financial counselling and other community services in a comfortable and secure retail environment.
- assisted more than 1,900 new Indigenous clients in improving their financial literacy and capability through our Indigenous Money Mentor program this year.

See our *Customer Dig Deeper* paper for more detail.

1 Over 50,000 microfinance loans provided. See the *Customer Dig Deeper* paper for more information.  
2 Source: Financial and Consumer Rights Council Incorporated 'Rank the Bank' report, 2012.  
3 Source: 'Measuring Financial Exclusion in Australia' May, 2012. NAB and the Centre for Social Impact.  
4 Source: 'Small is the new big: Measuring the impact of NAB's Microenterprise Loan program' March, 2012. NAB and the Centre for Social Impact.



We have one of Australia's largest employee volunteering programs<sup>1</sup>. This year 26,254 volunteer days have been contributed by NAB Group. The value of this contribution is **\$8.9 million.**<sup>2</sup>

<sup>1</sup> Based on length of program, take-up rates and minimum hours made available to employees to volunteer (16 hours).

<sup>2</sup> Value of volunteering has been calculated by multiplying the relevant average daily salary for each region for employees who have volunteered by the number of days completed.

<sup>3</sup> 'Speak Up, Step Up' survey conducted by Hay Group, March 2012.

<sup>4</sup> Our gender diversity targets and performance are detailed within the Corporate Governance section of the 2012 Annual Financial Report.

<sup>5</sup> Australian employees only, as measured in the Gender Pay Equity Audit conducted with the Finance Sector Union. 80% figure is as at 30 September 2011.

<sup>6</sup> Community investment down on previous years due to the drop in the number of natural disasters affecting our communities.

<sup>7</sup> The Natural Capital Declaration is convened by the UNEP Finance Initiative, Global Canopy Program and Getúlio Vargas Foundation.

## Creating a values-aligned culture

We are committed to investing in our people, culture and reputation because we know that diversity, inclusion, flexibility and wellbeing are good for our people and are good for our business. Our people want to feel proud of their organisation. It's an essential part of lifting engagement, unlocking creativity and innovation and driving a better outcome for our customers and shareholders.

This year we've seen further growth in these areas:

- Participation in our employee survey has risen and overall engagement has increased<sup>3</sup>.
- We're on track to achieve our gender diversity targets published in 2011<sup>4</sup>.
- We're the only Australian bank to complete a gender pay equity audit, and have just completed our second review in partnership with the Finance Sector Union. The audit reveals we are making progress towards narrowing the gap but there is more work required.
- Our return-to-work rate of employees on primary carer's leave has increased from 65% to 80% since 2006<sup>5</sup>.
- As part of creating a flexible working culture, we have provided more than 18,000 employees across the Group with the technology to work remotely.
- More than 12,200 employees have registered on our Health & Wellbeing portal and 5,250 have completed the online health check.

For further information see our *People Dig Deeper* paper.

## Bringing out the best in our communities

We continue to make a significant contribution to the community, primarily through our investment in best practice community programs that focus on education, inclusion, Indigenous development and mental health. This year more than \$55.7 million was invested in our communities.<sup>6</sup>

Advocacy and thought-leadership remain important avenues to continue to progress discussions about significant community issues. We have funded the publication of the 'Caught Short' report and, in partnership with Centre for Social Impact we released, for the second time, the 'Measuring Financial

Exclusion in Australia' and 'Small is the new big' reports. Subsequently, we held Australia's first Financial Exclusion Summit to bring together key stakeholders to have an in-depth discussion about structural barriers leading to financial exclusion.

We have also made a significant investment in building a strong enterprise culture, where employees are encouraged to engage with the community. Our employees have told us that their involvement in community and volunteer programs influences how they feel about working at NAB and how connected they feel to the enterprise, our strategy and culture.

In the future, we will build on our core community programs and continue to promote social and financial inclusion in our communities. We will also deepen our commitment to education in Australia by building on our support of school-community partnerships (through NAB Schools First) and introducing new programs that help to prepare young people for the future.

## Our environment agenda

We know that action on environmental issues is a key consideration when it comes to a bank's risk and reputation. And that's why, through our 'Environmental Agenda', we're acting on some of the most significant environmental risks and opportunities to our business. For instance, we're leading the way externally in renewable energy lending, and internally through our Beyond Carbon Neutral resource efficiency program. Demonstrating this focus, and in recognising the valuable contribution nature has to economic sustainability, we were a founding signatory to the internationally recognised Natural Capital Declaration in December 2011.<sup>7</sup>

## Managing our supply chain

As a large purchaser of goods and services, our responsibility extends to the management of our supply chain. We recognise that the business conduct and performance of our suppliers can have a significant impact on our sustainability performance and our reputation within the communities in which we operate. For this reason we have worked to extend our Supplier Sustainability Principles to our global operations.



# Group performance



## Group Non-Financial Performance Table\*

	FY12	FY11	FY10
<b>Delivering fair value and quality advice</b>			
Personal banking customer satisfaction (Australia) <sup>1</sup>	82.6%	78.5%	74.7%
Microbusiness customer satisfaction (Australia) <sup>2</sup>	7.0	6.9	6.9
Small business customer satisfaction (Australia) <sup>2</sup>	7.2	6.9	6.8
Medium business customer satisfaction (Australia) <sup>2</sup>	7.3	7.3	7.0
Large business customer satisfaction (Australia) <sup>2</sup>	7.4	7.4	7.1
Institutional (\$500m+) Relationship survey (Peter Lee) (Australia) <sup>3</sup>	48	46	43
% change in customer complaints (Australia) <sup>4</sup>	-25%	+14%	-23%
Number of microfinance loans written (Australia) <sup>4</sup>	23,364	15,752	8,633
% of customer accounts cured six months after completing hardship assistance <sup>5</sup>	48%	-	-
Number of clients assisted by NAB's Indigenous Money Mentor program	1,907	2,911	616
Number of stores and business banking centres	1,880	1,878	1,891
Number of ATMs	4,817	4,922	4,757
<b>Investing in the skills and capabilities of our employees</b>			
Total employees (FTE spot) <sup>6</sup>	43,336	44,645	44,551
Group employee engagement score <sup>7</sup>	70%	69%	68%
Group enablement score <sup>7</sup>	71%	69%	68%
% of women in executive management <sup>8</sup>	30%	28%	23%
% of employees over 50 years <sup>9</sup>	17%	16%	16%
% of employees that have access to remote working <sup>10</sup>	43%	-	-
Return to work rate for employees following primary carer's leave <sup>11</sup>	89%	91%	88%
Total number of Indigenous employees (trainees, grad to permanent and general recruitment) <sup>12</sup>	142	97	72
Total turnover rate <sup>13</sup>	14%	15%	14%
Voluntary turnover rate <sup>13</sup>	10%	10%	9%
% of employees that believe they are supported to work flexibly <sup>14</sup>	86%	84%	-
Lost Time Injury Frequency Rate (LTIFR) <sup>15</sup>	1.22	1.39	1.80
<b>Supporting our communities</b>			
Community investment	\$55.7 (m)	\$72.2 (m)	\$61.9 (m)
Number of volunteer days	26,254	25,633	20,718
Value of volunteer days	\$8.90 (m)	\$8.03 (m)	\$6.38 (m)
<b>Managing the impact of our business on the environment</b>			
Gross GHG emissions (Scope 1,2&3) tCO <sub>2</sub> -e <sup>16</sup>	307,026	321,158	320,839
% of project finance investment in renewable energy (or MW of renewable finance)	10.8%	13.0%	12.8%
<b>Making a positive impact through our purchasing decisions</b>			
Number of suppliers signatory to NAB's Supplier Sustainability Principles <sup>17</sup>	436	144	76

\*Group Non-Financial Performance Table data is described in detail in our *Dig Deeper* papers available at [www.nabgroup.com/annualreport](http://www.nabgroup.com/annualreport).

