



**ANNUAL
REVIEW
2017**

Our 2017 Annual Review is an integrated report that demonstrates our commitment to, and strategies for, creating value for our customers, people, shareholders and community.

OUR COMMITMENT TO INTEGRATED REPORTING

The preparation of this report is guided by the Integrated Reporting Framework¹. We are committed to the principles of integrated reporting as they align with long-term value creation and the role we play as a bank in society, in moving Australia and New Zealand forward.

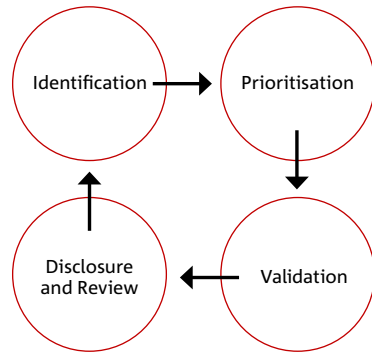
OUR SCOPE AND CONTENT

Unless otherwise stated, all information included in this report refers to the year ended 30 September 2017. It covers the operations of the NAB Group and the ways we're creating value for our stakeholders – in the context of our operating environment.

We have determined the content of this report after extensive engagement with our customers, people, shareholders and community, as well as consumer advocacy organisations and the Integrated Reporting Business Network.

OUR MATERIALITY REVIEW

A large part of our engagement with stakeholders is our annual materiality review². It identifies the environmental, social and governance issues presenting significant risk and opportunity to our business, and our ability to create value.



Following this year's materiality review, prioritised themes for disclosure remain similar to 2016, with the following refinement: 'responsible lending practices' has been split into two themes, 'positive customer outcomes' and 'environmental and social risks and impacts of our products and services'.

This change provides greater clarity on how we're managing the different facets of responsible lending practices throughout our business.

The prioritised themes for 2017 are defined on the right, and are explored further throughout this report. To find out more, click on one of the icons.

2017 PRIORITISED THEMES

Values-aligned culture

Clearly outlining and embedding our values and culture as a crucial part of executing our strategy and maintaining strong ethical conduct.

Positive customer outcomes

Making sure we have the right policies and processes in place to offer our customers products that suit their particular situation.

Information security and management

Investing in technology, operations and people so information is protected and customer data is used appropriately.

Environmental and social risks and impacts

Understanding and managing environmental and social risks and working to minimise any negative, and maximise positive, social or environmental impacts of our products and services.

Governance

Successfully managing structures and policies to ensure our business is governed effectively. Effective leadership planning ensures the business has the capability, capacity and experience to preserve and create value.

Transparency and disclosure

Making sure we are transparent in our decisions and in the matters that impact our sustainability, profitability and stakeholders. Our disclosures are guided by the IR Framework, GRI G4 Guidelines, UN Global Compact and our annual materiality process².

Customer experience

Continuing to engage our customers, so we can understand, fulfil and exceed their expectations.

We have determined the content of this report following extensive engagement with our customers, people, shareholders and community.

¹ The Integrated Reporting Framework, developed by the International Integrated Reporting Council (IIRC), aims to establish guiding principles and content elements that govern the overall content of an integrated report.

² More information on the materiality process, including how we conduct the annual materiality review and assessment, is available in our 2017 Sustainability Report.



Abbey Baker and Kelly Baker-Jamieson
Edible Blooms
NAB Customers

We back the bold who
move Australia forward.

OUR PURPOSE, VISION AND STRATEGY



Robert Ravens
Bridestowe Lavender Estate
NAB Customer

As we move forward, achieving our vision and strategic objectives will take an unwavering commitment to living our values every day:

- ▶ PASSION FOR CUSTOMERS
- ▶ WIN TOGETHER
- ▶ BE BOLD
- ▶ RESPECT FOR PEOPLE
- ▶ DO THE RIGHT THING

Supporting our actions are our foundations of a strong balance sheet and a non-negotiable focus on managing risk, and technology.

At NAB, our vision is to be Australia and New Zealand’s most respected bank. To achieve our vision, we are guided by our purpose to back the bold who move Australia forward.

In 2017, our strategy was underpinned by three key objectives:

- Our customers are advocates.
- Our people are engaged.
- Our shareholders receive attractive returns.

To meet these objectives this year, we focussed on four key themes:

- **Deliver a great customer experience:** using customer feedback to redesign the journeys they have with us – from opening their first transaction account, to buying a home, or starting a business.
- **Deepen relationships in priority customer segments:** focussing on small and medium businesses, home owners and investors.
- **Reshape our business to perform:** making sure we continue delivering for our customers by constantly looking for ways to be a stronger and simpler bank.

- **Be known for great leadership, talent and people:** focussing on identifying and developing great leaders, as well as attracting and retaining key talent.

Our performance against these objectives and themes is measured and explored throughout this report¹.

On 2 November 2017, we announced the acceleration of our strategy to enable us to grow, while staying focussed on productivity. Our environment is one of rapid and constant change as our customers become increasingly “digital-first”, new competition emerges and community and regulatory expectations continue to rise.

Over the next three years, we will increase our investment by an estimated \$1.5 billion. A key focus will be driving a major uplift in innovation and capabilities in our leading Australian business banking franchise. The timing and amount of investment spend may vary depending on the operating environment.

For more information on the acceleration of our plan, and our longer-term strategic focus, refer to the table below and to the message from our Chairman and CEO on page 7².

OUR LONGER-TERM STRATEGIC FOCUS

Our purpose	To back the bold who move Australia forward			
Our vision	To be Australia and New Zealand’s most respected bank			
Our objectives	NPS positive and #1 of major Australian banks (priority segments) ³	Cost to income (CTI) ratio towards 35% ⁴	#1 Return on Equity (ROE) of major Australian banks ⁵	Top quartile employee engagement ⁶
How we will achieve our objectives	Best business bank		Simpler and faster	
	New and emerging growth opportunities		Great leaders, talent and culture	

1 Refer to 2017 at a glance on the next page to see how we have performed against our 2017 strategic objectives.
 2 Refer to key risks, qualifications and assumptions in relation to forward-looking statements on page 35.
 3 Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetix Systems and Fred Reichheld. Refer to Glossary and definitions on page 36 for definition of NAB’s priority segments.
 4 CTI ratio represents operating expenses as a percentage of net operating income.
 5 ROE is calculated by dividing cash earnings by average equity. Refer to footnotes 1 and 2 on next page for more information.
 6 Source: Employee Engagement Survey conducted by Aon Hewitt.

Our purpose,
vision and strategy

KEY PERFORMANCE MEASURES ON OUR 2017 STRATEGIC OBJECTIVES

14.0%

cash return on equity^{1,2}
30 basis points decrease
from 2016

59%

employee engagement score³
compared to top quartile
global benchmark of 67%

-13

priority segments net promoter score⁴
2 points increase from 2016, ranked #1
amongst major Australian banks

\$6.64BN

cash earnings^{1,2}
2.5% increase from 2016

20.1%

total shareholder return (TSR)⁵
ranked #1 amongst major
Australian banks

2017 at a glance

OTHER KEY PERFORMANCE MEASURES⁶

\$5.29BN

net profit attributable to the
owners of NAB
\$4.93bn increase from 2016⁷

\$1.98

dividend per share
consistent with 2016

514,575

low-income Australians
and New Zealanders
assisted with microfinance
products and services since 2005⁸

19,652

number of customers assisted
experiencing financial hardship

1 Information is presented on a continuing operations basis including prior period restatements.

2 Cash earnings is not a statutory financial measure, is not presented in accordance with Australian Accounting Standards, and is not audited or reviewed in accordance with Australian Auditing Standards. NAB's audited financial statements, prepared in accordance with the Corporations Act 2001 (Cth) and Australian Accounting Standards, are set out in NAB's 2017 Annual Financial Report. Full detail on how cash earnings is defined, a discussion of non-cash earnings items and a full reconciliation of statutory net profit attributable to owners of NAB is set out in Note 2 of NAB's 2017 Annual Financial Report. A reconciliation of cash earnings to statutory net profit attributable to the owners of NAB is also set out on page 30 of this 2017 Annual Review.

3 Source: Employee Engagement Survey conducted by Aon Hewitt. The engagement score indicates the percentage of employees at NAB that are strong advocates (SAY), demonstrate a commitment to NAB (STAY) and exert discretionary effort (STRIVE).

4 Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. Priority segments Net Promoter Score (NPS) is a simple average of the NPS of four priority segments: NAB defined Home Owners and Investors, as well as Small Business (turnover \$100k-<\$5m) and Medium Business (turnover \$5m-<\$50m). The Priority Segment NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research as at 30 September 2017. 30 September 2016 NPS performance has been restated to reflect the change in priority segments. The 2016 priority segments were Mortgage Customers, Debt Free, Micro Business (<\$1m), Small Business (\$1m-<\$5m) and Medium Business (\$5m-<\$50m).

5 Source: IRESS. Total Shareholder Return (TSR) combines share price appreciation and dividends paid from 1 October 2016 to 30 September 2017 to show the total return expressed as a percentage.

6 For more information on how we have performed and created value for our stakeholders this year, refer to How we create value on page 11 and Our performance on pages 30-31.

7 The large increase in net profit attributable to owners of NAB mainly reflects the loss on CYBG demerger, provisions for conduct costs pursuant to claims under the Conduct Indemnity Deed with CYBG and the sale of 80% of Wealth's life insurance business in the 30 September 2016 full year, partially offset by provisions for conduct costs pursuant to claims under the Conduct Indemnity Deed with CYBG in the 30 September 2017 full year.

8 Delivered in partnership with Good Shepherd Microfinance (Australia) and Good Shepherd New Zealand. Cumulative data has been collected since 2005 in Australia and 2014 in New Zealand.



Ken Henry
Chairman

As the owners of NAB, you help us move Australia forward.

It is because of your investments in NAB that we are able to lend to our customers to start and grow their businesses, to realise their dreams of owning a home, and to build universities, hospitals, roads and airports. NAB backs customers who employ millions of Australians, and who contribute to building thriving communities and a stronger economy. We are committed to continuing to find new ways of backing our customers and their communities.



Andrew Thorburn
Group Chief Executive Officer

OUR OPERATING ENVIRONMENT

We know that for some households and businesses stagnant wage growth, coupled with consumer caution, is causing some concerns. However, strong population and employment growth continue to support a resilient Australian economy. While business conditions are at highs not seen since before the global financial crisis, business confidence still remains below long-run averages. Clearly, there is more to do to help spur investment.

We are confident that Australia's economy will continue to grow, but we are not complacent. It is important NAB remains strong so we can back Australian businesses to translate these good conditions into real growth. While the Commonwealth

Government's major bank levy was passed this year, we continue to advocate for a long-term and holistic approach to tax reform. And, we remain relentlessly focussed on delivering for our customers, their communities and the broader economy.

CONSISTENT AND DISCIPLINED DELIVERY

Our 2017 result represents another year of consistent delivery, and builds on three years of sustained, sound financial performance. Cash earnings of \$6.64 billion were up 2.5% over the year, with a strong performance in our business bank heartland; revenue growth and asset quality were also highlights. Deliberate choices made during 2017 see us continue to deliver on our commitment to reshape and simplify our business, with \$301 million in productivity savings delivered this year.

Pleasingly, we were ranked number one of the major banks by our customers in Priority Segments Net Promoter Score. But we know there is much more work to do before all of our customers feel confident recommending NAB to their family and friends.

This year, we have put considerable focus on innovating to help our customers.

With our QuickBiz product, we were the first Australian bank to offer a complete suite of unsecured, self-service digital financing facilities – recognising that our small business customers want simple and quick access to credit to grow their businesses faster and easier.

We expanded our HICAPS health offering to deliver a digital platform, meaning patients can now locate a practitioner, get a quote, pay for their consultation and claim their private health insurance benefit in the one mobile app.

And we've partnered with realestate.com.au to combine searching for property and getting a home loan in the one experience, improving the home buying journey.

Customers are our lifeblood. Without them, we don't have a business. We continue to invest in building and strengthening their trust and respect and we are committed to listening and responding to their feedback.

This year our business customers told us their contracts were too complex and too difficult to understand. So we overhauled and simplified our standard business contracts to make life easier for more than 130,000 Australian businesses.

We held in excess of 500 interviews this year with our customers to help improve their journeys with us, and addressed more than 200 of our customers' common 'pain points'.

Our people accept the professional obligations they owe to their customers. In recent years, there have been instances where we have not met the standards we and our customers expect. We take accountability and will learn from these experiences. Across the banking industry, the profession is working hard to continually improve the way banks operate. Customers need to be confident that every time they deal with their bank, they receive the products and services that best suit their needs.

We are proactive in our approach to the Australian Bankers' Association's initiatives to strengthen transparency, accountability and trust in our industry. This year we committed to implementing all the recommendations of the review into retail banking remuneration, implemented the background check protocol for recruitment, and continued to contribute to the redraft of the Code of Banking Practice.

To create the bank our customers and people can be proud of, we are focussing on both productivity and growth.

