

800 Bourke Street  
Docklands VIC 3008  
AUSTRALIA



# **NATIONAL AUSTRALIA BANK LIMITED 2018 ANNUAL GENERAL MEETING**

**Melbourne, Australia  
Wednesday, 19 December 2018**

## **CHAIRMAN AND GROUP CEO ADDRESSES**

# NAB CHAIRMAN DR KEN HENRY

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

This city was the birthplace of our bank 160 years ago. Today, more than 1.5 million NAB customers, 130,000 shareholders and more than 16,000 of our people, including Chief Executive Officer Andrew Thorburn, call Melbourne home.

It is an honour to serve as the Chairman of NAB, an organisation with a long and proud history of backing Australians. My fellow Directors here onstage share this sentiment.

This has been a challenging year – for all of the bank's 33,000 hardworking employees across Australia and New Zealand and for you, our owners.

Issues have been raised at our bank and in the industry that are unacceptable. There have been too many instances where we have not met the standards our customers are entitled to expect.

Right from the outset, it was clear that the Royal Commission would provide a clear demonstration of the need for change.

At NAB, we have been determined to face into these challenges. We have not bunkered down, waiting for the issues to blow over, getting on with business as usual.

There can be no business as usual.

We must build a better NAB – a bank that delivers the right outcomes for customers everywhere and every time. And we are.

Twelve months ago, we laid out a clear plan to once again make NAB a high performing bank capable of delivering strong returns, on a sustainable basis.

It will take time but we are confident in our approach – and in a moment, Andrew will take you through some of the significant actions we have been taking in the bank over this past year.

As a Board we have also been making changes to how we remunerate our senior executives. We could have waited until after the Royal Commission, which has brought a sharp focus to incentives in the banking industry. However, the Board came to the view long before the Commission started that our executive remuneration scheme was not right.

It didn't put enough focus on the management of non-financial risks and conduct matters. And, there was a risk that our so-called Long-Term Incentive scheme might even be encouraging short-term thinking and value-destroying behaviours.

We were not alone in considering this challenge – the consequences of traditional LTI schemes have been exercising the minds of remuneration specialists around the world for some years now.

There seems to be clear alignment on the goal, to better measure and reflect customer outcomes alongside long-term financial performance – and bring greater transparency to the way reward is determined for individual executives.

Having pressed ahead with our reforms to executive remuneration with this intention, the Board is hearing loud and clear that our new scheme is not right. We tried, but we got it wrong. We are listening to you. We will try again.

No matter what happens here today, more than 80 per cent of the votes cast on our remuneration report will be 'against'.

Based on our conversations with major investors in the lead-up to today, we estimate that, of the more than 80 per cent of votes cast 'against' the remuneration report, over one third are due to the fact that we have changed the design of our scheme.

Of the remainder, the 'against' votes relate to factors including the quantum of remuneration, scheme design, and how Board has applied the scheme, for the first time, in respect of the 2018 financial year. No doubt, there are also many other reasons for shareholders registering a 'no' vote on the remuneration report this year.

The Board accepts all of this feedback. We remain determined to have a framework that meets the expectations of all our stakeholders.

We will learn from your feedback, consult with our major shareholders, and consider the final report of the Royal Commission and APRA's review of remuneration practices at large financial institutions.

We will get our executive remuneration settings right, to the satisfaction of our shareholders. I encourage you to continue to give us feedback as we work toward this goal.

In response to the Notice of Meeting and in the lead-up to today, a number of shareholders have submitted questions. The Board values this insight, and I would like to address some of the prevalent themes in my remarks this morning.

On the most commonly expressed theme, the Board acknowledges that the current share price is not where any of us want it to be. While the market has declined for Australian banks and around the world, we are focussed on what we can control – making sure we have the right plan for the future, investing in the right areas and providing support and challenge for executive leadership.

We don't take your investment in our business for granted. You provide capital to us on the basis of receiving a good return over time.

Despite a challenging year, the bank delivered a solid financial performance. We were pleased to maintain the 2018 dividend at \$1.98 per share, fully franked, returning \$5.3 billion in dividends to more than 584,000 shareholders. If we look through significant, largely one-off items, our payout ratio is 82.6 per cent – which is appropriate at this time, given low risk-weighted asset growth and solid return on equity.

We have a clear plan for NAB and remain confident in our future under the leadership of CEO Andrew Thorburn and an executive team of truly global quality.

Andrew has announced this week that he plans to take annual leave from this Friday and will return to lead NAB's response to the Royal Commission's final report. He will then take a month of his Long-Service Leave entitlement. This is a decision we had discussed earlier this year and which the Board fully supports.