1 See footnote 1 on page 14. 2 Source: DBM Business Financial Services Monitor, April 2009 – September 2012, six-month rolling averages. Overall satisfaction with main financial institution based on scale of 0-10 (extremely dissatisfied to extremely satisfied). 3 Peter Lee Associates 2012 Large Corporate and Institutional Relationship Banking Survey, Australia. Based on average point score of overall satisfaction with bank service, ranked against top 4 competitors. 4 Refer to *Customer Dig Deeper* paper for more information on each of these metrics. 5 New metric introduced in 2012. Refers to the percentage of all customer accounts approved for NAB Care assistance, who are not behind in payments six months after exiting NAB Care assistance process. 6 Full-time equivalent employees as at 30 September 2012. 7 'Speak Up, Step Up' survey conducted by Hay Group, March 2012. 8 Data as at 30 September 2012. Definition of Executive management positions can be found on page 18. 9 2012 data the first year recorded for the Group. 2011 and 2010 data excludes Great Western Bank. 10 New metric introduced in 2012. Refers to the total number of employees within Australia, New Zealand and the United Kingdom with remote access to corporate systems as a percentage of headcount at 30 September 2012. 11 Percentage of employees that do not exit NAB at the immediate conclusion of primary carer's leave. 2012 is a Group figure, 2010 and 2011 includes Australia and New Zealand only. 12 Refers to total Indigenous Australians employed throughout each year. 13 Number of all employees who exited the bank during 2012, as a percentage of average permanent headcount for the NAB financial year. Voluntary turnover rate refers to employee-initiated exits (such as retirement or resignation) only. 2010 and 2011 voluntary turnover data excludes Great Western Bank. 14 Refers to the percentage of NAB Group employees that agreed or strongly agreed with the statement "My people leader supports me to work with a degree of flexibility" in the 'Speak Up, Step Up' survey conducted by Hay Group, March 2012. Only captured from 2011. 15 Lost Time Injury Frequency Rate is the number of work-related lost time injuries per million hours worked. Calculated using the combined data for all employees in Australia and NZ Banking. Previous years' figures have been revised due to retrospective updates made post 30 September 2012. Current year results are also likely to be revised upwards due to a number of incidents being assessed. Find a full description of the methodology applied in our *People Dig Deeper* paper. 16 In 2010 when the Group achieved carbon neutrality, the gross GHG emissions increased significantly due to the inclusion of new Scope 3 emissions in the Group's carbon inventory. 17 Represents total number of suppliers in Australia and New Zealand who are signatories to NAB's Supplier Sustainability Principles. 2010 and 2011 data refers to Australia only.

Group Financial  
Performance Table\*

	FY12	FY11	FY10
<b>Results \$m</b>			
Net interest income	13,297	13,092	12,288
Other operating income	3,412	3,016	2,838
NAB Wealth net operating income	1,515	1,486	1,512
<b>Net operating income</b>	<b>18,224</b>	<b>17,594</b>	<b>16,638</b>
Operating expenses	(7,828)	(7,974)	(7,862)
Charge to provide for bad and doubtful debts	(2,615)	(1,822)	(2,263)
Cash earnings before tax, IoRE, distributions and non-controlling interest	7,781	7,798	6,513
Income tax expense	(2,178)	(2,142)	(1,777)
<b>Cash earnings before IoRE, distributions and non-controlling interest</b>	<b>5,603</b>	<b>5,656</b>	<b>4,736</b>
Net profit attributable to non-controlling interest	(1)	(1)	(1)
IoRE	38	30	61
Distributions	(207)	(225)	(215)
<b>Cash earnings ("Cash Basis")</b>	<b>5,433</b>	<b>5,460</b>	<b>4,581</b>
Distributions	207	225	215
Treasury shares	(155)	39	106
Fair value and hedge ineffectiveness	(265)	(181)	(353)
IoRE discount rate variation	16	26	34
Hedging costs on SCDO assets	(99)	(127)	-
Property revaluation	(5)	-	(4)
Litigation expense	(101)	(4)	(12)
Amortisation of acquired intangible assets	(99)	(82)	(73)
Customer redress provision	(239)	(117)	-
Impairment of goodwill and software	(349)	-	-
Restructure costs	(174)	-	-
Due diligence, acquisition and integration costs	(88)	(162)	(125)
Refund of tax on exchangeable capital units (ExCaps) settlement	-	142	-
Provision for tax for NZ structured finance transactions	-	-	128
Efficiency, quality and service initiatives	-	-	(237)
MLC reinsurance dispute	-	-	(36)
<b>Net profit attributable to the owners of the Company ("Statutory Basis")</b>	<b>4,082</b>	<b>5,219</b>	<b>4,224</b>
<b>Key indicators</b>			
Cash earnings per share (cents) – basic	240.9	249.9	214.5
Cash earnings per share (cents) – diluted	238.8	247.5	212.8
Cash return on equity	14.2%	15.2%	13.2%
<b>Profitability, performance and efficiency measures</b>			
Dividend per share (cents)	180	172	152
Dividend payout ratio	74.7%	68.8%	70.9%
Cash earnings on average assets	0.72%	0.78%	0.69%
Banking cost-to-income ratio	41.3%	43.7%	45.9%
<b>Capital</b>			
Tier 1 ratio (Basel II)	10.27%	9.70%	8.91%
Total capital ratio	11.67%	11.26%	11.36%
<b>Asset quality</b>			
Gross impaired assets to gross loans and acceptances	1.31%	1.32%	1.35%
Collective provision to credit risk-weighted assets (excluding housing)	1.40%	1.45%	1.48%

\*Refer to Glossary of Terms for definitions of the above financial metrics.

# Business unit performance

## Financial<sup>1</sup> and non-financial

\$ m	Personal Banking			Business Banking		
	FY12	FY11	FY10	FY12	FY11	FY10
Net interest income	<b>2,967</b>	2,826	2,501	<b>5,026</b>	5,033	4,664
Other operating income	<b>599</b>	590	604	<b>1,036</b>	1,006	955
Net operating income	<b>3,566</b>	3,416	3,105	<b>6,062</b>	6,039	5,619
Operating expenses	<b>(1,836)</b>	(1,791)	(1,700)	<b>(1,741)</b>	(1,764)	(1,714)
Charge to provide bad and doubtful debts	<b>(242)</b>	(301)	(347)	<b>(893)</b>	(802)	(791)
Income tax expense	<b>(443)</b>	(392)	(315)	<b>(1,019)</b>	(1,028)	(921)
Cash earnings	<b>1,045</b>	932	743	<b>2,409</b>	2,445	2,193
Net interest margin *	<b>2.03%</b>	2.19%	2.31%	<b>2.53%</b>	2.62%	2.51%
Cash earnings on average assets *	<b>0.71%</b>	0.72%	0.68%	<b>1.22%</b>	1.28%	1.19%
Banking cost-to-income ratio	<b>51.5%</b>	52.4%	54.8%	<b>28.7%</b>	29.2%	30.5%
'Jaws'	<b>1.9%</b>	4.6%	(13.4%)	<b>1.7%</b>	4.6%	3.4%
Cash earnings per average FTE (\$000s)	<b>122</b>	105	89	<b>466</b>	446	417
FTEs (spot)	<b>8,348</b>	8,705	9,052	<b>5,076</b>	5,427	5,482

\* Not applicable to every business unit.