ACCELERATING OUR PLAN¹

Australian businesses are operating in an environment that is shifting rapidly as technological disruption, new forms of competition and new regulation take hold. Large companies are changing and NAB is no different.

Customers no longer simply compare our services to those offered by our peers – they compare us to all the other experiences they have every day. They're asking for world-class digital capabilities and services that are faster, simpler and more responsive. They're asking to connect with us at any time of the day, and anywhere, through their mobile and digital devices.

This presents an exciting challenge for us. We see disruption of our industry not as a risk, but as an opportunity. Already, through partnerships and innovation, we are finding new ways to deliver for our customers – looking at the journeys they take with us to deliver faster, and making key things like opening new accounts and business transaction onboarding easier.

As we embrace change, we need to lift and accelerate delivery of our strategy. Our consistent, focussed performance over the last three years means that we are in a strong position to do so.

To create the bank our customers and people can be proud of, we are focussing on both productivity and growth initiatives. Over the next three years, we will invest an estimated

additional \$1.5 billion to help our customers grow, create a simpler and stronger NAB, and develop our leaders and the capability of our bankers. This is the single biggest investment we have made in NAB. Much of this investment will be funded by savings and we are targeting more than \$1 billion in savings by the end of the 2020 financial year, to be delivered through simplifying and automating processes, reducing procurement and third party costs, and getting closer to our customers with a flatter organisational structure. Importantly, these savings support our accelerated strategy.

As we change for our customers we will need to reshape our workforce. There will be areas of NAB that will need fewer people and areas that will need different skillsets. This will result in a net reduction in employees currently targeted at approximately 4,000 people by the end of the 2020 financial year, which is expected to give rise to a restructuring provision of \$0.5-0.8 billion in the first half of the 2018 financial year. We are approaching these changes in our workforce with care, focus and respect. Part of our culture, underpinned by a strong set of values, is to do the right thing. We will live this in the way we assist people in gaining new skills and transitioning to new careers.

As we move into the next phase, positioning NAB for future growth, the Board expects to be able to maintain 2018 dividends at the same level as this year subject to no material change in the external environment and satisfactory Group financial performance.

The acceleration of our strategy is ambitious – and it is necessary and key to the Bank's sustainability. Without it, we could not continue to deliver for all our stakeholders and achieve our vision of becoming Australia and New Zealand's most respected bank.

BACKING COMMUNITIES

It's critical NAB stays strong and stable. Strong banks support a strong economy and they help create vibrant communities. But a strong economy and vibrant communities are also indispensable contributors to our commercial performance. We owe our success to the people, businesses, and communities we've supported and partnered with for nearly 160 years.

Our commercial success is inseparable from the responsibility we have to make a significant and positive contribution to communities in Australia and New Zealand.

Each year at NAB we see many people in all areas of the bank deeply motivated by the value they can create for their customers and their communities. In NAB Assist, our dedicated specialists helped nearly 20,000 Australians facing financial difficulty this year, with around 90% back on track with their payments within 30 days. Our partnership with Good Shepherd Microfinance has supported over 500,000 people with microfinance loans since 2005. We are now quadrupling our annual target for new microfinance loans to 100,000 within two years, as part of our commitment to improve financial wellbeing.

In New Zealand, BNZ was Closed for Good for one day in August – an annual initiative which saw more than 3,000 of our people volunteer on more than 550 projects in communities right across New Zealand. Closed for Good remains New Zealand's single most intensive day of corporate volunteering.

NAB is also the lead arranger of project finance for Australian infrastructure projects² – building the roads, schools, hospitals and transport that power our communities. We will continue to look for ways where we can do more to help move our communities forward.

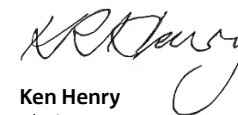
OUR PEOPLE

In December 2016, Danny Gilbert and Jillian Segal retired from the Board after serving for 12 years. On behalf of the Board, we thank Danny and Jillian for their service. In November 2017, we were delighted to have Ann Sherry join the Board. She brings deep experience in banking and will help us continue to drive a strong community and customer focus.

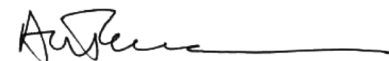
This year we welcomed Mike Baird, Sharon Cook and Patrick Wright to the NAB Executive Leadership Team; they bring exceptional track records of performance and are aligned to our values and our ambition.

At NAB, our culture is fundamental to our ability to deliver for our customers and shareholders, and our people are key to how we deliver. Our people are passionate, have deep relationships with our customers and are motivated by living our five core values each day. They are guided by our purpose to back the bold who move Australia forward. And they are determined to achieve our vision of being Australia and New Zealand's most respected bank.

We thank our customers, shareholders and our people for their support this year.



Ken Henry
Chairman



Andrew Thorburn
Group Chief Executive Officer

Chairman and CEO message

¹ Refer to key risks, qualifications and assumptions in relation to forward-looking statements on page 35.
² Infra-Deals (as at 11 October 2017) – Cumulative Results for 2007-2017 excluding Power.



Our business

OUR BUSINESS

Tim Rudge
Managing Director
Yumbah Aquaculture
NAB Customer

WHAT WE DO

In 1858, we became the first bank created and owned by Australians, for Australians. Today, we are a financial services business with over nine million customers across Australia, New Zealand and the world. Our people are committed to delivering an easy, personal and supportive banking experience for all our customers, whether online, over the phone or in over 900 locations.

We are focussed on our core operations in Australia and New Zealand, and we're dedicated to supporting our customers in the moments that matter most.

AUSTRALIAN BANKING

Our Australian business is split into three customer-focussed divisions:

- Consumer Banking & Wealth
- Business & Private Banking
- Corporate & Institutional Banking

These divisions are supported by our Customer Products & Services, Technology & Operations, Risk, Governance & Legal, Finance and People functions.

2017 CASH EARNINGS

	AS\$M
Consumer Banking & Wealth	1,633
Business & Private Banking	2,841
Corporate & Institutional Banking	1,535
New Zealand Banking	882
Corporate Functions & Other	(249)

CONSUMER BANKING & WEALTH

Our Consumer Banking & Wealth (CBW) division connects with millions of customers every day. It offers a range of personal banking and wealth services that help meet our customers' financial needs. These services include guidance and help with home loans, personal loans, credit cards, savings and transaction accounts, investments, superannuation and insurance.

CBW provides these services directly to customers through NAB branches, call centres and digital options (including UBank). CBW also partners with third parties, including mortgage brokers and one of Australia's largest financial adviser networks.

BUSINESS & PRIVATE BANKING

Our Business & Private Banking (BPB) division focusses on serving priority small and medium (SME) customers. We offer support as well as innovative products and services. This brings our market leading NAB Business franchise together with our extensive Specialised Banking expertise in agribusiness, health, government, education, community services and franchising. The BPB division also incorporates Business Direct and Small Business, NAB Private and JBWere.

CORPORATE & INSTITUTIONAL BANKING

The Corporate & Institutional Banking (CIB) division supports large corporate and institutional businesses based in, or connected with, Australia and New Zealand.

CIB also runs our infrastructure and project-financing arm, and manages specialist services in capital structuring, financial strategy, risk management, transaction execution, debt advisory and credit ratings.

NAB's Fixed Income, Currencies and Commodities, Capital Financing, Asset Servicing and International Branches all reside within CIB.

NEW ZEALAND BANKING

Our New Zealand banking division operates under the Bank of New Zealand brand. BNZ is one of New Zealand's largest banks and comprises retail, business, corporate and insurance franchises. It has 160 retail stores (and over 30 Partners' Centres) across the country. BNZ's market trading operations form part of the CIB division in Australia.

1858

We were the first bank created and owned by Australians, for Australians.



Our Group Executive Leadership Team (ELT) is driven by a collective responsibility to deliver the products and services that back our customers, people, shareholders and communities.

Led by Group Chief Executive Officer Andrew Thorburn, the ELT gives NAB's people – and our customers – access to a wide range of expertise and experience across banking and customer-focussed organisations.

Our Executive Leadership Team is responsible for implementing our strategy while living our five core values. In 2017, new appointments were made to the Executive Leadership Team, with the addition of Mike Baird as Chief Customer Officer Corporate & Institutional Banking, Sharon Cook as Chief Legal and Commercial Counsel, and Patrick Wright as Chief Technology and Operations Officer.

Effective 1 January 2018 and subject to regulatory approval, Anthony Healy will become Chief Customer Officer Business & Private Banking, and Angela Mentis will become Chief Executive Officer BNZ.

From left to right:

ANDREW HAGGER

Chief Customer Officer
Consumer Banking & Wealth

ANDREW THORBURN

Group Chief Executive Officer

LORRAINE MURPHY

Chief People Officer

ANTHONY HEALY

Chief Executive Officer
Bank of New Zealand

ANGELA MENTIS

Chief Customer Officer
Business & Private Banking

GARY LENNON

Chief Financial Officer

SHARON COOK

Chief Legal and
Commercial Counsel

PATRICK WRIGHT

Chief Technology and
Operations Officer

ANTONY CAHILL

Chief Operating Officer
Customer Products & Services

MIKE BAIRD

Chief Customer Officer
Corporate & Institutional Banking

DAVID GALL

Chief Risk Officer

For detailed information on the backgrounds and experience of each member of the Group Executive Leadership Team, visit nab.com.au/about-us/our-business

At NAB, we combine our resources and expertise to create value for our stakeholders. Value creation starts with six types of capital¹. These are used by our business to produce the products and services we provide to our customers – the outcome of which is value creation for our business and our stakeholders.

INPUTS

Financial capital

\$51.3bn total equity | **\$459.8bn** deposits

Human capital

Over 33,000 employees | **Values-aligned culture**

Intellectual capital

Market leading business bank | **Strategic partnerships** Visa, REA, Medipass | **NAB Labs**

Manufactured capital

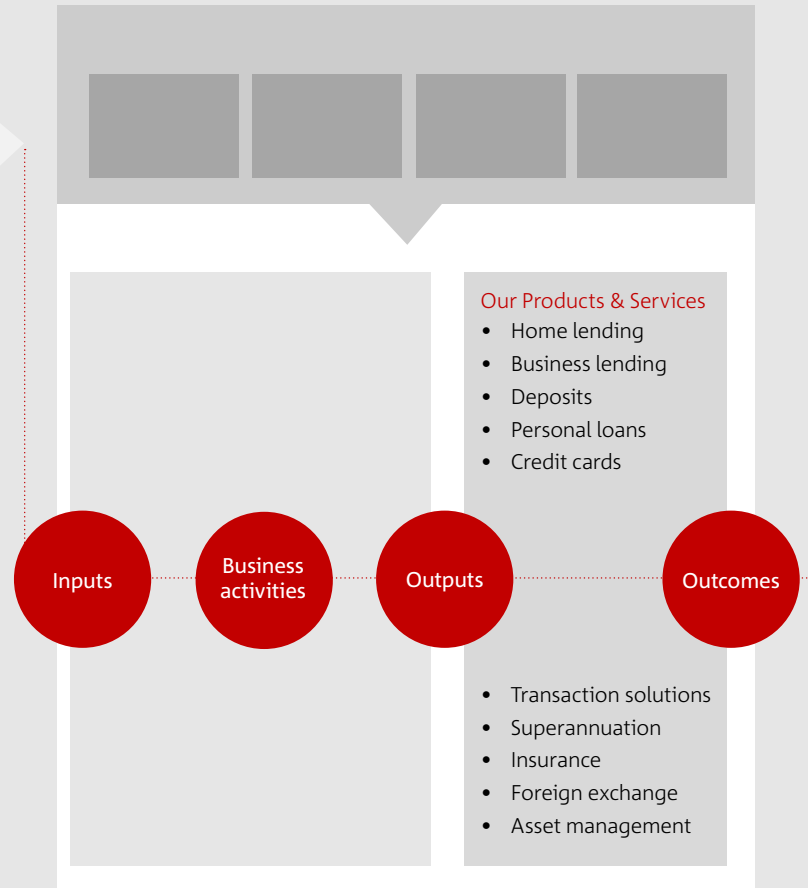
977 branches and business banking centres | **3,491** ATMs

Social & relationship capital

NAB Foundation grants program | **NAB volunteering and workplace giving**

Natural capital

Australia's first **carbon neutral** bank² | **Green Star rating** 75% of key office buildings³



VALUE CREATED FOR OUR STAKEHOLDERS⁴

Our Customers

\$80bn in new home lending⁵

\$80bn in new business lending⁶

Achieved NPS of +3 in the Medium Business segment, ranked #1 amongst major Australian banks⁷

\$29.3m microfinance loans written⁸

Our People

Paid \$4.3bn in salaries and superannuation to employees

Recruited 86 Indigenous Australians through employment programs

Provided over 1.4m hours in training⁹

Our Shareholders

Declared dividends of **\$5.3bn**

Returned **79% of our cash profits** to our 571,000 shareholders

Generated TSR of 69.9% over the last 5 years¹⁰, ranked #2 amongst major Australian banks

Our Community

Paid \$2.5bn in taxes¹¹

Invested \$44.6m in the community¹²

Over 16,000 volunteering days completed by our employees

\$13.4bn in environmental financing since 1 October 2015¹³

Our business

1 The capitals are identified by the IIRC and defined in Glossary and definitions on page 36.
 2 In 2010, NAB became the first Australian-owned bank to achieve carbon neutrality under the National Carbon Offset Standard (NCOS) Carbon Neutral Program.
 3 Key office buildings are all NAB commercial tenancies over 4,000m².
 4 All value creation measures relate to the 2017 financial year unless otherwise stated.
 5 Drawdowns (excluding redraws) by Australian and New Zealand customers.
 6 For new and increased (on and off balance sheet) commitments by Australian and New Zealand customers. New lending has been derived from year on year customer limit movements.
 7 Ranking based on absolute scores, not statistically significant differences. Refer to Glossary and definitions on page 36 for definition of Medium Business segment.