We are now twelve months into a three-year strategy to transform the bank and we look forward to Andrew returning from leave rested and recharged to see through the transformation – and beyond.

In setting NAB up for the future, we recognise the need to be much simpler and faster. Customer expectations are rapidly changing, new competitors are emerging, and our systems and processes need to be more robust and reliable.

We are making an additional investment of \$1.5 billion over three years to 2020. This is an ambitious plan.

We are not looking to the other Australian banks for benchmarks, but instead to the best in the world. We have a significant focus on innovation and banker capability in NAB's Business Bank, where we already have a market leading position but see opportunity for further growth.

Despite some economic headwinds, business conditions are holding at levels above the long run average. Our role, working with our customers, is to translate this into stronger business confidence and investment. In this spirit, NAB will chair an industry group that is working to establish the 'Australian Business Growth Fund' to support small business access to equity capital. This fund has the support of the Federal Government.

Underpinning our strategy is recognition that the best way to act in shareholders' long-term interests is through a relentless focus on our customers. I have said before, and we believe at NAB, that there is absolute alignment in the long-term interests of shareholders and customers. Losing sight of the customer in pursuit of short-term profits, or expediency, is not in anyone's favour.

Over the past decade, I have reflected often on the lessons of the global financial crisis. Senior banking executives in the United Kingdom and the USA were lauded for outstanding, long-term total shareholder return and return on equity performance over many years, until the cost of their prudential failings and poor treatment of customers were realised. Shareholders then paid a hefty price.

This year, we too have learned some important lessons. The Royal Commission has shone a light on the treatment of customers across the financial services industry, including at NAB. It has been a forum principally to examine how customers have been treated; and for banks to listen and learn.

It has posed questions of policy and practice. Finding the right answers to these questions will be critical to making our sector stronger and more sustainable.

I have welcomed the Royal Commission's examination, and its challenge to us. We have considered where, and why, NAB has let customers down, and how we could have responded differently.

I have been appalled by some of the instances of poor regulatory compliance and poor outcomes for our customers. It's not good enough.

I understand that many of you are upset by what you have seen and heard – and I understand why you are upset. The Board accepts accountability for these things. We are sorry.

So what do we do now? Most importantly, we have to learn from our mistakes and take action. We won't seek to talk our way out of this. We will work our way out.

The onus is on us to be better, faster and address the root causes of issues so they never occur again. This will remain a focus of the Board next year.

We will work with government and our regulators on any policy issues arising from the Royal Commission's final report due at the start of February. However, as I noted earlier, when it comes to being better for our customers, we are not waiting until then.

We have already overhauled NAB's introducer program and commenced a customer remediation program. We have completed refunds of Plan Service Fees, closing the issue for just over 304,000 affected members. We have also agreed on a remediation methodology with ASIC that will see NAB Financial Planning refund adviser service fees to those customers who didn't get the services they paid for. That is starting this week, and is to be completed in 2019.

The Board this year led a self-assessment on NAB's governance, accountability and culture, following release of APRA's prudential review into CBA.

We have been open about the underlying reasons for the issues we are facing, and what we are doing about them. And we have been similarly open in recognising that there is a lot of work to do if we are to be the bank we want to be.

We are the only major bank to voluntarily publish our self-assessment, for our people and to the public. We made this decision because we viewed it important to be transparent, and recognising our accountability to our customers and our shareholders – as well as APRA – about what needed to change, and why.

Through our regular financial reporting mechanisms, we will provide progress on the actions that we are taking to strengthen the bank's approach to non-financial risk management. Some actions are already underway through our transformation.

The self-assessment process provoked considerable introspection. We didn't shy away from NAB's shortcomings. It revealed that we do a good job of many things, most of the time. But we don't get it right for all of our customers, every single time.

We have faced into the uncomfortable truth that we have a long way to go to achieve our vision: to be 'Australia's leading bank, trusted by customers for exceptional service'.

Too often the voice of the customer has been missing from our decision-making. We are working to better understand customer complaints and deal with persistent issues. We are working to fix problems better and faster. And we are instituting a Board Customer Outcomes Committee, something that several of our shareholders had suggested. This committee will enhance the Board's ability to hear directly from customers and respond accordingly.

In the past we have been reluctant to set exacting standards and have not moved quickly enough to address weaknesses when they were recognised. On this too, we are now taking action. We are implementing better systems and processes. We have invested significantly more in compliance and risk, spending more than \$450 million in the 2018 financial year alone. And we have recruited additional specialist and senior risk management expertise. Simplifying our business and the products and services we offer is another way we can improve the speed at which we can get the right outcomes for customers.