# 25%

reduction in Australian customer complaints compared with last year.<sup>2</sup>

Of our Personal Banking customers who sought financial hardship assistance, 48% are back on track with NAB Care's support.<sup>3</sup>

Business Banking supports its customers in all economic conditions. This year we have assisted more than 700 small business customers facing hardship. Of these customers, 33% state business downturn as the cause of hardship.

We arranged Australia's first two privately funded Environmental Upgrade Agreements financing, which provides an innovative new funding source for environmental retrofits of commercial buildings.

We are focused on extending the length of careers of our mature-age workers, and we recognise that flexibility is a critical enabler for our diverse range of employees. We are making strong progress – in our latest Group employee engagement survey, 86% of our people indicated they are able to work with a degree of flexibility, and 90% for Business Banking employees specifically.<sup>4</sup>

<sup>1</sup> Refer to Glossary of Terms for definitions of the below financial metrics.

<sup>2</sup> Refer to *Customer Dig Deeper* paper.

<sup>3</sup> Refer to footnote 5 on page 20 for full footnote.

<sup>4</sup> Refers to the percentage of employees that completed the 'Speak Up, Step Up' survey conducted by Hay Group, March 2012, that believe their people leader supports them to work flexibly. Flexibility includes leave and/or working arrangements such as reduced hours and telecommuting.



<b>Wholesale Banking</b>			
\$ m	FY12	FY11	FY10
Net interest income	<b>1,519</b>	1,230	1,189
Other operating income	<b>982</b>	626	739
Net operating income	<b>2,501</b>	1,856	1,928
Operating expenses	<b>(948)</b>	(915)	(914)
Charge to provide bad and doubtful debts	<b>(67)</b>	(21)	(45)
Income tax expense	<b>(394)</b>	(259)	(264)
Cash earnings	<b>1,092</b>	661	705
Net interest margin *	<b>n/a</b>	n/a	n/a
Cash earnings on average assets *	<b>n/a</b>	n/a	n/a
Cost to income ratio	<b>37.9%</b>	49.3%	47.4%
'Jaws'	<b>31.2%</b>	(3.8%)	(34.0%)
Cash earnings per average FTE (\$000s)	<b>385</b>	221	229
FTEs (spot)	<b>2,830</b>	2,889	3,166

\* Not applicable to every business unit.

Wholesale Banking employee engagement has increased 11 percentage points on last year to 72%, **the largest uplift of any NAB business unit.**<sup>1</sup>



**We delivered a major upgrade to our foreign exchange trading platform that will enable trade capture, risk management and straight through processing of all foreign exchange products globally.**

**70%**

of Australia's wind energy projects have been financed by NAB since 2000.<sup>2</sup>

<sup>1</sup> 'Speak Up, Step Up' survey conducted by Hay Group, March 2012.  
<sup>2</sup> Source: Project Finance International 2006-2012. Analysed by NAB.

# Business unit performance

## Financial<sup>1</sup> and non-financial

\$ m	NAB Wealth			NZ Banking		
	FY12	FY11	FY10	FY12	FY11	FY10
Net interest income	325	328	295	1,106	1,015	978
Other operating income	47	35	34	354	345	351
NAB Wealth net operating income	1,515	1,486	1,512	-	-	-
Net operating income	1,887	1,849	1,841	1,460	1,360	1,329
Operating expenses	(1,143)	(1,128)	(1,114)	(592)	(572)	(581)
Charge to provide bad and doubtful debts	(12)	(18)	(9)	(76)	(116)	(148)
Income tax expense	(213)	(199)	(169)	(217)	(203)	(184)
Cash earnings	556	533	609	575	469	416
Net interest margin *	n/a	n/a	n/a	2.39%	2.30%	2.16%
Cash earnings on average assets *	n/a	n/a	n/a	1.24%	1.05%	0.91%
Cost to income ratio	60.6%	61.0%	60.5%	40.6%	42.1%	43.7%
'Jaws'	0.8%	(0.9%)	3.1%	3.9%	4.0%	0.9%
Cash earnings per average FTE (\$000s)	90	86	104	162 NZD	134 NZD	119 NZD
FTEs (spot)	5,777	5,909	5,714	4,534	4,641	4,551

\* Not applicable to every business unit.

# \$268m

has been invested this year in Socially Responsible Investment (SRI) funds.

The MLC Community Foundation's primary focus is mental health. In the past five years it has invested \$4.5 million in grants and programs, including more than \$1.8 million in philanthropic capital to Lifeline Australia.

BNZ's new brand campaign seeks to differentiate the Bank by helping customers 'Be Good with Money'.

This year approximately \$320,000 has been invested in initiatives aimed at improving financial literacy in New Zealand.

# >90%

of BNZ's strategic suppliers are signatories to our Supplier Sustainability Principles.<sup>2</sup>

<sup>1</sup> Refer to Glossary of Terms for definitions of the below financial metrics.  
<sup>2</sup> Strategic supplier is defined as a supplier that performs an outsourcing activity that has the potential, if disrupted, to have a significant impact on business operations or ability to manage risks effectively or that their spend is so significant that they require careful monitoring.

\$ m	UK Banking			Great Western Bank		
	FY12	FY11	FY10	FY12	FY11	FY10
Net interest income	<b>1,324</b>	1,522	1,665	<b>272</b>	285	245
Other operating income	<b>429</b>	448	452	<b>74</b>	81	72
Net operating income	<b>1,753</b>	1,970	2,117	<b>346</b>	366	317
Operating expenses	<b>(1,067)</b>	(1,136)	(1,232)	<b>(173)</b>	(177)	(152)
Charge to provide bad and doubtful debts	<b>(966)</b>	(462)	(601)	<b>(25)</b>	(57)	(54)
Income tax expense	<b>67</b>	(84)	(80)	<b>(50)</b>	(44)	(37)
Cash earnings	<b>(213)</b>	288	204	<b>98</b>	88	74
Net interest margin *	<b>2.03%</b>	2.33%	2.34%	<b>3.75%</b>	4.19%	4.02%
Cash earnings on average assets *	<b>(0.3%)</b>	0.41%	0.27%	<b>1.27%</b>	1.17%	1.16%
Cost to income ratio	<b>60.9%</b>	57.7%	58.2%	<b>50.0%</b>	48.3%	47.9%
'Jaws'	<b>(5.1%)</b>	0.9%	(4.2%)	<b>(3.4%)</b>	(1.0%)	7.4%
Cash earnings per average FTE (\$000s)	<b>(17) GBP</b>	21 GBP	14 GBP	<b>66 USD</b>	59 USD	59 USD
FTEs (spot)	<b>7,883</b>	8,351	8,730	<b>1,569</b>	1,492	1,596

\* Not applicable to every business unit.

Approximately 1,350 employees have successfully gained the Professional Banker Certificate qualification issued by the Chartered Banker Institute.<sup>1</sup> This qualification demonstrates a commitment to professionalism and introduces areas of critical importance to the effective performance of a professional banker, including key ethical, regulatory, economic, legal and credit issues. The expectation is that by 2013, a total of 1,700 employees will have received this qualification from the Chartered Banker Institute.