8 Delivered in partnership with Good Shepherd Microfinance (Australia) and Good Shepherd New Zealand.
 9 Training and development hours provided to our Australian and New Zealand employees.
 10 Source: IRESS. TSR combines share price appreciation and dividends paid from 1 October 2012 to 30 September 2017 to show the total return expressed as a percentage.
 11 Includes income tax, GST, FBT, payroll tax and other taxes borne by NAB, paid during the year ended 30 September 2017.
 12 Community investment ranges from short-term donations to longer-term capacity-building programs. It is calculated using the London Benchmarking Group methodology. For more information, refer to our 2017 Sustainability Report.
 13 For more information on our environmental financing commitments, see page 26.

Value creation over time



OUR OPERATING ENVIRONMENT

Our operating environment

Sarah and Justin Montsalvo
Patriot Campers
NAB Customers

The economic, regulatory, political and community environment we operate in directly influences our ability to create value.

We're constantly responding to the changing external landscape by identifying risks and opportunities that may impact on our financial performance, ongoing stability and our reputation.

ECONOMIC CONDITIONS

Global economic growth began accelerating toward the end of 2016 and, after a disappointing start to the year, the upturn resumed in the middle of 2017. Fears of a sharp downturn in China's economy have receded. Overall, global growth is expected to strengthen modestly in 2017 and into 2018, back to around its long-term average, although there remains a range of geopolitical risks.

Strong population and employment growth are supporting a resilient Australian economy, however headline figures mask some challenges facing our customers. High levels of household debt coupled with stagnant wages growth are impacting the housing market, and we have seen that reflected in fairly subdued levels of consumer confidence and discretionary spending. In year-average terms, GDP growth is expected to strengthen from 2.4% in 2017 to 2.8% in 2018, with the assistance of resource exports, infrastructure spending and other investment, before easing in 2019.

In contrast to households, business conditions are picking up across the economy, with NAB's Monthly Business Survey this year recording conditions at their highest levels since the onset of the global financial crisis.

In New Zealand, the economy continues to perform strongly with growth being supported by high net inward migration, tourism, low interest rates and a recovery in commodity prices. This is reflected in a strengthening labour market, although the housing market is cooling. While the outlook for the New Zealand economy remains broadly positive, it will take time to assess the full implications of the new government's policies. Emerging domestic capacity constraints are a headwind to growth.

RISING COMMUNITY EXPECTATIONS

Our vision is to be Australia and New Zealand's most respected bank. We are taking action to achieve this through strengthening public trust and confidence in the banking industry. We can do this by operating in a way that meets stakeholder expectations.

We're committed to transparency and accountability for our customers. Building community confidence in banks through our own actions and delivering against industry led progress is important to us, and we are working with the Australian Bankers' Association (ABA) to implement initiatives for real and lasting reform.

This year we faced sustained political scrutiny and continued calls for a Royal Commission into the financial services sector.

In May, the Federal Government announced a major bank levy. This became effective on 1 July 2017, and is estimated to cost us approximately \$366 million annually (or \$256 million after tax) based on our 30 September 2017 liabilities.

We have been upfront about this cost being borne by one or a combination of our stakeholders – our customers, shareholders, suppliers and employees.

HOW WE'RE RESPONDING

Since October 2016, NAB Group CEO Andrew Thorburn and Chief Operating Officer Antony Cahill have appeared before the House of Representatives Standing Committee on Economics on three separate occasions to explain the decisions we make, and how we balance the needs of our customers, people, shareholders and community.

We're committed to the industry initiatives that have been announced by the ABA. These initiatives are aimed at reinforcing the banking sector's standards of service, integrity, trust and ethics. In 2017, we:

- Updated the Group Remuneration Policy to incorporate the intent and key principles of the Sedgwick Review¹. We also reviewed product sales commissions. In August 2017, we announced that retail banking managers, assistant managers and direct consumer team leaders would move to a more customer-outcome focussed incentive plan from 1 October 2017.

- Opened an Office of the Customer Advocate in December 2016, with an independent advisory and review role. So far, we have referred 56 individual customer escalations and 88 historical files to the Customer Advocate for review.
- Refreshed and simplified our whistleblowing program in February 2017. We also established an independent external reporting channel.
- Implemented the Banking Industry Conduct Background Check Protocol.
- Played an active role in the redrafting of the Code of Banking Practice in plain English.
- Participated in the ASIC Industry Funding Model and Breach Reporting consultations.

¹ For more information on the Sedgwick Review, and our response to it, see page 19.

Our operating environment

Patriot Campers



CHANGING CUSTOMER EXPECTATIONS AND RAPID TECHNOLOGICAL ADVANCEMENT

The way people access money and banking is changing. More and more, our customers are taking advantage of digital banking. They can access it anywhere, at any time of the day – while seeking a personalised experience.

Our customers make more than 55 million internet banking logins every month, across our digital platforms. Over-the-counter transactions are falling by approximately 10% each year, and 90% of customer interactions are now via digital channels like internet banking, the mobile banking app and NAB Connect.

At the same time, competition is redefining the market landscape. Australian banks are no longer our only competition. New competitors are increasingly entering the industry, and they all have the potential to disrupt what we do.

Moving forward, our challenge is to make it clear to our customers that we're a partner that backs them. We're doing this through our customer relationships, products and services.

For more on how we're responding to changing consumer trends and technology, see Our strategy on pages 16-18, and Technology on pages 23-24.

REGULATORY CHANGE AND UNCERTAINTY

NAB continues to remain vigilant in our evaluation of the regulatory environment. We maintain a strong capital, funding and liquidity position that aligns with our commitment to balance sheet strength and allows us to respond to changing market conditions as well as regulatory requirements.

Banks are increasingly required to hold more capital, or make changes that meet regulatory requirements and respond to their external environment.

APRA announced in July a Common Equity Tier 1 (CET1) ratio target of at least 10.5% by January 2020 for major banks to be viewed as 'unquestionably strong'. Finalisation of international capital reforms are not expected to require further overall increases to Australian requirements. We expect to meet APRA's new capital requirements in an orderly manner given our current capital position and our timeline for transition.

In June 2017, we announced changes to our variable home loan rates due to a range of factors, including to comply with regulatory requirements, such as APRA's 30 per cent limit on new interest only lending for residential mortgages.

We did this while balancing the needs of customers across our entire portfolio and continuing to provide competitive rates.

To read more about how we're responding to regulatory change and uncertainty, see pages 25 and 27 in Our foundations.

We are committed to providing our shareholders with timely and equal access to information. In order to support and enhance the value of our corporate reporting, we are guided by the Integrated Reporting Framework, GRI G4 Guidelines, UN Global Compact and our annual materiality process.

We monitor external analyses, such as the Dow Jones Sustainability Index (in which we ranked third in the world for the banking and finance sector in 2017), in order to assess progress.


We take our tax obligations and commitment to being transparent in our tax affairs seriously. We published our first tax transparency report for the year ended September 2016. This report meets the requirements of Australia's Voluntary Tax Transparency Code.

We are committed to being transparent and accountable in our regulatory affairs. In late October this year, NAB agreed a settlement with ASIC of the Bank Bill Swap Rate (BBSW) legal action¹. NAB accepts that we did not meet the high standards of professional conduct that ASIC, the community and NAB expects of itself, in the BBSW market in the period to which the action related (being the period from June 2010 to December 2012). In addition to the settlement, NAB will agree to an enforceable undertaking with ASIC, under which we will make enhancements to our policies, procedures, systems and framework for monitoring employees in relation to our BBSW business.

We also work to enhance transparency for our customers and make banking simpler and easier. This year, we've overhauled NAB's existing business loan standard form contract for over 130,000 Australian business owners, through simpler contractual clauses, plain English and a major reduction in document length.

Our operating environment

¹ As part of the settlement of the BBSW legal action, we have agreed to a \$10 million penalty and to pay ASIC's costs of \$20 million. We will also make a donation of \$20 million to a financial consumer protection fund nominated by ASIC.



We aim to maintain a strong capital, funding and liquidity position, which allows us to respond to changing market conditions and regulatory requirements.

Sarah Moran
Girl Geek Academy
and NAB Employee

OUR STRATEGY

Marie Piccone
Co-owner and Managing Director
Manbulloo Limited
NAB Customer



We use Net Promoter Score (NPS) to help our bankers take greater ownership of the customer experience. At the end of September, we achieved an NPS of +3 for our Medium Business segment, an increase of 11 points from last year¹.

Tim Fung and Jonathan Lui
Airtasker
NAB Customers



OUR STRATEGY

16

DELIVER A GREAT CUSTOMER EXPERIENCE

The relationships we have matter, and our people strive every day to deliver a great customer experience. It's an experience that starts with consistently getting the basics right to ensure banking with us is always simple, easy and personal.

The way our customers bank with us is constantly evolving. Nowadays, they prefer to bank through multiple channels – online, in branches, through the NAB mobile banking app or via ATMs.

In response to changing customer needs, we're putting our customers at the centre of our operations. Listening to them, and asking for feedback, means we can constantly find new ways to improve their experiences across all of our products, services and systems. In 2017, we conducted over 500 customer interviews in order to find out about their ideal banking experiences.

We know that providing a great customer experience will turn more of our customers into advocates. Today, we use Net Promoter Score (NPS)¹ to help our bankers take greater ownership of the customer experience. Our bankers access regular customer feedback, together with localised scores at each of our branches, contact centres and business banking centres in order to improve customer outcomes.

Our aim is to have a positive NPS and rank #1 among our major bank peers for our priority customer segments. At the end of September we ranked #1 with an average NPS of -13 across our priority customer segments, an increase of 2 from last year.

We strive to achieve a positive NPS in all our priority customer segments, and have made progress with our Medium Business segment increasing by 11 over the year to reach an NPS of +3 at the end of September. Although we've made progress, we still have work to do in order to achieve all of our customer advocacy objectives.

¹ For more information about NPS and our priority segments, refer to Glossary and definitions on page 36.

Our strategy

OUR STRATEGY

In order to achieve our strategic objectives, as well as fulfil and exceed customer expectations, we must continue to engage our customers. One of the ways we're doing this is through our Customer Pain Points (CPP) Program.

Our CPP Program is a business-wide initiative designed to address and improve poor customer experiences. Pain points range from difficulties accessing online information and time-consuming applications, to ineffective processes that cause unnecessary delays.

Listening to our customers is critical to addressing these pain points. In Australia this year, customer complaints increased by 7.9% compared to 2016. We're focussed on understanding and addressing these complaints, not just on a customer-by-customer basis, but by improving the processes that cause problems.

Some examples of CPP initiatives completed in 2017 include:

- We've removed the need for customers to complete deposit and withdrawal vouchers when they visit a branch.
- We're making our online home loan redraw function easier to use and understand.
- We are improving the transparency of our Business Transaction Account fee structure.
- In the 2017 financial year, we've addressed 215 Customer Pain Points, improving over 24 million customer interactions.

To find out more about how we're listening to our customers, visit news.nab.com.au/how-were-listening.

CUSTOMER JOURNEYS

In order to ensure we deliver the best customer experience possible, we're constantly looking at the journeys our customers take with us.

Earlier this year, we launched a redesign of five Customer Journeys in order to improve the customer experience for interactions like opening a new everyday account, planning for retirement, or needing assistance with their business accounts. These five journeys have involved over 40 completed initiatives, and saved bankers more than 200,000 hours of collective time¹.

Customer outcomes delivered include:

- A new 10-minute digital onboarding process for business customers with simple needs. This has significantly reduced processing time and removed the customers' need to visit a branch.
- Reducing the application time for Everyday Accounts for consumer banking customers to seven minutes.
- A 24/7 digital virtual banker for business customers. This lets business customers receive instant answers and assistance on over 200 common banking questions and tasks at nab.com.au.

Our Customer Journeys are also creating a more agile organisation. We're using human-centred design, multi-disciplinary teams and digital enablement that aims to deliver improved services at twice the speed.

We'll continue to put in place and assess the journeys we started earlier this year. We'll also accelerate two new journeys in business and home lending, launched in August 2017.