The self-assessment also found that we have been prepared to accept good intentions rather than always holding ourselves to account for operating with the required degree of urgency, consistency and discipline. On this, we are creating clearer lines of accountability and lifting our expectations of leaders. We are also ensuring our remuneration frameworks incentivise the right behaviours, at all levels, to support and build the culture that we want.

Across the organisation, variable rewards include customer goals, actions and behaviours. Variable rewards are now fully compliant with the retail banking remuneration related recommendations made by independent expert Stephen Sedgwick AO, ahead of his 2020 deadline.

My fellow directors and I have a great privilege and responsibility. We are accountable for the sound corporate governance of your company, a major bank that impacts the lives of every Australian in one way or another. Living NAB's purpose and values starts with the Board. Every NAB director is a NAB shareholder and customer.

The Board will continue to guide, challenge and support the Executive Leadership Team to build a simpler, faster and better bank. We will not be complacent with our customers, or with the investment you, our shareholders, have made. We have great ambition for NAB, and are confident that the bank has the right plan and leadership to achieve that ambition.

In closing, I want to thank our nine million customers for banking with NAB, and our 33,000 people for their dedication to our customers and hard work.

I'd also like to thank you, our shareholders, for your support which enables us to deliver for customers. We will listen, respond to your views and make changes to ensure we meet your expectations as the owners of our company.

## **NAB GROUP CEO MR ANDREW THORBURN**

Thank you, Ken, and welcome to our shareholders both here in person in Melbourne and those joining us through the webcast.

Today is an important opportunity to reflect on our strategy and our performance during 2018 – and on the actions we are taking to become a stronger bank, where profitability and sustainable returns are built on a foundation of exceptional customer service.

Additionally, in my remarks today I would like to cover a number of other points, including the Royal Commission and how we're listening and acting differently.

I'll also talk about how we're investing and changing to become better and more focused on the long term, and what makes our business bank a key point of difference.

Lastly, I'll share my thoughts on our people and the culture of the bank, and how we make a difference to Australians.

And of course, we look forward to taking any questions you have for us today. The AGM is an important opportunity for you to have your say and for us to respond to your feedback. It is important to the Board and our Executive Leadership Team – who are all here today – that our shareholders share our confidence in NAB's future.

This year the Royal Commission has challenged the entire financial services sector. We have heard examples of where we have let our customers down; where we have lost their trust; where we haven't acted or fixed things quickly enough, and where we haven't got it right for all our customers, all of the time.

For these things, we are sorry. We are already starting to change and prove we are learning from our mistakes.

I have reflected on what has gone wrong and spoken before about the four reasons I believe banks have drifted.

Firstly, the primary focus shifted away from customers. This has left our industry open to the challenge of putting "profits before people". Ultimately the interests of our shareholders are aligned with the interests of our customers. This is how a sustainable business is built.

Secondly, the move from a long-term view to a short-term one. Given the risks and nature of our business, we should be planning over a five to ten year horizon, not just one to two years.

Thirdly, the move from base pay to greater incentive compensation hasn't been managed carefully enough, and has, at times, rewarded the wrong behaviours, and focused on product sales and short-term growth. We have taken actions in this area, and will continue to make changes.

Fourthly, banks have become bound by internal rules, policies, regulation and legacy systems. This has led to inertia – and as a result we lost the local connections we previously had.

Whilst the Royal Commission has revealed terrible examples of misconduct and mistakes, it is also true that it is not representative of the bank or its people – and the vast majority of the time we get it right. We are determined to get back to where we need to be, and to achieve our vision of being 'Australia's leading bank, trusted by customers for exceptional service'.

As Ken mentioned, we have reflected deeply inside the company about what needs to change – and have been very open and transparent, both publicly and with our people about the roadmap forward.

Trust is the foundation for a sustainable business, and we will be assessed on the changes we make and the actions we take to put our customers first.

While wholesale funding costs have risen, we have kept our Standard Variable Home Loan rate on hold for the time being, to recognise our customers' loyalty. Every month we are able to hold saves our customers money.

In July, we made an important commitment to be the bank for rural and regional Australia, and over the past few months myself and the bank's senior leaders have visited 13 communities right across the country to hear first-hand from customers. Following this, we are thinking differently about the service and support we can provide.

We made the decision to remove default interest rates for customers affected by drought, and allow our farming customers to offset their farm management deposits against their lending. We are working to establish regional connect centres in Toowoomba, Tamworth, Bunbury and Bendigo.

Ahead of today's meeting, we received a number of questions about our branch network and how we are supporting communities. We understand the important role the bank plays in communities around the country.

We reversed our decisions to close the Narooma and Dungog branches in NSW and we will not be closing any branch in drought-declared regional areas.