**During the year we introduced a Supplier Sustainability Program in the UK to improve the sustainability of our Clydesdale Bank supply chain.**

In 2012, 235 of our senior leaders in Australia, Asia, New Zealand and the United Kingdom attended NAB's 'Consciously Addressing Unconscious Bias' program.<sup>2</sup> This program reflects leading-edge thinking and research and addresses unconscious bias that may influence decision-making in situations such as recruitment and promotion.

# 92.1

**Great Western Bank customer satisfaction (personal customers) is above the national average 89.4.<sup>3</sup>**

<sup>1</sup> The qualification will meet the knowledge elements of a new banking industry "Foundation Standard for Professional Bankers" developed by the Chartered Banker Professional Standards Board.

<sup>2</sup> Number of employees who have fully completed all modules of the Unconscious Bias Training program.

<sup>3</sup> Based on APECS® Customer Ratings (represented as index scores).



# Corporate responsibility

## Making a difference

As a financial institution, we are aware of the critical role we play in both the economy and the community.

For us, corporate responsibility (CR) means getting the fundamentals right for our customers, being a good employer and addressing our broader responsibility to society.

We know that how we do things is as important as what we do. And we are working to ensure that doing the right thing is at the heart of every decision we make.

We have a strong governance framework in place to help us manage our approach and ensure we remain focused on the issues

that matter to our stakeholders. This includes internal resources such as our CR Council, as well as external mechanisms such as our Advisory Council on Corporate Responsibility.

See page 29 for further information on CR governance.

### Connecting

We know that connecting with our many stakeholders is a key driver of success. It helps us to understand expectations, identify emerging issues and opportunities and create value for a variety of stakeholder groups.

We maintain a CR Issue Map, which is informed by stakeholder engagement undertaken throughout the year.

Every year, we also carry out a formal materiality review to identify the CR issues of greatest significance to our stakeholders and our business. The outcomes of this process guide the content of our Annual Review, our commitments for the coming year and link to the metrics in our CR Scorecard.

This year we sought feedback from investors, analysts, employees, government, community partners, consumer advocacy groups, non-government organisations and business leaders on issues they felt were relevant to NAB.

Key issues that were rated as important to our stakeholders and our business leaders included: values-aligned culture, customer service, responsible finance, access to fair and affordable banking, customer hardship, responsible credit procedures and community investment.

We have included key metrics on these issues in our Group Non-Financial Performance Table on page 20 so that stakeholders can see our year-on-year performance.

Where possible we have also included details of our performance on these matters, along with a full list of the CR issues identified through this annual process, in our *Dig Deeper* papers in the areas of Customer, People,

Community, Environment and Supply Chain.

To add rigour to our external reporting we have engaged Ernst & Young to conduct independent limited assurance of 33 CR metrics. See Ernst & Young's summary assurance report on page 33.

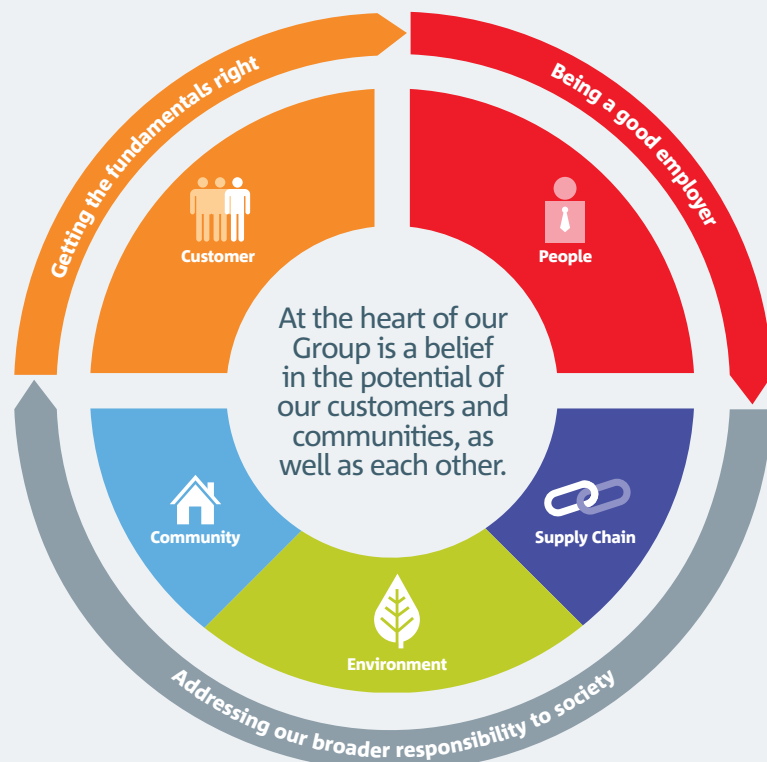
More information on 'Our Approach to Corporate Responsibility', including assurance, and our suite of *Dig Deeper* papers is available at [www.nabgroup.com/annualreport](http://www.nabgroup.com/annualreport)

### Benchmarking

We are constantly benchmarking our performance against our peers. We use internationally recognised indices such as the Dow Jones Sustainability Index (DJSI) and the FTSE4Good Index to help us understand where we focus our efforts.

An annual peer and media review also helps us make sure our CR agenda is in line with best practice. We take all of these things into account, along with the Global Reporting Initiative (GRI) Sustainability Guidelines (G3) framework, when we communicate with our stakeholders.

## Our CR Framework



In 2011 we set ourselves 20 CR commitments 16 were achieved, 1 has been carried forward and 3 were partially achieved.<sup>1</sup>

### Committed to action

Comprehensive reporting against the 2012 commitments we set in 2011 can be found in our *Dig Deeper* papers.

This year we have refreshed this list and have set ourselves 23 ambitious CR commitments for the next 12 months, which we've detailed below.

Each quarter, progress against these commitments will be provided to our CR Council, chaired by our Executive Director Finance, and our Advisory Council for Corporate Responsibility, co-chaired by our Group CEO Cameron Clyne and Reverend Tim Costello, CEO, World Vision Australia.

### Our 2013 commitments

#### Delivering fair value and quality advice

- Build world-class relationships through customer-led initiatives across the Group.
- Respond to and mitigate the root causes of customer complaints.
- Continue the NAB Care hardship assistance offering to support NAB borrowers experiencing financial difficulty.
- Continue to take a leadership role in addressing financial inclusion in Australia, with a specific focus on the most vulnerable groups such as Indigenous Australians.
- Deliver world-class microfinance with significant scale and efficiency.

- Continue to develop tools, services and programs that aim to improve financial capability.

#### Investing in the skills and capabilities of our employees

- Undertake a Group-wide employee survey and improve our score against the global high-performing norm for engagement and enablement.
- Continue to make progress against our Group diversity targets and embed initiatives that aim to improve the gender balance.
- Continue to support our mature-age employees through the MyFuture program, which helps our people make informed decisions about their future, such as working arrangements and planning retirement.
- Improve flexible working capability to adapt to employee working arrangements and promote workforce diversity and inclusion.
- Continue to engage in meaningful employment programs that result in real jobs in banking and finance for those often marginalised.
- Improve awareness and capability of people leaders to support employees with mental health issues, and improve access to mental health support services and initiatives for all NAB employees. Continue to maintain support for mental health through the MLC Foundation.
- Introduce an Enterprise Leadership Framework to align leadership activity across our business.
- Maintain a leading level of employee volunteering, with a specific focus on skilled volunteering placements, and adopt and share best practice volunteer management technology.