INNOVATING AND INVESTING FOR CUSTOMERS

Investment in innovation and digitisation helps us deliver great experiences for our customers. Our dedicated innovation hub, NAB Labs, is driving customer-led design methodology across our business. Building on established momentum, NAB Labs launched a number of new customer-centric propositions in 2017. These include:

- Expanding the eligibility criteria for QuickBiz unsecured loans. This enables more small business customers to access funding faster.
- Partnering with Melbourne-based tech start-up, Localz, to form Medipass Solutions and create a new digital platform for use in the healthcare industry. The platform, launched in September 2017 as HICAPS Go, aims to provide a world-class experience by connecting patients to practitioners and health funds digitally. It leverages our current HICAPS system², a NAB-owned payment and claiming solution.

We are also exploring new strategic alliances and direct equity investments through our dedicated innovation fund, NAB Ventures. The fund allows us to fast track customer experience improvements and leverage innovative new technology and business models.

During 2017, we announced some exciting new partnerships and investments:

- In March, we announced we were leading a US\$24 million investment funding round for Veem. Veem is an FX platform for B2B global payments that leverages blockchain, and offers businesses more transparent, reliable payments that are faster and cheaper than traditional wire transfers. This project had co-investment from Kleiner Perkins, Silicon Valley Bank, Google Ventures and SoftBank.
- In May, we announced we were leading a US\$22 million Series D funding round for Toronto-based cloud fintech company, Wave. Wave delivers cloud-based financial management software including accounting, invoicing and payroll with seamlessly integrated financial services like credit card processing and lending.
- We also announced that we would be entering into a new three-way alliance with leading banks in Israel and Canada. This will allow the partners to collaborate on the design of new digital services, as well as share customer and start-up insights.

Our strategy

¹ Calculated from 2017 annualised capacity release savings.

² Formed in 1998, Health Industry Claims and Payments Service (HICAPS) supports the operations of healthcare businesses by offering on-the-spot processing for health fund, Medicare and WorkSafe Victoria payments across Australia.

DEEPEN RELATIONSHIPS IN PRIORITY SEGMENTS

We are continuing to simplify our business and focus on our core markets in Australia and New Zealand. This allows us to be in the best position to back our customers, and to compete.

Our priority consumer segments are Home Owners and Investors. Within the business banking market, Small and Medium Business customers remain our priority.

We are committed to achieving our goal of positive NPS and rank #1 among our peers for all our priority customer segments. Of the four major Australian banks, we hold the #1 position in our priority segment NPS (as at September 30)¹. We are also the only major Australian bank to hold a positive NPS for the Medium Business segment.

In our consumer segments, we are positioned 4th amongst Home Owners and 2nd in the Investors segment.

We have a lot more work to do to achieve a level of advocacy from our customers that we can be proud of. We're committed to all our customers, and focussing on improving their experiences is central to the success of our strategy.

We will continue to back our Small and Medium Business customers, and focus on providing a better customer experience for Home Owners, utilising our understanding of the entire home ownership journey.

¹ For more information about NPS and our priority segments, refer to Glossary and definitions on page 36.

In 2017, we launched several new digital initiatives supporting these segments:

- We conducted a pilot of our upgraded NAB Connect mobile app. This enables customers to authorise single or bulk payments, and check their account balances in real time.
- We trialled a new customer onboarding process for Small and Medium Business customers. This allows sole traders and single-director companies to open an account online in 10 minutes.
- We hosted our first "Digi Week". This enabled SME customers to learn how to build a digital business from companies like Facebook, Deliveroo and REA Group.
- We announced a strategic partnership with realestate.com.au (REA) to provide our customers with a simple, personal and supportive digital experience that will guide them through the home ownership journey.

We're committed to making sure we have the right policies and processes in place to offer our customers products that suit their particular situation.

Responsible lending

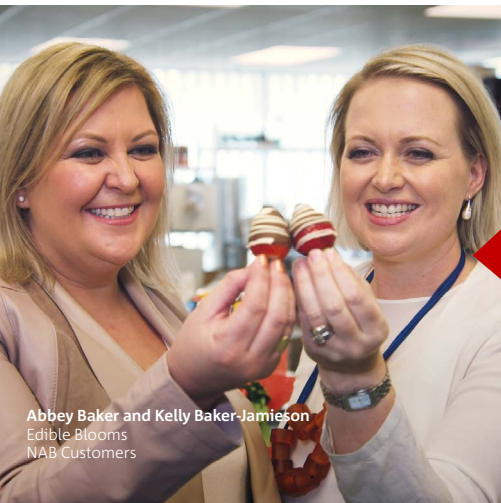
At NAB, we're acutely aware of ongoing concerns about Australia's level of household debt and sustained low wages growth. We continually review our responsible lending policies to ensure our customers are able to afford and manage their repayments. We proactively engage with our regulators and conduct reviews to ensure our policies and practices remain in line with our obligations as a responsible lender.

For example, for new interest only loans, a maximum 80% loan to value ratio (LVR) applies. We also assess all applications for home lending based on a range of measures and factors to determine whether customers will have the capacity to repay their loan, both today and in the future. That includes applying a floor interest rate or buffer along with other serviceability measures, as per the APRA guidelines.

Helping our customers through hardship

Sometimes our customers will face unexpected challenges and financial difficulty. When this happens, we back them. For example, as Australia's largest agricultural bank, we know of the challenges and unpredictability of life on the land. Our bankers work to understand the individual business and personal circumstances of each customer facing financial difficulties.

When a farming business faces financial distress, our Strategic Business Services (SBS) specialists work closely with our customer's relationship manager to provide support. We rarely appoint receivers for our agribusiness customers, and only do so as a last resort. Since October 2015, we have appointed receivers in only four cases.



We're simplifying the onboarding process for new Small and Medium Business customers, allowing sole traders and single-director companies to open an account online in 10 minutes.

Abbey Baker and Kelly Baker-Jamieson
Edible Blooms
NAB Customers

BE KNOWN FOR GREAT LEADERSHIP, TALENT AND PEOPLE

Being known for great leadership, talent and people is critical to achieving our strategic objectives.

GREAT PEOPLE

NAB has a global workforce of over 33,000 employees. In order to meet the needs of our customers, and the requirements of our regulators, we are focussed on having the right people, with the right skills, in the right roles.

To ensure we hire great, customer-focussed people, we've changed how we recruit for volume-based, entry level roles. For these roles (around 2500 a year) we have replaced traditional resumes and job interviews with online cognitive testing and video interviews. Successful candidates are then invited to engagement centres where they are assessed in person and given a realistic preview of what the role entails.

This change, piloted in February and introduced in May, has saved more than 700 hours per month in management time. It has also helped us to recruit the right people for the right roles by reducing the risk of unconscious bias.

We also provide our people with targeted, role-based learning and mandatory, role-specific training. This is complemented with formal training and on-the-job skills development.

We have retained annual performance reviews but have embedded a Performance Everyday strategy. Our people leaders also act as performance coaches by having monthly 1:1 performance conversations with their people. Focussed performance plans, alongside quality, timely feedback and coaching, will lift individual and team performance.

We also recognise achievement in many ways. A key part of this is our peer recognition program, NAB Recognise, which rewards those who role model our values.

ENGAGING OUR PEOPLE

Our annual employee engagement survey lets us listen to our people. This year, we appointed a new survey provider, Aon Hewitt¹. This enabled us to benchmark our performance against a range of companies. We are confident that we can achieve our objective of being in the top quartile for employee engagement.

In 2017, our overall engagement score was 59% (compared to the top quartile benchmark of 67%), demonstrating we have more work to do². BNZ achieved a score of 69%, while the score for NAB Australia was 57%.

To achieve our vision of being Australia and New Zealand's most respected bank, we need highly engaged people. Lifting engagement levels is the job of all our leaders and each of our people. More frequent pulse surveys to gain more regular feedback from our people, as well as coaching and further investment in our leaders, will help us reach our objective of being in the top quartile for engagement.

GREAT LEADERSHIP

We are focussed on identifying, assessing and developing senior leaders who translate our strategy into executable actions, and demonstrate the culture and behaviours that are key to helping us realise our vision.

In 2017, we introduced segmented leadership groups to improve our leaders' development, communication and accountability. We have also taken a more individualised, objective and data-driven approach to helping each leader grow:

- We've assessed the capabilities of our 64 executive leaders. Targeted development will address outcomes at an individual, and Group level.
- All 1,000 of our 'Leader of Leaders' are participating in a program centred on leading the culture we need to achieve our strategic objectives. The program focusses on each individual leader, and helps them improve their self-awareness, mindset and how they manage complexity.
- A further 717 of our Leaders have participated in leadership programs and coaching. This is done in order to build high performing teams that can better support our customers. These leaders manage approximately 15,000 employees who work directly with customers.

To further enable our leaders, we launched a new performance tool, People Hub, including a People Leader Dashboard, to help manage our people's performance and careers online.

Culture drives performance. At NAB, all five of our values are critical to success: Passion for Customers, Be Bold, Respect for People, Win Together and Do The Right Thing. These values are embedded in the performance assessment of all employees.

Customer feedback is shared weekly at meetings throughout the organisation. At these meetings, we discuss what customers value most, and then make changes in order to meet their needs.

As a result of our commitment to implementing the recommendations made by the Australian Banking Association's Sedgwick review of product-based incentives, more than 700 NAB retail banking and direct consumer leaders have moved from a product-based sales incentive plan to our Group incentive plan, which is based on Group performance measures and supported by balanced scorecards. This came into effect on 1 October 2017.

We treat seriously all matters where our employees' decisions don't align to our values, or breach our Code of Conduct – and we act. In 2017, there have been 1,613 Code of Conduct breaches managed by our Workplace Relations team.

These instances range from cases of personal conduct (such as repeated unexplained absences) to more serious instances, including deliberate breaches of our lending policies. In 2017, 307 cases resulted in employees exiting the business, and 1,306 cases resulted in coaching or other remedial actions, including loss of performance-based compensation.

Our strategy

¹ In 2016, NAB's engagement survey was conducted by Right Management.

² While Aon Hewitt's methodology is not directly comparable with last year's survey, our 2017 Group engagement score overall has decreased from 2016.

GREAT TALENT

We are investing in our talent in order to attract and retain the best people in the industry, while developing our key talent at all levels. We also bring in the best external talent to constructively disrupt and accelerate strategic delivery.

In 2017, we revised how we identify, assess and develop key talent. For example, over 350 of our senior managers have participated in a development experience aimed at providing insights on current capability, as well as identifying and developing future leaders.

Finding and developing graduate talent is also critical to NAB's future. In 2017, we supported 189 graduates, across two annual groups, with accelerated learning experiences focussed on addressing customer and community issues.

The outcomes of these programs will prepare our most talented people for transition to more senior roles.

INCLUSION

Inclusion remains at the heart of our Diversity & Inclusion (D&I) strategy. Our priorities include gender equality, life stage, lesbian, gay, bisexual, transgender and intersex inclusion, cultural inclusion and accessibility.

In 2017, we ranked third globally in the Gender Equality Global Report by Equileap¹. We also received an Employer of Choice for Gender Equality citation from the Workplace Gender Equality Agency in December 2016. Throughout our business, from entry level roles to our executives, we are committed to every level having 40-60% of either gender represented by 2020.

Ensuring men and women can balance career with family and other responsibilities is important for achieving gender equality. The percentage of our eligible male employees taking up paid primary carer leave (since our parental leave policy change in March 2015) has risen to 30% this year². The majority of our people – both men and women – work flexibly³.



Lawson Katiza
MLC Customer

Our strategy

EMPLOYMENT LEVEL	2017		2016	
	FEMALE	MALE	FEMALE	MALE
Executive management (Groups 6 & 7)	31%	69%	29%	71%
Senior management (Group 5)	30%	70%	29%	71%
Management (Group 4)	38%	62%	37%	63%
Non-management (Group 1-3)	59%	41%	60%	40%
Overall organisation	54%	46%	54%	46%

1 The 2017 Gender Equality Global Report ranked 3,048 global companies with a market capitalisation of over \$2 billion in 23 developed countries.
 2 The percentage of eligible male employees taking up paid parental leave was 15% in 2015, and 28% in 2016.
 3 Based on over 80% of employees agreeing with the following statement in the 2017 employee engagement survey: I have the flexibility I need to accommodate various priorities at work, at home and/or in the community.

We ranked

3RD GLOBALLY

in the 2017 Gender Equality Global Report by Equileap¹.

We are changing the way we work to get new features into the hands of our customers faster.



Martin Moses
Moses & Sons
NAB Customer

OUR STRATEGY

RESHAPE OUR BUSINESS TO PERFORM

We are focussed on simplifying our business to improve efficiency and service. Our goals are to be easier to do business with, have lower costs and reduce complexity and duplication.

We are actively improving our performance and execution by investing in new digital capabilities, transforming processes for speed and reliability, and creating a leaner, simpler business.

A SIMPLER BUSINESS

Productivity improvement remains a key focus as it provides headroom for further investment for our customers.