In places where customers are using branches less, to the point they are becoming unsustainable, we will work more closely with communities to understand and explore the options. This important work will be led by a new rural and regional council – because we know these decisions need local insight.

These actions are real and they're real for our customers. And we have committed to further actions in 2019, including even greater support for those in the regions.

In terms of our financial performance, 2018 has been a tough operating environment. But we have remained focused and delivered a credible financial result. As Ken said, we were pleased to maintain our dividend for shareholders of \$1.98 for the full year.

While the Australian economy remains strong, there are some risks emerging in the local housing market, global trade uncertainty and there is persistent low wages growth. We are alert to these challenges and need to ensure that as a nation we're focused on the long term and have a clear plan for opportunities in education, skills, infrastructure to improve productivity, capitalising on new technology, and the potential in regional and rural Australia, particularly in agriculture.

We are confident we have the right plan to prepare the bank for the future and are on the right track to deliver – achieving what we said we would in the first year of the transformation we announced 12 months ago.

Through our transformation, we are investing \$4.5 billion over three years to make NAB simpler and faster, less bureaucratic, with more efficient and reliable systems so we are able to deliver a better experience to our customers.

To reduce compliance, complexity and cost, we have reduced the number of products we offer. We are migrating to new technologies, including Cloud, to deliver greater speed and resilience at a lower cost. In total, we are on track to achieve \$1 billion in cost savings by 2020.

We aim, by the end of calendar year 2019, to separate MLC Wealth – to enable us to focus on a simpler wealth offering through nabtrade and JBWere. This has been assisted greatly by the appointment of Geoff Lloyd as CEO of MLC in September.

Our business bank continues to be a key differentiator for us, with a strong market position, good returns and growth opportunities. Last year we grew business lending by more than 5 per cent.

We are growing our industry specialisation for agri, health, government and education clients and have now added specialist professional service bankers as well.

Small business is another big opportunity for us and this year we opened a new customer hub – a centralised team of small business bankers operating seven days a week, with extended hours. We are also rolling out more Smart ATMs for 24/7 convenient cash management.

BNZ also continues to be a strong contributor, delivering consistent returns in a very competitive market.

We are in the business of taking appropriate risks and lending to customers. This is an important point to make at a time when there is some concern about the availability of credit. To our customers – and more broadly – I say we are very much open for business.

In 2018, our people have proven incredibly resilient in a challenging environment and I am proud of the work they do to serve our customers every day.

We have made progress in transforming our workforce to ensure we have the right skills for the future, which includes reducing layers of management to streamline decision-making.

Leadership is critical for achieving the culture we want, and developing the capability of our leaders to be able to lead in an ever-changing environment is an important focus for us, and for the people they lead.

We have a strong and capable Executive Team who, together with me, will provide the leadership needed to steer the bank through a challenging period ahead.

This year, I was delighted to elevate Rachel Slade and Shaun Dooley to our Executive Leadership Team, both strong leaders with a customer-mindset.

Antony Cahill and Andrew Hagger left the bank in the second half of the year, and I thank them both for their valuable service over many years.

This year, as part of transforming our workforce almost 2000 people left the bank and more than 700 new people joined, bringing new skills particularly in digital, technology and security. A further 4,000 people will leave over the next two years and we will provide the utmost care for them. We continue to enhance our world-class career transition program, The Bridge, to set people leaving NAB up for future success.

As we build a better bank, we are grounded in our purpose ‘to back the bold who move Australia forward’. We are proud to support our customers and through them, help the community and the economy to strengthen and grow for all Australians.

People like 83-year-old Norm Rix who has banked with NAB all his life. From humble beginnings, he worked hard to build a commercial property business, recently developing a new shopping centre at Pimpama on the Gold Coast. When I opened our new NAB branch there in September with Norm, he told me how proud he was to have “his bank” in “his shopping centre”. A proud moment for me too – and a reminder we must continue to listen, to learn and take action. To support communities. To invest and change for the long term. And to back people who are ambitious for Australia.

I know you have been disappointed and upset by issues of the past year. We have been too – we are determined to get better. We are already making good and necessary changes.

I believe in our people, who – throughout a very difficult year – have continued to serve our customers and support one another. I believe in our plan to become a stronger bank, where profitability and sustainable returns are built on a foundation of exceptional customer service. I am excited about our future and what we are creating for our customers and together with everyone at NAB I am committed to delivering this.

I want to finish by thanking our Chairman Ken Henry and the whole Board for their challenge and support as we progress in building a better and stronger bank.

Thank you to our customers for banking with us, and to our shareholders for backing us.

We now look forward to your questions.