#### Working to have a positive impact through our purchasing decisions

- Increase the percentage of strategic suppliers who are signatories to the Supplier Sustainability Principles to 70% by 30 September 2013 (NAB and BNZ). Work to influence strategic suppliers<sup>2</sup> in other businesses to become signatories to the principles and improve their sustainability performance.

#### Supporting communities, with a particular focus on inclusion and investing in our youth

- Maintain NAB's core community investment programs, with a focus on increasing impact and deepening stakeholder relationships.
- Deepen our commitment to education in Australia by building on our support of school-community partnerships, and introducing programs that prepare young people for the future.
- Publish renewed commitments that further our support of economic and social development of Indigenous communities under our Reconciliation Action Plan.

#### Working to manage the direct environmental impact of our operations and the indirect impacts and dependencies we have through our customers and suppliers

- Develop Group environmental performance targets for financial year 2014 to financial year 2016.
- Reduce Group GHG emissions from building-based energy use by 18,900 tCO<sub>2</sub>-e against a 2010 baseline, by 30 June 2013.<sup>3</sup>
- Continue to make a significant investment in renewable energy through project finance.
- Work to integrate Natural Capital Declaration commitments, centred on integrating consideration of natural capital into business processes and decisions.

#### Managing our ESG impact

- Increase awareness and application of ESG Risk Principles across the Group.

<sup>1</sup> See the *Environment Dig Deeper* paper for detail on our performance against the commitments that were partially achieved and the commitment carried forward.

<sup>2</sup> See page 24 for the definition of a strategic supplier.  
<sup>3</sup> This target applies to specific buildings-based sources of greenhouse emissions across our Australia, New Zealand and UK operations. It is equivalent to a targeted emissions reduction of 9.2% per full-time equivalent employee (453 kg/FTE), assuming no material change in emission factors, FTE and levels of business activity when compared with the 2010 baseline year.

# Our governance

Our corporate governance framework plays a key role in supporting the Group's business operations and provides clear guidance on how authority is exercised within the Group.

The Group's corporate governance is a fundamental part of our culture and business practices, providing a framework for effective decision-making in all areas of the Group through the following practices:

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

The Board of Directors of the Company (the Board) determines the most appropriate corporate governance practices for the Group. The Board is assisted in discharging its duties through its committees, including the Audit, Risk, Remuneration and Nomination committees.

The Board represents the Company's shareholders, and is responsible for directing the Group's affairs by creating and delivering value through effective governance of the Group's business, while meeting the interests of its shareholders and other stakeholders through transparent reporting and active engagement.

Outside the authorities and powers reserved by the Board, the Group CEO is responsible for the management and operations of the Group. Key management decisions below Board level are made by the Group CEO with support from management committees and individual members of management who have been delegated authority.

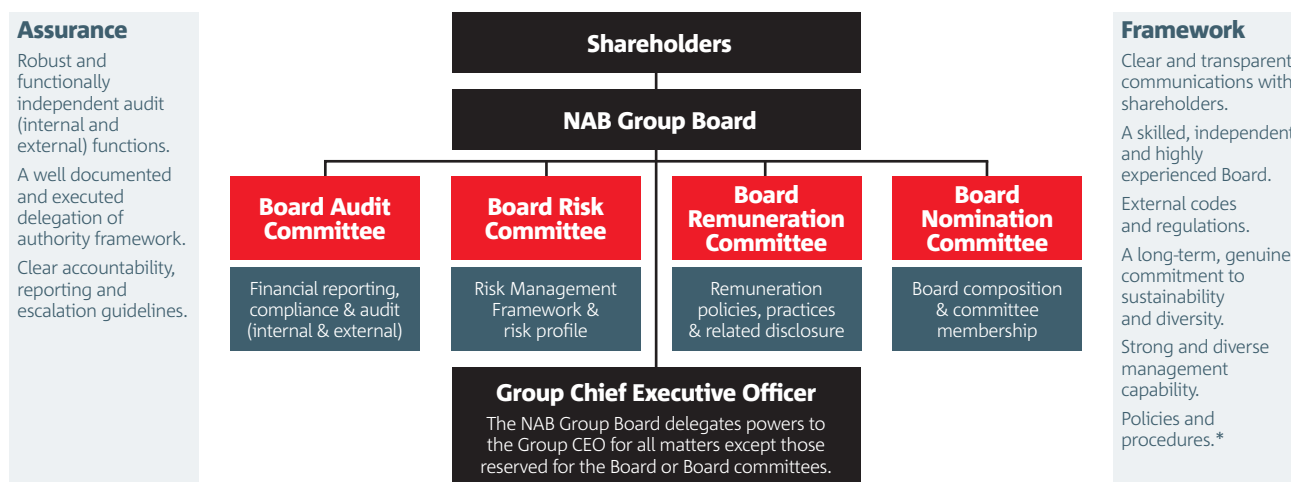
The Group employs a range of methods to communicate with shareholders, including direct written communication, posting information in the Shareholder Centre section of the Group's website and webcasting of significant market briefings and meetings (including the annual general meeting). The Company Secretary assists the Board in responding to shareholders.

The key aspects of the Group's corporate governance framework and practices for the 2012 year are outlined in the Company's detailed corporate governance statement, which is available in the 2012 Annual Financial Report or online at [www.nabgroup.com/annualreport](http://www.nabgroup.com/annualreport)

2012 Annual Financial Report online  
at [www.nabgroup.com/annualreport](http://www.nabgroup.com/annualreport)  
from **19 November 2012.**



## Our corporate governance framework



## Our remuneration framework

The Group's remuneration framework recognises and rewards performance and ensures that we provide competitive levels of remuneration. The framework applies to all employees of the Group, including senior executives.

We support well-structured variable remuneration programs that reflect shareholder returns over time and that promote longer-term business growth. Variable remuneration (short-term incentives and long-term incentives) for senior executives is directly linked to individual and organisational performance through a number of measures. Risk outcomes are also embedded in the framework through a financial and risk assurance process. You can read more about our remuneration framework and how it is linked to the Group's strategy in the Remuneration Report within our 2012 Annual Financial Report.

## Our corporate responsibility framework

The Group also has a strong governance framework to support our CR agenda. We have internal mechanisms at every level of the organisation to shape and manage our approach and ensure we are focused on the issues that matter to our stakeholders.

The Board and Executive Committee have oversight of the Group's CR agenda. Through the CR Council, the Executive Committee meets on a quarterly basis to oversee, review and approve NAB's overall strategic approach to CR. Decisions can also be escalated to the Group Risk Return Management Committee or Board where appropriate.

We also have a number of internal governance forums, including a Customer Council, a People Council and the Group Environment Committee, to allow executive members and senior management to regularly spend time understanding and addressing material issues in these areas.

These internal forums are complemented by external mechanisms, including the Advisory Council on Corporate Responsibility and the Indigenous Advisory Group, which provide an important external input to our CR approach.

\*Covering areas such as conflicts of interest, remuneration, continuous disclosure, ethics and behaviours, code of conduct, whistleblower program and securities dealings.