At the beginning of the year, we set ourselves a target of \$200 million in productivity savings in order to reduce expenses and invest in further productivity and customer experience initiatives. For the year ended 30 September 2017, we have exceeded this target, delivering \$301 million in productivity savings. This has been achieved through workforce restructuring, digitisation and reduction in third party spend.

As customer preferences continue to change, we'll be provided with more opportunities to reshape our physical and digital distribution channels.

IMPROVING OUR DIGITAL CAPABILITIES

We are redesigning our digital approach to simplify the customer experience, while providing tools that lead our customers to select products that work for and enhance their personal and business needs.

Improving digital experiences is key to effectively shaping our business for the future. By enhancing our digital capabilities, we will become a more productive business that drives value for our shareholders. In 2017, we enhanced our mobile banking app – introducing new features like the ability to temporarily block and replace cards.

CHANGING THE WAY WE WORK

We are continuing to extend our agile work practices across the business. An agile approach is used in Customer Journeys to redesign customers' end-to-end experience across all of NAB's divisions, channels and systems.

Agile practices are designed to get new features into our customers' hands faster, while delivering better returns for our shareholders. So far, we've seen a 40% increase in the volume of work through our enterprise agile management platform, with over 2,500 people using it every week¹.

We are focussed on adhering to the following principles:

- Delivering fast, efficient outcomes for our customers.
- Creating persistent, cross-functional and co-located teams.
- Utilising agile practices and tools, like daily team stand-ups and single points of ownership, as well as early, and frequent testing of concepts.
- Executing all change in the same way through consistent processes, terminology and tools.

¹ Our enterprise agile management platform is an online collaboration tool that allows online visualisation of tasks. Statistics refer to the period June 2016 to June 2017.



OUR FOUNDATIONS

Our foundations

Brooke Cranage
MLC Customer

TECHNOLOGY

Our approach to technology is focussed on three core areas: delivering reliable and stable experiences for our people and customers, continually improving our technology platforms and services to make them simple and agile, and getting products to our customers faster.

OUR TECHNOLOGY STRATEGY

Incident reduction

In 2017, we significantly reduced the number of technology incidents.

Year-on-year, the number of high and critical customer impact incidents reduced by more than 40 per cent. Over the past three years, they've reduced by more than 80 per cent (refer to graph).

We continue to strive for zero downtime and we are working hard to improve both operational controls and resilience in order to ensure our customers can bank with us when and where they want.

Agile delivery and simplification

We are working to simplify our technology landscape and investing in agile, fit-for-purpose platforms. This will reduce complexity, enable sustainable innovation, and ensure our technology systems are stable, low risk and run at a lower cost.

This year we launched our new mobile banking app. It powers multiple customer features without adding complexity. Since the new app launched in November 2016, the number of customers using it has increased by nearly 10 per cent. Over this time, we've deployed 20 releases of new functionality.

In addition to investing in agile platforms, we are extending our agile work practices across more parts of our organisation. This is helping us to get new features to our customers, faster.

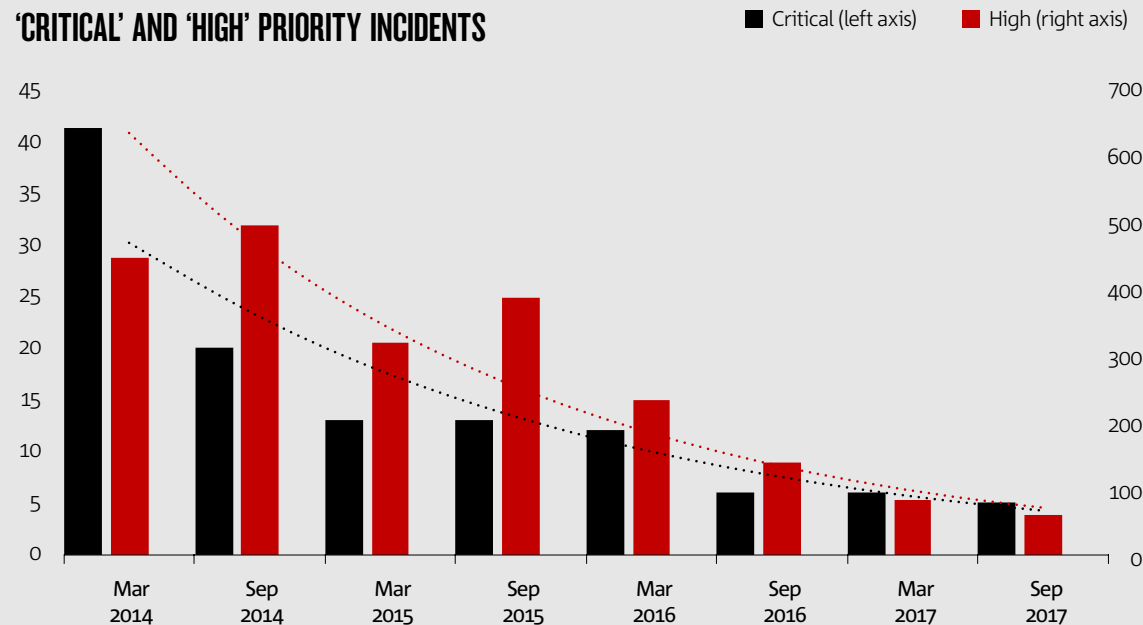
Customer service delivery

The national rollout of the Personal Banking Origination Platform (PBOP) to retail customers was completed in the first quarter of 2017. PBOP delivers a consistent, streamlined experience for customers applying for consumer products across both our online and retail network.

Over the past year, we've reduced the unconditional approval of retail home loans time from 13 days to four. Most customers applying for a credit card now receive their card in less than two days. Most customers applying for a personal loan gain access to funds in just one day.

Technology is one of the foundations of our business, helping us to deliver a better customer experience that is simple, personal and supportive.

'CRITICAL' AND 'HIGH' PRIORITY INCIDENTS



We continue to invest in technology, operations and people. This ensures customer data and information is protected and used appropriately. If a mistake happens, we take responsibility and act quickly.

In December 2016, we wrote to approximately 60,000 customers who had migrated to Australia about accounts they established through NAB's migrant banking team while living overseas. We notified these customers that an email confirming the establishment of their account was also sent to an incorrect email address. This mistake was caused by human error but was identified following internal checks.

The email sent in error included customer information such as name, address, email address, BSB and account numbers.

In early 2017, we notified and contacted this group of customers to confirm that all emails sent to the incorrect email address had been secured and deleted. We apologised and took full responsibility for the mistake.

We also notified, and worked closely with the Office of the Australian Information Commissioner, ASIC and other industry regulators.

IMPROVING CYBER SECURITY AWARENESS

We take the security and protection of our customers' personal information extremely seriously. We regularly provide customer alerts about the latest security threats on our website and social media channels.

We proactively educate our customers about cyber crime. We provide regular insights on the measures they can take to protect themselves online, and keep their information secure. This year we ran a number of seminars for our business customers that covered the latest cyber security threats and trends targeting businesses – and how they can manage cyber security risk.

All our people, including contractors, are required to complete mandatory security training. This training is updated every year to reflect the changing threat landscape. Topics covered in 2017 included social engineering, phishing and malware.

We proactively educate our customers about cyber crime, through providing regular insights on measures they can take to protect themselves online and keep their information secure.

PRIORITISING CUSTOMER DATA

Progressing open data

We support secure data sharing for our customers. We're committed to working with the Government and stakeholders in order to establish the right procedures and protocols for a simple, safe, secure platform for open banking in the future.

This year, we supported the Australian Federal Government's Productivity Commission. The Commission recommended a number of significant changes for data use and data sharing in Australia.

Over a number of years, we have built a strong foundation for data sharing through the use of Application Program Interface (API) technology. This year, we were the first major Australian bank to launch a developer portal, giving approved third party developers the chance to plug into our data through our APIs, enabling the delivery of even more integrated experiences for our customers.

FUTURE FOCUS

We see changing customer expectations resulting from digital disruption as an opportunity for the bank to disrupt itself. Resilient technology is a fundamental part of delivering solutions to drive that change. Our teams will continue to focus on the following areas:

- Simplifying our technology environment.
- Finding new, innovative ways to deliver features for our customers.
- Providing stable and reliable services for customers.
- Protecting our customers' data by enhancing the security of the products and services we offer.

Emma Nicholas
Owner, Miirot Gelato
NAB Microenterprise Customer



RISK MANAGEMENT

Effective risk management¹, including a sound risk culture, is essential to achieving our vision to be Australia and New Zealand's most respected bank. Our strategy for managing risk is to take the right risk, with the right controls, for the right return.

CONDUCT AND RISK CULTURE

Our Board and executive leaders set and reinforce the 'tone from the top' for risk culture. Annual risk-training for all our people enhances this. Our performance framework also reinforces risk and conduct responsibilities, including the importance of our peoples' interactions with customers.

We continue to back our people to speak up when they see wrongdoing, and in turn protect and support them. This is done via our Whistleblower program. In 2017, we enhanced this program by:

- Implementing an independent external reporting channel.
- Simplifying the Whistleblower Protection Policy to make it more user friendly and enabling disclosures from former employees.
- Ensuring it conforms to the Australian Bankers' Association (ABA) 'Guiding Principles – Improving Protections for Whistleblowers', published in December 2016.

- Analysing themes in order to recognise areas of improvement, and act on them.
- Increasing our peoples' awareness of the Whistleblower program.

We remain focussed on ensuring we understand our customers' needs and deliver commitments we have promised. We have high standards for our people and there are consequences when they do not meet these standards. We also comply with our obligations to report breaches of the law to appropriate authorities and remediate our customers.

IMPROVING OUR RISK GOVERNANCE

In 2017, we strengthened our governance of risk management practices so that we take the right risks, with the right controls, for the right returns. This included:

- Removing complexity by simplifying our risk frameworks while enhancing our risk governance.
- Improving the way we manage risk appetite across the organisation.
- Ensuring we comply with our regulatory obligations while remaining 'unquestionably strong'.
- Enhancing our regular internal risk reporting so that our senior management and Board are getting the right information and a balance between historical and forward-looking perspectives.

PUTTING CUSTOMERS AT THE HEART OF RISK MANAGEMENT

The continued execution of our 'Customer First' program remains a priority in driving the simplification of risk processes and policies in order to benefit our customers and people. The program aims to:

- Empower our bankers.
- Reduce time to decision.
- Recognise loyal customers.
- Use digital technology and data analytics to drive innovation and better customer service.

Key improvements made in 2017 include:

- Removing bottlenecks in the lending process, reducing the time our customers wait for a decision and funds (where approved) from their application.
- Simplifying the onboarding process for our small to medium business customers.

MANAGING REGULATORY CHANGE

We, and the financial services industry, continue to experience a heightened level of regulatory scrutiny and resultant change that is unlikely to lessen in the near future.

Our focus is on early engagement with key regulators in order to understand, shape and prepare for regulatory reform. This helps manage the impact of change on our customers, people and shareholders.

Risk management is core to everything we do and is one of the foundations on which our strategic focus is built. In 2017, we continued to enhance our risk culture and governance, while also responding to the needs of our customers and key stakeholders.

Renee Borg
Cook and Trainer, Two Good
NAB Foundation Grant Recipient




¹ The material risks managed by the Group are: credit risk, operational risk, compliance risk, conduct risk, balance sheet & liquidity risk, market risk, regulatory risk and strategic risk. For more information on these, and other principal risks and uncertainties faced by the Group, refer to pages 11-18 and Note 34 in the 2017 Annual Financial Report.

ESG RISK MANAGEMENT


Our Environmental, Social and Governance (ESG) Risk Principles provide an overarching framework for integrating ESG risk considerations into our day-to-day decision making. They are aligned to our values and vision. ESG risk is not managed as a separate risk category but is integrated across our material risks.

OUR ENVIRONMENTAL FINANCING COMMITMENT

This year we have increased our environmental financing commitment from \$18 billion by 2022, to \$55 billion by 2025 in order to help address climate change and transition to a low-carbon economy. This includes:



\$20BN
to support green infrastructure, capital markets and asset finance



\$35BN
in new mortgage lending flow for 6 Star residential housing in Australia (new dwellings and significant renovations)

ESG PERFORMANCE

NAB considers ESG risk in the assessment of potential and existing business relationships – particularly in credit risk and procurement risk assessment and due diligence processes. ESG risk data, information and insights help inform our risk appetite. Key ESG risk management achievements this year include:

- Incorporating an ESG risk screen into a new fast-track SME business loan product.
- Issuing Australia’s first Social Bond to promote workplace gender equality¹, and arranging Australia’s first Sustainability Bond².

- Updating our Human Rights Policy and Code of Conduct.
- Updating our Group Supplier Sustainability Principles in order to strengthen labour rights and modern slavery requirements.
- Including Modern Slavery as part of our annual risk awareness training for employees across the Group and rolling out ESG risk refresher training for business bankers.

Further details are provided in our **2017 Annual Financial Report and Sustainability Report**.

ENVIRONMENTAL FINANCE CATEGORY	TOTAL ³
Lending for Green Star certified commercial buildings ⁴	0.2
Specialised and corporate finance for projects that reduce emissions and assist with climate change adaptation, and lending to other low carbon businesses	2.3
Green bonds	2.1
Asset finance	0.1
Advisory activities, underwriting and arranging	0.2
Progress towards 2025 target of \$20 billion	4.9
Lending to support development of 6 Star residential properties ⁵	8.5
Progress towards 2025 target of \$35 billion	8.5
PROGRESS TOWARDS AGGREGATED 2025 TARGET OF \$55 BILLION	13.4

CLIMATE CHANGE

NAB recognises that climate change is a significant risk and major challenge for the global economy and society. Key regulators have also recognised the financial nature of climate risks, as well as their potential system-wide implications. We know that investors and stakeholders are concerned about how banks are managing these climate-related risks and opportunities.

In order to understand the implications of the Paris Agreement⁶ and to refresh our climate change strategy, in 2017, we established a Climate Change Working Group. This year we have:

- Reviewed key climate-related risks and opportunities across our operations, lending and investments.
- Reviewed and refreshed our climate change commitments, which has involved:
 - Increasing our current environmental financing commitment in order to assist the low carbon transition (refer to the left).
 - Increasing our sourcing of Australian renewable electricity from 10% by 2018, to 50% by 2025.
 - Playing an active role in addressing climate change by seeking to innovate across key sectors and markets, supporting low carbon opportunities for our customers.
- Participated in a pilot project, led by the United Nations Environment Program Finance Initiative, on the implementation of key recommendations from the Financial Stability Board’s Taskforce on Climate-related Financial Disclosures. This pilot commenced in late 2017 and will run through 2018.

¹ The Social Bond (Gender Equality) was issued by NAB in March 2017 for \$500 million.
² The \$200 million bond, placed for Australian Catholic University (ACU) in July 2017, was the first Sustainability Bond to be issued globally in alignment with the June 2017 update of the International Capital Markets Association (ICMA) Sustainability Bond Guidelines. The bond also aligns with ICMA’s Social Bond Principles (SBP) and Green Bond Principles (GBP).
³ This is the cumulative total in A\$ billions of environmental finance provided from 1 October 2015 to 30 September 2017 as part of NAB’s environmental financing commitment.
⁴ In the 2017 financial year, we tightened our requirements for commercial buildings included in our environmental financing commitment from ≤ 5Star to ≤ 6Star GreenStar to reflect the improving performance of commercial buildings and to ensure the lending captured in NAB’s financing reflects higher performing buildings in the market.
⁵ In the 2017 financial year, we reviewed and refined our criteria for loans included in our commitment to support 6 Star residential mortgages.
⁶ The Paris Agreement is an agreement within the United Nations Framework Convention on Climate Change (UNFCCC) dealing with greenhouse gas emissions mitigation, adaptation and finance starting in the year 2020, and committing to limit global warming to less than 2°C above pre-industrial levels.

OUR FOUNDATIONS

In 2017, the Group maintained a strong capital, funding and liquidity position in line with our ongoing commitment to balance sheet strength. This provides us with confidence to respond to changing market conditions and regulatory requirements.

David & Eleanor Attala
Owners, Kenz Designs
NAB Microenterprise Customers



BALANCE SHEET MANAGEMENT

We have continued to grow our stable sources of funding throughout 2017. Our Stable Funding Index (SFI), which represents the proportion of our core assets that are funded by customer deposits and term funding greater than 12 months, has increased from 90.8% in 2016 to 93.4% in 2017.

This year, the Group continued to access a diverse range of funding and capital options across various senior, subordinated and secured markets. This included inaugural benchmark transactions in new markets, which allowed the Group to increase its investor base and further diversify the funding portfolio. The Group raised \$36.8bn of term wholesale funding in 2017.

We have maintained strong liquidity throughout the year. The 30 September 2017 quarterly average Liquidity Coverage Ratio (LCR) was 123%, above the Australian Prudential Regulation Authority (APRA) requirement of 100%. The 30 September 2017 Net Stable Funding Ratio (NSFR) was 108%, above the minimum regulatory requirement of 100% from 1 January 2018.

Our capital management strategy is focussed on adequacy, efficiency and flexibility. The amount of capital we hold considers our risk appetite, informed by both our internal risk-based assessment of required capital and regulatory requirements, as well as shareholder expectations.

Our balance sheet strength leaves us well placed to meet regulatory changes and to respond to future challenges.

In July 2017, APRA announced a Common Equity Tier 1 (CET1) ratio target of at least 10.5% by January 2020 for major banks to be viewed as 'unquestionably strong', with finalisation of international capital reforms not expected to require any further overall increases to Australian requirements. NAB expects to meet APRA's new capital requirements in an orderly manner given our current capital position and the timeline for transition.

As at 30 September 2017, NAB's CET1 ratio was 10.1% on an APRA basis and 14.5% on an internationally comparable basis. NAB's Leverage Ratio was 5.5%.

The Group has executed Tier 2 capital issuance of \$1.3 billion, while \$0.4 billion of Additional Tier 1 capital and \$1.5 billion of Tier 2 capital was redeemed during the financial year ended September 2017.

Common Equity
Tier 1 Ratio

10.1%

as at 30 September 2017

Our strong organisational governance culture and framework underpin effective decision making across our business.

Our approach to corporate governance is supported by:

- A skilled, diverse and independent Board.
- Strong, accountable and coordinated management.
- Robust risk management and policy frameworks.
- Compliance with external regulation.
- Timely and comprehensive communication with stakeholders.
- A genuine, long-term commitment to sustainability.

We continue to apply the highest standards in corporate governance and have complied with the 3rd edition of the ASX Corporate Governance Principles and Recommendations during 2017. These principles set best practice in governance for ASX listed companies.

THE BOARD AND DELEGATED AUTHORITY

Our Board provides strategic direction for our business. It also represents the interests of our shareholders through the creation of sustainable value. The Board is supported by its Committees, as shown in the adjacent diagram.

Each Committee has a Charter that sets out its authority, composition, duties, responsibilities and terms of operation. In 2017, the activity of the Nomination & Governance Committee was extended in order to create additional capacity for the Board’s focus on strategic and business performance at NAB.

Authority is delegated by the Board to the Group CEO (and other people responsible for the day to day management of our business). The Group CEO in turn delegates certain authorities to senior executives. These delegations are regularly reviewed and confirmed.

RESPONSIBLE REMUNERATION

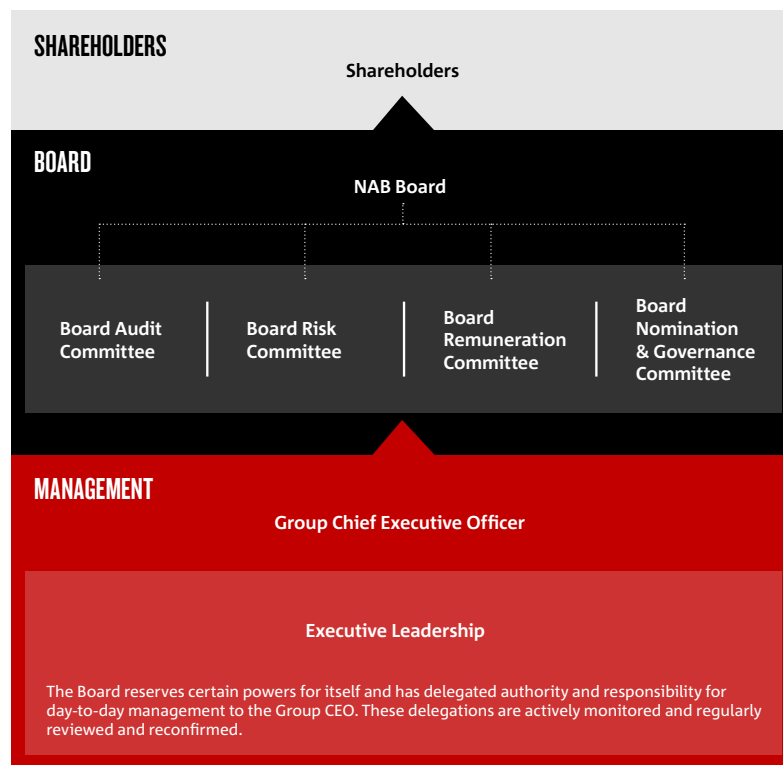
Our remuneration framework and policy are structured to link reward outcomes to shareholder value, attract and retain high-performing employees and promote long-term sustainable growth.

We are committed to ensuring that our performance and reward frameworks and culture are appropriate to support our customers.

RISK GOVERNANCE

As part of the Group risk management framework, which underpins how we run our business and for which the Board is ultimately accountable, we actively identify and manage risk.

The Board’s Risk Committee maintains oversight of NAB’s risk profile in the context of the Board approved Risk Appetite Statement, and supports the NAB Board in relation to its risk governance responsibilities.



At NAB, governance practices empower and enable our operations. They provide clarity to management around authorities, encourage transparency, and support compliance. They also allow information to flow to the Board in order to support it in fulfilling its roles and responsibilities.

To facilitate effective performance and succession planning, the Board (with the support of its Nomination & Governance Committee) regularly reviews its composition to ensure that:

- Its directors bring a diverse and relevant set of skills.
- The composition of the Board as a whole remains appropriate to preserve and create value for our shareholders.

Board performance and director independence are also assessed annually. The next page will give you more information about our directors.

For more on our corporate governance practices, see our 2017 Corporate Governance Statement at nab.com.au/about-us (in the Corporate Governance section).



Our Board continues to focus on enhancing long-term shareholder returns, having regard to the interests of other stakeholders including our customers, our people and the communities in which we operate.

As Chairman, Dr Ken Henry is responsible for leading the Board and ensuring that it operates to high standards of corporate governance, as well as fulfilling its duties under the Board Charter, which is available in the Corporate Governance section of our website.

The Board actively reviews its composition to ensure it always has the mix of skills, experience and diversity necessary for continued effectiveness. In November 2017, the Board appointed Ms Ann Sherry as a non-executive director.

The Board has reviewed and taken into consideration the existing workload of directors and concluded that each director has sufficient capacity to undertake the duties expected of a director of NAB.

From left to right:

ANDREW THORBURN

Managing Director and Group Chief Executive Officer since August 2014.

GERALDINE MCBRIDE

Non-executive director since March 2014. Geraldine is a member of the Board's Audit Committee.

KEN HENRY

Chairman since December 2015 and a non-executive director since November 2011. Ken is Chairman of the Board's Nomination & Governance Committee.

ANTHONY YUEN

Non-executive director since March 2010. Anthony is a member of the Board's Audit and Risk Committees.

DAVID ARMSTRONG

Non-executive director since August 2014. David is Chairman of the Board's Audit Committee and a member of the Risk Committee.

PEEYUSH GUPTA

Non-executive director since November 2014. Peeyush is a member of the Board's Risk, Remuneration and Nomination & Governance Committees.

DOUG MCKAY

Non-executive director since February 2016. Doug is a member of the Board's Audit and Nomination & Governance Committees.

ANNE LOVERIDGE

Non-executive director since December 2015. Anne is Chairman of the Board's Remuneration Committee and a member of the Nomination & Governance Committee.

PHILIP CHRONICAN

Non-executive director since May 2016. Philip is Chairman of the Board's Risk Committee and a member of the Remuneration Committee.

For detailed information on the skills and experience of each director, see pages 19-21 of the 2017 Annual Financial Report.

2017 GROUP FINANCIAL PERFORMANCE¹

RESULTS (\$M) ^{2,3,4}	2017	2016
Net interest income	13,166	12,930
Other operating income	4,729	4,503
Net operating income	17,895	17,433
Operating expenses	(7,635)	(7,438)
Underlying profit	10,260	9,995
Charge to provide for bad and doubtful debts	(810)	(800)
Cash earnings before tax and distributions	9,450	9,195
Income tax expense	(2,710)	(2,588)
Cash earnings before distributions	6,740	6,607
Distributions	(98)	(124)
Cash earnings	6,642	6,483
Non-cash earnings items (after tax):		
Distributions	98	124
Treasury shares	-	61
Fair value and hedge ineffectiveness	(500)	(126)
Life Insurance 20% share of profit	-	(39)
Amortisation of acquired intangible assets	(62)	(83)
Net profit from continuing operations	6,178	6,420
Net loss after tax for the period from discontinued operations ⁵	(893)	(6,068)
Net profit attributable to owners of NAB⁶	5,285	352

KEY INDICATORS ^{2,3,4}	2017	2016
Statutory earnings per share (cents) – basic	194.7	8.8
Statutory earnings per share (cents) – diluted	189.1	15.5
Cash earnings per share (cents) – basic	249.3	245.1
Cash earnings per share (cents) – diluted	239.7	235.3
Statutory return on equity	10.9%	0.5%
Cash return on equity (ROE)	14.0%	14.3%

PROFITABILITY, PERFORMANCE AND EFFICIENCY MEASURES^{2,3,4}

Dividend per share (cents)	198	198
Dividend payout ratio	79.4%	80.8%
Cash earnings on average assets	0.83%	0.76%
Cost to income (CTI) ratio	42.7%	42.7%
Net interest margin	1.85%	1.88%

CAPITAL

Common Equity Tier 1 ratio	10.06%	9.77%
Tier 1 ratio	12.41%	12.19%
Total capital ratio	14.58%	14.14%

ASSET QUALITY^{2,3,4}

90+ days past due and gross impaired assets to gross loans and acceptances	0.70%	0.85%
Specific provision to gross impaired assets ⁷	45.5%	38.3%

OTHER

Full Time Equivalent Employees (FTE) (spot)	33,422	34,263
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1 Refer to Glossary and definitions on page 36 of this report, for definitions of the above financial metrics.