# Board of Directors

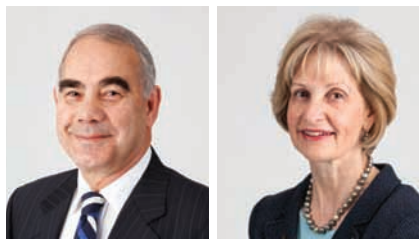


## Michael Chaney AO

**BSc, MBA, Hon. LLD *W.Aust*, FAICD** Chairman since 2005, Michael joined the Board in 2004. Michael was previously MD and CEO of Wesfarmers for more than 13 years. Michael is Chairman of Woodside Petroleum and Gresham Partners Holdings and Chancellor of the University of WA. Michael is Chair of the Nomination Committee.

## Paul Rizzo

**BCom, MBA** A non-executive Director, Paul joined the Board in 2004. Paul has more than 40 years' experience in banking and finance having held senior executive roles at CBA, State Bank of Victoria, ANZ and Telstra. Paul was previously a Director of Bluescope, Seven Network and Dean and Director of Melbourne Business School. He is the Chair of the Foundation for Very Special Kids. Paul is Chair of the Board Risk Committee and a member of the Audit, Information Technology and Nomination Committees.



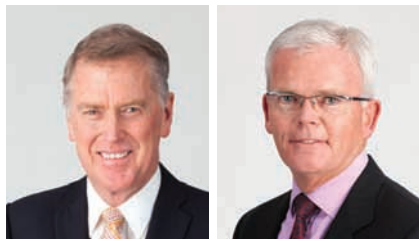
## Patricia Cross

**BSc (Hons), FAICD** A non-executive Director, Patricia joined the Board in 2005. She has more than 30 years' experience in international banking and finance, and is a Director of JBWere (a subsidiary of the Company), Qantas, Methodist Ladies College and Grattan Institute. Patricia is Chair of the Remuneration Committee and a member of the Risk and Nomination Committees.



## Daniel Gilbert AM

**LLB** A non-executive Director, Danny joined the Board in 2004. Danny co-founded the law firm Gilbert + Tobin and has more than 35 years' experience in commercial law. He is Co-Chair of NAB's Indigenous Advisory Group and Chairman of the National Museum of Australia and the University of Western Sydney Foundation. Danny is Chair of the Information Technology Committee and the Litigation Sub-Committee and a member of the Remuneration and Nomination Committees.



## Dr Kenneth Henry AC

**FASSA, BCom, PhD, DB h.c** A non-executive Director, Ken joined the Board in November 2011. Ken was previously Secretary of the Department of the Treasury. Ken is a former member of the RBA Board, Board of Taxation, Council of Financial Regulators and Council of Infrastructure Australia and former Chair of Australia's Future Tax System Review. Ken is a member of the Audit and Nomination Committees.



## Mark Joiner

**ACA, MBA** Executive Director, Finance, of NAB Group and Chairman of JBWere (a subsidiary of the Company), Mark joined the Group in 2006 and became CFO in 2007. Mark was previously CFO and Head of Strategy and M&A for Citigroup's Global Wealth Management business. Before entering banking, he was a senior partner and board member at Boston Consulting Group.



## Cameron Clyne

**BA** Managing Director and Group CEO since 2009, Cameron joined the Group in 2004. Prior to joining the Group, Cameron spent 12 years with PricewaterhouseCoopers, culminating in leading the Financial Services Industry practice in Asia Pacific, prior to its acquisition by IBM Consulting. He is Chairman of National Australia Group Europe and Clydesdale Bank PLC and former CEO of BNZ (subsidiaries of the Company). Cameron is a member of the Information Technology Committee.

## Jillian Segal AM

**BA, LLB, LL.M (Harvard), FAICD** A non-executive Director, Jillian joined the Board in 2004. Jillian has more than 20 years' experience as a lawyer and regulator. She is a Director of ASX Limited and of the Garvan Institute of Medical Research, Chairman of the General Sir John Monash Foundation, Deputy Chancellor of UNSW and a member of the Australian Government's Remuneration Tribunal. Jillian is a member of the Litigation Sub-Committee, Audit, Risk and Nomination Committees.

## John Thorn

**FCA, FAICD** A non-executive Director, John joined the Board in 2003. He is a Director of Amcor, Caltex Australia and Salmat, and was previously a partner of PricewaterhouseCoopers for more than 20 years. John is Chair of the Board Audit Committee and a member of the Litigation, Information Technology and Nomination Committees.

## Geoffrey Tomlinson

**BEC** A non-executive Director, Geoff joined the Board in 2000. Geoff has 29 years with the National Mutual Group, six years as Group Managing Director and Chief Executive Officer until 1998. He is Chairman of National Wealth Management Holdings and other wealth subsidiaries (all subsidiaries of the Company). He is a Director of Calibre Global Limited. Geoff is a member of the Remuneration and Nomination Committees.

## John Waller

**BCom FCA** A non-executive Director, John joined the Board in 2009. John has more than 20 years' experience with PricewaterhouseCoopers, New Zealand. He is Chairman of BNZ (a subsidiary of the Company) and is a Director of Fonterra Cooperative Group, Alliance Group, Donaghys, JAW Advisory, Direct Property Fund and Sky Network Television. John is a member of the Audit, Risk and Nomination Committees.

## Anthony Yuen

**B. Soc.Scs & Law** A non-executive Director, Anthony joined the Board in 2010. Anthony has 37 years' experience in banking and finance, including senior executive roles in Asia with Bank of America, National Westminster Bank and Royal Bank of Scotland. He is a member of the Supervisory Committee of the ABF Hong Kong Bond Index Fund. Anthony is a member of the Risk, Remuneration and Nomination Committees.

**Left column:** Michael Chaney – Chairman, Paul Rizzo, Patricia Cross, Daniel Gilbert, Ken Henry, Mark Joiner  
**Right column:** Cameron Clyne, Jillian Segal, John Thorn, Geoffrey Tomlinson, John Waller, Anthony Yuen

# Executive Team

## Cameron Clyne

### Group CEO

Under Cameron's leadership, numerous key initiatives have been delivered in line with our strategic priorities, which include attracting more customers, managing costs, and investing in our people, culture and reputation. In 2013, Cameron will continue to focus the Group on growing shareholder returns and customer numbers.

## Lisa Gray

### Group Executive, Personal Banking

During 2012, Lisa continued to drive market share gains in home loans, deposits and credit cards; lead the major banks in customer satisfaction; and increase earnings. The 'fair value' philosophy was further embedded, with employee engagement and enablement rivalling global high-performing companies. In 2013, Lisa will focus on leveraging the investments made in the business and focusing growth in higher-value customer segments.

## Andrew Hagger

### Group Executive, People, Marketing and Communications

Andrew is responsible for protecting and enhancing the brands and reputation of the Group. In 2011, he led the development of the award-winning 'Break Up' advertising campaign and our extensive Corporate Responsibility commitments. Responsibility for People and Culture was added to his portfolio from 1 October 2011.

## Joseph Healy

### Group Executive, Business Banking

Joseph has maintained Business Banking's leading market share in business lending. In 2013, he will continue to put customers at the centre of everything we do, leveraging investment in the Customer-led Innovation Strategy.

## Michaela Healey

### Group Executive, Governance and Legal

Michaela has led the governance and legal teams in further building the integrity and reputation of the Group and providing services that support our customer initiatives. Michaela remains committed to sustainability and efficiency initiatives and positive outcomes for our shareholders, customers and employees.