2 Figures are in Australian dollars, unless otherwise stated.

3 Information is presented on a continuing operations basis including prior period restatements. Refer to Glossary and definitions on page 36 for definition of continuing operations and discontinued operations.

4 NAB's audited financial statements, prepared in accordance with the Corporations Act 2001 (Cth) and Australian Accounting Standards, are set out in NAB's 2017 Annual Financial Report. A definition of cash earnings is set out in the Glossary and definitions on page 36 of this report. Full detail on how cash earnings is defined, a discussion of non-cash earnings items and a full reconciliation of statutory net profit attributable to owners of NAB is set out in Note 2 of NAB's 2017 Annual Financial Report.

5 Discontinued operations is defined in the Glossary and definitions and for the September 2017 full year includes a loss relating to the Conduct Indemnity Deed entered into with CYBG, predominantly in respect to PPI, and a loss on the completion of the sale of certain UK commercial real estate loans.

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

7 Consists only of impaired assets where a specific provision has been raised and excludes \$205 million (NZ\$222 million), (March 2017: \$726 million (NZ\$795 million), September 2016: \$785 million (NZ\$823 million)) of NZ Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans.

2017 GROUP NON-FINANCIAL PERFORMANCE ^{1, 2}	2017	2016
Net Promoter Score (Home Owners) – Australia ³	-23	-20
Net Promoter Score (Investors) – Australia ³	-16	-17
Net Promoter Score (Small Business) – Australia ³	-16	-16
Net Promoter Score (Medium Business) – Australia ³	+3	-8
Net Promoter Score (Priority segments) – Australia ³	-13	-15
Number of customer complaints – Australia and New Zealand ⁴	225,011	212,366
Number of branches and business banking centres	977	1,017
Number of ATMs	3,491	3,472
% of registered internet banking customers that are active users – Australia	74%	73%
Number of microfinance loans written – Australia and New Zealand ⁵	27,146	23,023
Value of microfinance loans written (\$m) – Australia and New Zealand ⁵	29.3	26.0
Cumulative number of low income Australians assisted with microfinance products/services ⁵	513,941	449,844
Number of customers assisted experiencing financial hardship – Australia	19,652	21,303
NAB Group overall employee engagement score ⁶	59	N/A
NAB ‘Alignment to our values’ score ^{6, 7}	76	N/A
Number of breaches of our Code of Conduct – Australia ⁸	1,613	1,138

1 NAB Group non-financial performance table data is described in detail in our 2017 Sustainability Report, available at nabgroup.com/annualreports. All figures are for the NAB Group as at 30 September, unless otherwise stated.
 2 Information is presented on a continuing operations basis. Prior periods have been restated. Refer to Glossary and definitions on page 36 for definition of continuing operations and discontinued operations.
 3 Source: Roy Morgan Research 6 month moving AFI advocacy, DBM (BFSM) 6 month moving AFI advocacy as at 30 September 2017. Net Promoter, Net Promoter Score and NPS are registered trademarks of Bain & Company Inc., Satmetrix Systems Inc. and Fred Reichheld. 2016 NPS performance has been restated to reflect the change in priority segments. Refer to Glossary and definitions on page 36 for definition of NAB’s priority segments.
 4 Reflects our ongoing commitment to encourage customer feedback and address customer concerns. For further information, refer to 2017 Sustainability Report.
 5 Delivered in partnership with Good Shepherd Microfinance (Australia) and Good Shepherd New Zealand. Cumulative data has been collected since 2005 in Australia and 2014 in New Zealand.
 6 Source: Employee Engagement Survey conducted by Aon Hewitt. In 2016, NAB’s engagement survey was conducted by Right Management. While Aon Hewitt’s methodology is not directly comparable with last year’s survey, our 2017 Group engagement score overall has decreased from 2016.
 7 Alignment to values is a measure of the response to the question: “My everyday work is guided by the organisation’s values/behaviours.”
 8 Code of Conduct breaches represent confirmed breaches managed through our Workplace Relations team. The increase in the number of recorded breaches of our Code of Conduct reflects the introduction of the Employee Conduct Management Policy in 2015, which has seen matters handled more effectively by our leaders in consultation with the Workplace Relations Team, with a focus on consistent application of consequences. In 2017, 343 breaches are attributable to one particular issue relating to the incorrect completion of forms and, where appropriate, disciplinary action was consistently applied following a thorough investigation.
 9 Data has been calculated based on total population as at 30 September 2017. It includes all members of the NAB Group.

2017 GROUP NON-FINANCIAL PERFORMANCE ^{1, 2}	2017	2016
% of women in total workforce ⁹	54	54
% of women in Executive Management (salary Group 6 and 7) ^{9, 11}	31	29
% of women on NAB Group subsidiary Boards ⁹	39	39
% of women on the NAB Board (excluding executive directors) ¹⁰	25	30
% of employees 50 years of age or over ^{9, 12}	19	18
Return to work rate (%) for employees following primary carer’s leave and any consecutive extended leave – Australia ⁹	86	87
Number of Indigenous Australians employed ⁹	209	207
Total employee turnover rate (%) ^{9, 13}	14.9	12.3
Voluntary employee turnover rate (%) ^{9, 13}	11.4	9.9
Retention rate (%) of high performing employees – Australia and New Zealand ^{9, 14}	93	94
Absenteeism – Australia ^{9, 15}	8.18	7.91
Community investment (\$m)	44.6	48.8
Number of volunteer days completed	16,115	23,065
Value of volunteer days completed (\$m) ¹⁶	6.4	8.9
Progress towards 2025 \$55bn environmental financing commitment (\$bn) ¹⁷	13.4	6.1
Gross greenhouse gas emissions (Scope 1, 2 and 3) (tCO ₂ -e) ¹⁸	185,898	232,100
% of material suppliers that are signatories to NAB Group Supplier Sustainability Principles	90	91

10 Calculation of the 2017 percentage of women on the NAB Board (excluding executive directors) does not include the appointment of a female non-executive director in November 2017, which will lift the percentage of women on the NAB Board to 33%.
 11 The definition of Executive Management has changed in 2017 to reflect employees in salary Group 6 and 7. As such, the 2016 data has been restated.
 12 Total number of employees aged 50 and over as a percentage of headcount.
 13 Number of all employees who exited NAB each year, by exit type, as a percentage of the average permanent headcount for each respective year.
 14 The percentage of employees recognised as high performing during the previous performance period review process, that remain employed at 30 September of the following performance period.
 15 The total number of unscheduled absence days divided by the average number of full-time equivalent employees (excluding casual employees). Past results have been revised upwards due to additional absences being recorded after the reporting period has ended. Current year results are also likely to be revised as additional absences are recorded in our system; any updates will be reflected in future reporting.
 16 Value of volunteer days is calculated by applying average daily salaries by employment level, to number of days completed by employment level.
 17 Prior period has been restated. See footnotes 4 and 5 on page 26 for more information.
 18 Consolidated Scope 1, Scope 2 and selected Scope 3 GHG emissions (accounting for renewable electricity purchased in the UK) are for the environmental reporting year of 1 July – 30 June. Historical figures have been restated to account for water consumption emissions which is a requirement of the National Carbon Offset Standard. See our 2017 Sustainability Report for further information.

2017 ANNUAL REPORTING SUITE

You can view our 2017 Annual Reporting suite online at nabgroup.com/annualreports.

A printed copy of our 2017 Annual Financial Report and 2017 Summary Review can be requested from the Share Registry either by emailing nabservices@computershare.com.au or calling 1300 367 647 (within Australia) or +61 3 9415 4299 (from outside Australia).

Current and extensive historical information is posted and maintained on the website at nabgroup.com.

HELPING CONVERT YOUR SHARES TO BENEFIT AUSTRALIAN CHARITIES

ShareGift Australia is a not-for-profit organisation providing shareholders with a facility to sell and donate parcels of shares to charity, free of brokerage or other administration charges.

To date, ShareGift Australia has donated more than \$1.62 million to over 470 charities, helping to unlock a growing stream of funds for the Australian community. ShareGift Australia is proudly supported by National Australia Bank Limited and is endorsed by The ASX Group and the Australian Shareholders' Association.

For further information about ShareGift Australia visit sharegiftaustralia.org.au or call 1300 731 632.

2018 FINANCIAL CALENDAR¹

HALF YEAR RESULTS AND INTERIM DIVIDEND ANNOUNCEMENT

THURSDAY, 3 MAY 2018

National Australia Bank's Interim Dividend Payment (ASX CODE: NAB)

Ex-dividend date for Interim Dividend Tuesday, 15 May 2018

Record date for Interim Dividend Wednesday, 16 May 2018

Payment date for Interim Dividend Thursday, 5 July 2018

FULL YEAR RESULTS AND FINAL DIVIDEND ANNOUNCEMENT

THURSDAY, 1 NOVEMBER 2018

National Australia Bank's Final Dividend Payment (ASX CODE: NAB)

Ex-dividend date for Final Dividend Thursday, 8 November 2018

Record date for Final Dividend Friday, 9 November 2018

Payment date for Final Dividend Friday, 14 December 2018

Annual General Meeting – to be held in Melbourne Wednesday, 19 December 2018

¹ If there are any changes to these dates, the Australian Securities Exchange will be notified accordingly.

CONTACT DETAILS

PRINCIPAL SHARE REGISTER

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

POSTAL ADDRESS

GPO Box 2333
Melbourne VIC 3000
Australia
Local call: 1300 367 647
F: +61 3 9473 2500

OUTSIDE AUSTRALIA

T: +61 3 9415 4299
F: +61 3 9473 2500
E: nabservices@computershare.com.au
W: nabgroup.com/shareholder

UNITED KINGDOM SHARE REGISTER

Computershare Investor Services plc
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
United Kingdom
T: +44 370 703 0197
F: +44 370 703 6101
E: nabgroup@computershare.co.uk
W: nabgroup.com/shareholder

UNITED STATES ADR DEPOSITORY TRANSFER AGENT AND REGISTRAR CONTACT DETAILS FOR NAB ADR HOLDERS:

Deutsche Bank Shareholder Services
American Stock Transfer & Trust
Company
Peck Slip Station
PO Box 2050
New York NY 10272-2050
United States of America
Toll-free: +1 866 706 0509
Direct dial: +1 718 921 8137
E: DB@amstock.com

CONTACT DETAILS FOR ADR BROKERS AND INSTITUTIONAL INVESTORS:

US T: +1 212 250 9100
UK T: +44 207 547 6500
E: adr@db.com

REGISTERED OFFICE

National Australia Bank Limited
Level 1
800 Bourke Street
Docklands VIC 3008
Australia
T: 1300 889 398

COMPANY SECRETARY

Louise Thomson
National Australia Bank Limited
Level 1
800 Bourke Street
Docklands VIC 3008
Australia
T: +61 3 8872 2461

CORPORATE RESPONSIBILITY

Postal address:
Corporate Responsibility
National Australia Bank Limited
700 Bourke Street
Docklands VIC 3008
Australia
E: corporate.responsibility@nab.com.au

AUDITOR

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000
Australia
T: +61 3 9288 8000





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

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

Independent Limited Assurance Statement to the Management and Directors of National Australia Bank Limited ('NAB')

Our Conclusion:

Ernst & Young ('EY', 'we') were engaged by NAB to undertake limited assurance as defined by Australian Auditing Standards, here after referred to as a 'review', over the materiality process, selected material topics and associated selected disclosures and performance metrics included in NAB's 2017 Annual Review (the 'Report') for the year ended 30 September 2017. Based on our review, nothing came to our attention that caused us to believe that:

- ▶ NAB has not presented its material issues and that the associated disclosures are not complete in the Report, where materiality and completeness are defined by the Global Reporting Initiative Standards ('GRI')
- ▶ The Performance Metrics and Disclosures detailed below, have not been reported and presented fairly, in all material respects, in accordance with the criteria detailed below.

What our review covered:

We reviewed NAB's materiality process including NAB's approach to identification of material topics and the completeness of the disclosure of these material topics in the Report.

We also reviewed the following disclosures and performance metrics for the year ending 30 September 2017:

- ▶ 29 key non-financial metrics and the disclosures¹ included in the Report related to these key metrics, and
- ▶ The financial metrics included in the Report in the Group Financial Performance table on page 30 of the Report.

Criteria applied by NAB

In preparing the materiality process and selected material topics NAB applied the GRI G4 principles of materiality and completeness. In preparing the selected disclosures and performance metrics NAB applied the following criteria:

- ▶ NAB's reported criteria for the key non-financial metrics detailed on page 31 of the Report
- ▶ NAB's accounting policies as defined in NAB's Annual Financial Report and financial reporting policies and principles per NAB's 2017 Results Announcement as detailed online at www.nabgroup.com (together 'the Criteria').

Key responsibilities

EY's responsibility and independence

Our responsibility was to express a limited assurance conclusion on the outcomes and reporting of NAB's materiality process, the reporting of selected material topics and associated selected disclosures and performance metrics and the reporting of selected financial metrics in the Report.

We were also responsible for maintaining our independence and confirm that we have met the requirements of the APES 110 Code of Ethics for Professional Accountants including independence, and have the required competencies and experience to conduct this assurance engagement.

NAB's responsibility

NAB's management was responsible for selecting the Criteria, and fairly presenting the materiality process, selected material topics and associated disclosures and performance metrics in accordance with that Criteria. This responsibility includes establishing and maintaining internal controls, adequate records and making estimates that are reasonable in the circumstances.

Our approach to conducting the review

We conducted this review in accordance with the International Federation of Accountants' *International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ('ISAE 3000'), the *Auditing Standard on Review Engagements ASRE 2405 Review of Historical Financial Information Other than a Financial Report* and the terms of reference for this engagement as agreed with NAB on 20 April 2017.

Summary of review procedures performed

A review consists of making enquiries, primarily of persons responsible for preparing the materiality process, selected material topics, selected performance metrics and related information, and applying analytical and other review procedures.

Our procedures included:

- ▶ Gaining an understanding of NAB's business and approach to sustainability
- ▶ Conducting interviews with NAB executive management and other key personnel relating to NAB's identification and inclusion of material sustainability issues in the Report in line with the GRI materiality and completeness principles
- ▶ Conducting checks such as a media review and comparison of peer reporting to understand whether NAB included and reported its material sustainability issues in line with the GRI materiality and completeness principles
- ▶ Conducting limited assurance procedures over the other non-financial and financial performance metrics and disclosures, including:
 - ▶ Checking that the calculation criteria have been applied as per the methodologies for the non-financial metrics within the report and for the financial metrics as defined in NAB's accounting and financial policies and 2017 Results Announcement online at www.nabgroup.com
 - ▶ Undertaking analytical procedures to support the reasonableness of the data
 - ▶ Identifying and testing assumptions supporting calculations
 - ▶ Testing, on a sample basis, underlying source information to check accuracy of the data
 - ▶ Checking the clerical accuracy of financial metrics
 - ▶ Where applicable agreeing financial metrics to core financial systems and the 2017 Results Announcement
 - ▶ Testing, on a sample basis, the accuracy and balance of performance statements within the Report associated with the key non-financial metrics.

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

Limited Assurance

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

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.

Use of our Assurance Statement

We disclaim any assumption of responsibility for any reliance on this assurance report to any persons other than management and the Directors of NAB, or for any purpose other than that for which it was prepared. Our review 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 this web-based information after the date of this assurance statement.

Ernst & Young
Melbourne, Australia
14 November 2017

Terence Jeyaretnam, FIEAust
Partner

¹ The key non-financial metrics included in the scope were determined by NAB. A list of the 29 key non-financial metrics can be found at <https://www.nab.com.au/about-us/corporate-responsibility/shareholders/performance-and-reporting>

BEING ACCOUNTABLE

Our 2017 Annual Review Steering Committee is responsible for ensuring the integrity of our integrated report (the 2017 Annual Review). The Steering Committee is comprised of representatives from key business functions, including Investor Relations, Finance and Corporate Affairs.

Other business functions have collectively contributed to the preparation of the 2017 Annual Review. These include Strategy, Governance, Risk, Legal, Treasury, People and Technology.

The Steering Committee concludes that the 2017 Annual Review has been developed with due consideration of the IIRC Integrated Reporting Framework.

UNDERSTANDING THIS REPORT

This document is not a concise report prepared under section 314(2) of the Corporations Act 2001 (Cth). NAB has not prepared a concise report for the 2017 financial year. All figures quoted are in Australian dollars unless otherwise stated. A reference to ‘\$’ is to an amount in Australian dollars. References to ‘NAB’ or the ‘Company’ are to National Australia Bank Limited ABN 12 004 044 937.

The ‘NAB Group’ refers to NAB and its controlled entities. All references are as at 30 September 2017 except where stated otherwise. Any references to changes (including an increase or decrease) relate to the previous year, unless otherwise stated.

Unless otherwise stated, information in this document is presented on a cash earnings basis. Cash earnings is a non-IFRS key financial performance measure used by NAB, the investment community and NAB’s Australian peers with similar business portfolios.

2017 ANNUAL FINANCIAL REPORT

The NAB Group’s audited financial statements, prepared in accordance with the Corporations Act 2001 (Cth) and Australian Accounting Standards, are published in our 2017 Annual Financial Report, which can be viewed at nabgroup.com/annualreports from 14 November 2017 and is available in hard copy on request.

CORPORATE RESPONSIBILITY

Additional information is available in our 2017 Sustainability Report, available online from 14 November 2017. The report provides detailed information for analysts and other stakeholders on our Corporate Responsibility performance, including historic trends and application of the Global Reporting Initiatives G4 guidelines.

LITIGATION

Entities within the NAB Group are defendants from time to time in legal proceedings. There are contingent liabilities in respect of claims, potential claims and court proceedings, against NAB Group companies. Where appropriate, provisions have been made¹.

FORWARD-LOOKING STATEMENTS

This document contains statements that are, or may be deemed to be, forward-looking statements. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms “believe”, “estimate”, “plan”, “project”, “anticipate”, “expect”, “target”, “intend”, “likely”, “may”, “will”, “could” or “should” or, in each case, their negative or other variations or other similar expressions, or by discussions of strategy, plans, objectives, targets, goals, future events or intentions.

Indications of, and guidance on, future earnings and financial position and performance are also forward looking statements.

You are cautioned not to place undue reliance on such forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Group, which may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements.

Pages 6-7 of this document describe certain initiatives relating to the Group’s strategic agenda (“Program”), including certain forward-looking statements. These statements are subject to a number of risks, assumptions and qualifications, including:

- (1) detailed business plans have not been developed for the entirety of the Program, and the full scope and cost of the Program may vary as plans are developed and third parties engaged;
- (2) the Group’s ability to execute and manage the Program in a sequenced, controlled and effective manner and in accordance with the relevant project and business plan (once developed);
- (3) the Group’s ability to execute productivity initiatives and realise operational synergies, cost savings and revenue benefits in accordance with the Program plan (including, in relation to CTI and ROE targets, the extension of improvements beyond the current Program plan);
- (4) the Group’s ability to meet its internal net FTE reduction targets;

(5) the Group’s ability to recruit and retain FTE and contractors with the requisite skills and experience to deliver Program initiatives;

(6) there being no significant change in the Group’s financial performance or operating environment, including the economic conditions in Australia and New Zealand, changes to financial markets and the Group’s ability to raise funding and the cost of such funding, increased competition, changes in interest rates and changes in customer behaviour;

(7) there being no material change to law or regulation or changes to regulatory policy or interpretation, including relating to the capital and liquidity requirements of the Group; and

(8) for the purpose of calculating FTE cost savings and redundancy costs, the Group has assumed an average FTE cost based on Group-wide averages, and such costs are not calculated by reference to specific productivity initiatives or individual employee entitlements.

Further information on important factors that could cause actual results to differ materially from those projected in such statements is contained on pages 11-18 of our 2017 Annual Financial Report under ‘Disclosure on Risk Factors’.

¹ Refer to Note 32 of the 2017 Annual Financial Report for more information on our contingent liabilities.

APRA

Australian Prudential Regulation Authority.

ASIC

Australian Securities and Investments Commission.

Cash earnings

Cash earnings is defined as net profit attributable to owners of the NAB, excluding discontinued operations, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. In September 2017, cash earnings have been adjusted for the following:

- Distributions;
- Fair value and hedge ineffectiveness; and
- Amortisation of acquired intangible assets.

Cash earnings per share – basic

Calculated as cash earnings adjusted for distributions on other equity instruments, divided by the weighted average number of ordinary shares adjusted to include treasury shares held by a controlled entity of the Group and employee share scheme trust.

Cash earnings per share – diluted

Calculated as cash earnings adjusted for distributions on other equity instruments and interest expense on dilutive potential ordinary shares. This adjusted cash earnings is divided by the weighted average number of ordinary shares, adjusted to include treasury shares held by a controlled entity of the Group, employee share scheme trust and dilutive potential ordinary shares.

Cash return on equity (RoE)

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

Common Equity Tier 1 (CET1) capital

Common Equity Tier 1 (CET1) capital is recognised as the highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominately comprised of common shares; retained earnings; undistributed current year earnings; as well as other elements as defined under APS111 – Capital Adequacy: Measurement of Capital.

Common Equity Tier 1 ratio

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

Continuing operations

Continuing operations are the components of the Group which are not discontinued operations.

Core assets

Represents gross loans and advances including acceptances, financial assets at fair value, and other debt instruments at amortised cost (classified in comparative periods as investments held to maturity).

Cost to income (CTI) ratio

Represents operating expenses as a percentage of net operating income.

Customer deposits

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

Discontinued operations

Discontinued operations in the September 2017 full year includes a loss relating to the Conduct Indemnity Deed entered into with CYBG, predominantly in respect to PPI, and a loss on the completion of the sale of certain UK commercial real estate loans.

Distributions

Payments to holders of equity instruments, National Income Securities and Trust Preferred Securities.

Dividend payout ratio

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

Earnings per share

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

Fair value 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.

Financial capital

The pool of funds that is available to an organisation for use in the production of goods or the provision of services and obtained through financing, such as debt, equity or grants, or generated through operations or investments.

Financial year

Year ended 30 September 2017.

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.

Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is the market value of the finished goods and services produced within a country in a given period of time.

Greenhouse gas (GHG) emissions

Gaseous pollutants released into the atmosphere that amplify the greenhouse effect. Gases responsible include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

Group

NAB and its controlled entities.

Human capital

People's competencies, capabilities and experiences, and their motivations to innovate, including their alignment with and support for an organisation's governance framework, risk management approach and ethical values. People's ability to understand, develop and implement an organisation's strategy and loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.

Impaired assets

Consist of:

- Retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue;
- Non-retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest, and
- Impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.

Unsecured portfolio managed facilities are also classified as impaired assets when they become 180 days past due (if not written off).

Insurance

Includes the provision of personal and group insurance by NAB Wealth.

Intellectual capital

Organisational knowledge-based intangibles, including: intellectual property such as copyrights, software, rights and licenses and organisational capital such as tacit knowledge, system procedures and protocols.

Life Insurance 20% Share of Profit

Life insurance 20% share of profit represents the earnings associated with the 20% retained stake after the sale of 80% of NAB Wealth's life insurance business to Nippon Life.

Manufactured capital

Manufactured physical objects (as distinct from natural physical objects) that are available to an organisation for use in the production of goods or the provision of services, such as buildings, equipment and infrastructure.

NAB

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

Natural capital

All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current and future prosperity of an organisation. It includes air, water, land, biodiversity and eco-systems health.

Net interest margin (NIM)

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

Net profit attributable to non-controlling interest

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

Net profit attributable to owners of NAB

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

Net Promoter Score (NPS)

A loyalty metric that measures the quality of relationship between a provider and a consumer. Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld.

NPS priority segments

An average of the Net Promoter Score of four priority segments: NAB defined Home Owners and Investors, as well as Small Business and Medium Business. The priority segments NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research.

NPS – Home Owner

NAB defined Home Owner segment. Australian Population Aged 14+, six month moving average reported as at 30 September. Source: Roy Morgan Research.

NPS – Investor

NAB defined Investor segment. Australian Population Aged 14+, six month moving average reported as at 30 September. Source: Roy Morgan Research.

NPS – Small Business

Small Business (turnover \$0.1m-<\$5m) is a NAB construct that combines weighted results for the Lower (turnover \$0.1m-<\$1m) & Higher (turnover \$1m-<\$5m) Small Business sub-segments, using a 50:50 weighting approach. This metric does not reflect the relative size of these segments as per the ABS business population.

NPS – Medium Business

Business customers segment with a turnover between \$5m and \$50m.

Social & relationship capital

The institutions and the relationships within and between communities, groups of stakeholders and other networks and the ability to share information to enhance individual and collective well-being.

Tier 1 capital

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

Tier 2 capital

Tier 2 capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses; as set out in APS111 – Capital Adequacy: Measurement of Capital.

Total capital ratio

Total capital ratio is the sum of Tier 1 capital and Tier 2 capital, as defined by APRA, divided by risk-weighted assets.

Treasury shares

Shares in NAB held in the Group's consolidated investments businesses (up to the Successor Fund Merger on 1 July 2016) 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 the sale of shares held by the Group's consolidated investment business are eliminated for statutory reporting purposes.

Weighted average number of ordinary shares

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