## Bruce Munro

### Group Chief Risk Officer

Given global economic uncertainty and increasing regulatory expectations, Bruce remains focused on ensuring NAB's sustainability and resilience. This includes continuing to reposition the Group's risk profile, strengthening risk management accountability and capability across the enterprise, and building strong relationships with regulators.

## Mark Joiner

### Executive Director, Finance

As leader of the Group Strategy and Finance function, a major focus for Mark has been maintaining a strong, well capitalised and funded balance sheet, to keep the bank safe and able to support customers through continued global economic uncertainty. This will remain a key focus for Mark in 2013, as well as driving and implementing our business strategy in partnership with his Executive Committee colleagues.

## Rick Sawers

### Group Executive, Wholesale Banking

Rick's experience in operating businesses in rapidly changing markets and business environments has come to the fore since the global financial crisis. While continuing to provide risk investment and funding solutions to our clients, Rick's focus is turning to creating opportunity from Basel III, building out the fixed income market in Australia and optimising infrastructure and natural resources opportunities.

## Gavin Slater

### Group Executive, Group Business Services

In 2012, Gavin led NAB's operational and technology businesses, delivering marked improvements in customer service and support while also directing a range of large-scale 'total environment' transformation initiatives. In 2013, Gavin will continue this focus, ensuring customers are delivered safe, easy and reliable banking and wealth solutions, now and in the future.

## Andrew Thorburn

### Group Executive, New Zealand and the United States

In 2012, Andrew has focused on leadership and embedding the BNZ Blueprint for future success. In 2013, leadership will continue as a priority along with a focus on continuous improvement and high-growth and high-return customer-led initiatives. The US will focus on growth through organic opportunities and embedding acquisitions.

## Steve Tucker

### Group Executive, MLC and NAB Wealth

During 2012, Steve focused on attracting new clients and financial planners to the business, while delivering improved products and new services including nabtrade, NAB's new online trading platform for direct investors and Self Managed Super Fund trustees. In 2013, he will continue to pursue our growth strategy in financial advice, superannuation and insurance, expand our private wealth capability and grow the direct investment management business.



**Left column:** Cameron Clyne, Lisa Gray, Andrew Hagger, Joseph Healy, Michaela Healey, Bruce Munro  
**Right column:** Mark Joiner, Rick Sawers, Gavin Slater, Andrew Thorburn, Steve Tucker



# Shareholder information

## 2012 Annual Financial Report

A copy of our Annual Financial Report is available to all shareholders upon request. You can view our report online at [www.nabgroup.com/annualreport](http://www.nabgroup.com/annualreport) or request a printed copy from the Share Registry either by email at [nabservices@computershare.com.au](mailto:nabservices@computershare.com.au) or by telephone on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia). Current and extensive historical information is posted and maintained on the website at [www.nabgroup.com](http://www.nabgroup.com)

### 2013 Financial Calendar

#### 9 May 2013

Half-year results announcement

#### 5 June 2013

Record date for the interim dividend

#### 16 July 2013

Payment date for the interim dividend

#### 24 October 2013

Full-year results announcement

#### 13 November 2013

Record date for the final dividend

#### 18 December 2013

Payment date for the final dividend

#### 19 December 2013

Annual General Meeting (Melbourne)

\*Dates are subject to change.

## 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  
Fax: +61 3 9473 2500

### Telephone and fax (outside Australia)

T: +61 3 9415 4299  
F: +61 3 9473 2500  
E: [nabservices@computershare.com.au](mailto:nabservices@computershare.com.au)  
Website: [www.nabgroup.com](http://www.nabgroup.com)

### Corporate Responsibility

E: [corporate.responsibility@nab.com.au](mailto:corporate.responsibility@nab.com.au)

### Postal address:

Corporate Responsibility  
National Australia Bank  
800 Bourke Street  
DOCKLANDS VIC 3008  
Australia

### United Kingdom Share Register

c/- Computershare Investor Services plc  
The Pavilions  
Bridgwater Road  
BRISTOL  
BS99 6ZZ  
United Kingdom  
T: +44 870 703 0197  
F: +44 870 703 6101  
E: [nabgroup@computershare.co.uk](mailto:nabgroup@computershare.co.uk)  
Website: [www.nabgroup.com/shareholder](http://www.nabgroup.com/shareholder)

### United States ADR Depository

Transfer Agent and Registrar  
The Bank of New York Mellon  
Investor Services  
BNY Mellon Shareowner Services  
PO Box 358516  
PITTSBURGH, PA 15252-8516  
United States of America  
Toll Free # for Domestic Calls:  
1-888-BNY-ADRS  
Number for International Calls:  
1-201-680-6825  
E: [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com)  
Website: [www.bnymellon.com/shareowner](http://www.bnymellon.com/shareowner)

## Annual General Meeting

When: Thursday, 13 December 2012  
Where: Perth Convention and Exhibition Centre  
Address: 21 Mounts Bay Road  
Perth, Western Australia  
Australia  
Time: 9.30am (Australian Western Standard Time – Perth time)

### Registered office

Level 4 (UB4440)  
800 Bourke Street  
DOCKLANDS VIC  
3008  
Australia  
Tel: 1300 889 398

### Company Secretary

Michaela J Healey  
LLB, FCIS  
Level 4 (UB4440)  
800 Bourke Street  
DOCKLANDS VIC  
3008  
Australia  
Tel: 1300 889 398

### Auditor

Ernst & Young  
Chartered  
Accountants  
8 Exhibition Street  
MELBOURNE VIC  
3000  
Australia  
Tel: +61 3 9288 8000  
Fax: +61 3 8650 7777

## 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 small parcels of shares to a wide range of Australian charities, free of brokerage or other administration charges.

To date, ShareGift Australia has donated in excess of \$300,000 to more than 175 Australian not-for-profit charities, 100% of the cash proceeds received from donors. ShareGift Australia is proudly supported by National Australia Bank Limited and is endorsed by ASX Limited and the Australian Shareholders' Association.

You can obtain further information about ShareGift Australia at [www.sharegiftaustralia.org.au](http://www.sharegiftaustralia.org.au) or by calling **1300 731 632**.



## To the Management and Directors of National Australia Bank Limited ('NAB')

We have carried out a limited assurance engagement in order to state whether anything has come to our attention that causes us to believe that the subject matter detailed below and as presented in NAB's 2012 Annual Review and *Dig Deeper* papers (collectively referred to as 'the Report') has not been reported and presented fairly, in all material respects, in accordance with the criteria below.

## Subject matter

The subject matter ('Subject Matter') for our limited assurance engagement included for the year ended 30 September 2012:

- The corporate responsibility ('CR') disclosures in the Report in order to determine whether all of the material corporate responsibility issues for NAB have been included, and
- 33 key metrics and the associated performance disclosures included in the Report related to these key metrics.

These metrics were selected based on NAB's materiality assessment and CR issues. Its process for identifying the metrics selected is recorded on page 26 of the Annual Review and within the 'Our Approach to Corporate Responsibility' paper (including a list of the 33 key metrics that Ernst & Young has provided assurance over) which can be found at [www.nabgroup.com/annualreport](http://www.nabgroup.com/annualreport)

The Subject Matter did not include:

- Data sets, statements, information, systems or approaches relating to areas other than the metrics selected.
- Management's forward looking statements.
- Any comparisons made against historical data.

## Criteria

The following criteria have been applied to the Subject Matter described above:

1. The Global Reporting Initiative Sustainability Reporting Guidelines ('GRI G3') principle of materiality.
2. NAB's reported criteria for the key metrics detailed online at [www.nabgroup.com/cr](http://www.nabgroup.com/cr)

## The responsibility of management

The management of NAB is responsible for the preparation and presentation of the Subject Matter 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 Subject Matter 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 on the Subject Matter based on our assurance engagement 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 engagement as agreed with NAB.

Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and, as such, 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 the Subject Matter, 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 assurance engagement was not designed to provide assurance on internal controls.

Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems, 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 we undertook the following limited assurance procedures:

- Interviews with NAB executive management and other key personnel relating to NAB's identification and inclusion of material issues in the Report.
- A media and peer review to check NAB has included the material issues.
- Attended a stakeholder engagement event.

- For key metrics provided by third parties, checked the metrics had been correctly transcribed.
- For the remaining key metrics we checked for the correct application of methodologies, undertook analytical reviews, identified and tested assumptions supporting calculations, tested a sample of underlying source information, assessed the reliability of specific CR performance information, and checked performance disclosures.

For further details regarding the procedures performed refer to the full independent assurance report at [www.nabgroup.com/cr](http://www.nabgroup.com/cr)

## Use of our report

We disclaim any assumption of responsibility for any reliance on this assurance statement or on the Subject Matter 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 assurance 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.

## Limited assurance conclusion

Based on our limited assurance procedures, nothing has come to our attention that causes us to believe that the Subject Matter has not been reported and presented fairly, in all material respects, in accordance with the criteria above.

## Electronic presentation of information

Our limited assurance 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  
1 November 2012

## Glossary of Terms

### **Banking cost-to-income ratio**

Represents banking operating expenses (before inter-segment eliminations) plus the operating expenses of Specialised Group Assets (SGA) as a percentage of total banking operating revenue (before inter-segment eliminations) inclusive of the operating revenue of SGA.

### **Cash earnings**

Is a non-IFRS key financial performance measure used by NAB, the investment community and NAB's Australian peers with a similar business portfolio. It is calculated by excluding certain items which are included within the statutory net profit attributable to owners of the Company. These specified items are excluded in order to better reflect what NAB considers to be the underlying performance of the Group. It is not a statutory measure and it is not presented in accordance with Australian Accounting Standards nor audited or reviewed in accordance with Australian Auditing Standards. Many of the adjustments below are more effectively applied on a consolidated basis and therefore at a divisional level cash earnings reflects the performance of the business segment as it is managed. It does not refer to, or in any way purport to represent the cash flows, funding or liquidity position of the Group. It does not refer to any amount represented on a cash flow statement. Cash earnings for 2012 is defined as:

Net profit attributable to owners of the Company

Adjusted for: Distributions; Treasury shares; Fair value and hedge ineffectiveness; IoRE discount rate variation; Hedging costs on exited SCDO assets; Property revaluation; Litigation expense; Amortisation of acquired intangible assets; Customer redress provision; Impairment of goodwill and software; Restructure costs; Due diligence, acquisition and integration costs; Refund of tax on exchangeable capital units (ExCaps) settlement.

### **Cash earnings per share – basic**

Calculated as cash earnings (annualised) divided by the weighted average number of ordinary shares adjusted to include treasury shares.

### **Cash earnings per share – diluted**

Calculated as cash earnings (annualised), adjusted for interest expense on exchangeable capital units, divided by the weighted average number of ordinary shares, adjusted to include treasury shares.

### **Cash return on equity**

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

### **Core assets**

Represents loans and advances to customers and banks (including leases and acceptances) and investments held to maturity.

### **Customer deposits**

Deposits (Interest Bearing, Non-Interest Bearing and Term Deposits).

### **Customer redress provisions**

Customer redress provisions are provisions relating to claims for payment protection insurance and provisions relating to claims for other customer redress in the UK, including claims relating to interest rate derivative products.

### **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**

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

### **Efficiency, quality and services initiatives**

Represent those costs that the Group accelerated in response to the economic downturn to bring forward efficiency gains that would otherwise have been realised in subsequent periods.

### **ExCaps taxation assessment**

Represents the reduction, in the year ended 30 September 2009, of the carrying value of the \$309 million receivable due from the Australian Taxation Office (ATO) in relation to its exchangeable capital units (ExCaps) to nil. The ATO disallowed the Group's objections to the ExCaps taxation assessments. Subsequently the Group settled and obtained a refund of \$142 million previously paid to the ATO in relation to the ExCaps assessment.

**Fair value and hedge ineffectiveness**

Represents volatility attributable to the 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.

**Full-time equivalent employees (FTEs)**

Includes all full-time staff, part-time, 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.

**Group**

The Company and its controlled entities.

**IoRE**

Investment earnings (net of tax) on shareholders retained profits and capital from life businesses, net of capital funding costs (IoRE) is comprised of three items:

- investment earnings on surplus assets which are held in the Statutory Funds to meet capital adequacy requirements under the *Life Insurance Act 1995* (Cth).
- interest on deferred acquisition costs (net of reinsurance) included in insurance policy liabilities resulting from the unwind of discounting.
- less the borrowing costs of any capital funding initiatives.

**IoRE discount rate variation**

The profit impact of a change in value of deferred acquisition costs (net of reinsurance) included in insurance policy liabilities resulting from a movement in the inflation adjusted risk-free discount rate.

**'Jaws'**

The difference between the percentage growth in revenue on the preceding period and the percentage growth in the expenses on the preceding period, calculated on a cash earnings basis.

**Litigation expense**

Represents litigation expenses in relation to non-recurring litigation matters.

**Net interest margin**

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 Group, and is adjusted from net profit to reflect the amount of net profit that is attributable to owners.

**Net profit attributable to owners of the Company**

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

**Property revaluation**

Represents revaluation decrements of land and buildings based on directors' valuations to reflect fair value.

**Provision for tax NZ structured finance transactions**

Represents the provision established in the year ended 30 September 2009 relating to the amended tax assessments issued by the New Zealand Inland Revenue Department (IRD) regarding certain structured finance transactions undertaken by the business. As a result of settlement with the IRD on 23 December 2009, BNZ released the unused portion of the provision previously made within income tax expense in the Group's results as at 31 March 2010.

**SCDO**

Synthetic Collateralised Debt Obligation.

**Tier 1 ratio**

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

**Treasury shares**

Shares in the Company held by the Group's life insurance business and in trust by a controlled entity of the 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 share sales from shares held by the Group's life insurance business are eliminated for statutory reporting purposes.



## Join us in **cutting paper use**

Many NAB Group 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 [www.computershare.com.au/easyupdate/nab](http://www.computershare.com.au/easyupdate/nab)



### **[www.nabgroup.com](http://www.nabgroup.com)**

This publication is printed on Revive Laser paper stock. Revive Laser is 100% Forest Stewardship Council (FSC) certified post-consumer recycled pulp and also certified Carbon Neutral under the Australian National Carbon Offset Standard. It is made in Australia by an ISO 14001 (environmental management system) certified mill. No chlorine bleaching occurs in the recycling process. The printer's operation is accredited to ISO 14001 and ISO 9001 (quality management system) standards and holds FSC (Chain of Custody) certification.

The full Paper Impact Statement can be viewed at:

**[www.nabgroup.com/  
annualreport](http://www.nabgroup.com/annualreport)**

