Address by Mr Michael Chaney

Chairman

National Australia Bank

Annual General Meeting

13 December 2012

Good morning,

I am Michaela Healey, Company Secretary of the National Australia Bank.

Before commencing this Annual General Meeting, I would like to acknowledge the traditional owners and custodians of the land on which we meet today, the Noongar people and pay my respects to their elders both past and present.

I would now like to introduce our Chairman, Michael Chaney.

Good morning, ladies and gentlemen.

My name is Michael Chaney and I have the honour to be your company's Chairman.

It is now after 9:30 am, this is a properly constituted meeting and a quorum is present.

I, therefore, declare this Annual General Meeting of the National Australia Bank Limited open and welcome those who are attending in person. I also welcome those shareholders who are viewing this meeting on the internet.

Let me now introduce to you the people who are on stage with me today. Seated on my left, on your right, is our Group Chief Executive Officer Cameron Clyne. Next to Cameron is our Executive Director, Finance, Mark Joiner. Seated on my right is the Company Secretary, Michaela Healey. Seated in the front row are the other directors whom I will ask to stand as I introduce them.

Firstly, Mrs Patricia Cross, next to Patricia is Mr Danny Gilbert, next to Danny, is Dr. Ken Henry, Mr Paul Rizzo, Ms Jillian Segal, Mr John Thorn, Mr Geoff Tomlinson who is chairman of our wealth companies and Mr John Waller who is chairman of BNZ. Next to John is Mr Anthony Yuen.

As you will have seen in the Annual Financial Report, the board has a strong mix of skills, experience and diversity.

The auditor, Ernst & Young, represented by the Lead Engagement Partner, Mr Tony Johnson, is also present at today's meeting.
The Notice of Meeting has been sent to shareholders, which I propose be taken as read. The Annual Financial Report described in detail the company's performance for the 2012 financial year.

Our Chief Executive Cameron Clyne will discuss the Group's financial results in some detail shortly but before he does that, let me make a few comments about the operating environment and some key issues facing the bank.

Our full year results were announced to the market on 31 October. The Group recorded cash earnings of $5.4 billion, similar to the 2011 result, while statutory net profit attributable to the owners of the company was $4.1 billion. Our dividend for the full year rose 8 cents, or around 5 percent.

These results were below the budget we set last year, principally as a result of a deterioration in the UK economy which had a significant impact on the bank's performance in that region.

We have been working hard to reduce the drag of the UK business on the Group. During 2010 and 2011, in recognition of the poor outlook for the UK economy, we were actively pursuing a number of options, including disposal of the business.

Disposal ultimately proved not to be possible and, following declines in commercial real estate values and the economy late last year, we decided that the only sensible course was a radical restructuring of our UK banks. We announced the details of this in April.

Unfortunately the British economy fell back into recession in the months following that announcement and, at the time of our annual results, we announced a further $250 million economic overlay, with a direct effect on cash earnings.

The UK restructuring is now well advanced, although it will take the best part of the next year to complete it. This will give us a UK banking operation which is largely self-funded and profitable.

In the meantime, the bank's operations outside the UK have performed well, as the strategies adopted over the last three years begin to bear fruit.

Excluding UK banking, our cash earnings were up 9.2 percent over the year and our return on equity a very healthy 17.2 percent.

The strength of the Australian franchise, and the success of our strategy to focus on the Australian banking business, is perhaps best demonstrated this year in our Personal Banking business.

Personal Banking has delivered increased returns, one million new customers since February last year, increased market share in mortgages and household deposits in an extremely competitive environment, and the highest bank customer satisfaction score ever recorded amongst the four major Australian banks.

Across the Australian and New Zealand franchises we are recording very strong employee engagement scores.

We believe the commitment of our customers and our employees positions us well to meet the challenges of competition, economic headwinds and new regulation.

While the Group's performance at home has been solid, global operating conditions remain difficult.

The heightened uncertainty, volatility and stress evident in global markets late last year have weakened business confidence. The annualised pace of growth in the seven biggest advanced economies slowed to only one percent in the first half of 2012, with much of Western Europe and Japan falling back into recession.

The emerging economies, of China, India and Brazil in particular, upon which we have been depending for global growth, have also slowed as their export markets in the advanced economies become subdued.

Australia has, of course, had one of the best performing economies over the last five years assisted by a surge of commodity prices and mining investment.

It is estimated that around 60 percent of Australia's domestic growth since 2005 has been driven by temporary factors. Of real concern, this has masked very low productivity growth.

It is clear that, as the resources investment boom peaks and our terms of trade decline, we are going to need increases in productivity to achieve acceptable economic growth.

This will only come about through a renewed focus on micro-economic reform – in industrial relations, regulation, infrastructure and taxation, to name a few.

The Federal Government's White Paper, 'Australia in the Asian Century', released in October, acknowledges that Australia has an opportunity to leverage its strong institutions, its skilled workforce, its stable government and its solid banking and financial system to take advantage of the growth to our north. We need to continue the process of reform if we are to grasp this opportunity.

An additional thing we need to focus on in this regard is our domestic funding model, in which our banks rely for a significant part of their funding on international, short term, wholesale funding markets.

As the global financial crisis illustrated, in hard times such funding can be under threat.

There are several things that can assist in this regard, including:

- increasing our domestic deposits and terming-out our international borrowings – actions already being taken by our banks;
- the development of an active corporate bond market in Australia;
- a more rational and neutral tax treatment of savings; and
- investigating the potential for our large and growing superannuation pool to contribute to the solution.

Resolving this funding issue would help us avoid constraints on Australia’s economic growth.

Before handing over to Cameron I would like to acknowledge the commitment and hard work of all of our employees over the last year. They are an excellent team, led by a talented and dedicated Chief Executive. Like your directors, they are focused on providing shareholders with better returns as we go forward.

Let me now call upon our Chief Executive, Cameron Clyne, who will outline our strategic priorities and update you on how our businesses are progressing.

Thank you, Michael.

I would like to add my welcome to everyone attending today in person and to those watching online. It is great to be here in Western Australia - the home of over 1000 NAB people, including our Chairman. NAB is an important part of the Western Australian community.

This year we have been pleased to support the development of Midland Hospital, north east of Perth which is expected to inject more than $1.2 billion into the local economy over the next 20 years and create around 7,500 jobs.

Western Australia is also home to over 48,000 NAB shareholders – some of whom are here today and I thank you for having us. Our goal remains to deliver sustainable, satisfactory returns to you.

Today I would like to give you a little bit more detail on the performance and strategy behind the numbers the Chairman has outlined.

The full year result clearly demonstrated the strength of the core franchise and challenges in the UK.

I am pleased with the performance of the core Australian and New Zealand franchises which, in aggregate, delivered earnings growth of 9.2 percent over the year. We have come a long way over the past three and a half years. The focus of the management committee has been to ensure that we provide shareholders with sustainable and satisfactory returns.

In order to achieve this, we have strengthened the Australian franchise, maintained balance sheet strength, reduced costs and complexity and enhanced our reputation.

The strong performance of the Australian franchise was offset by a loss of £139 million for the year in the UK.

This reflects the deterioration in economic conditions in the latter part of the year in that region, giving rise to increased loan losses, mainly in our commercial real estate portfolio.

First to our Australian franchise.

Michael has already touched on the success of our Personal Banking business which generated a 12 percent increase in cash earnings for the year.

I am very pleased with the momentum of this business which has over a million new customers since the launch of our Break Up campaign, increased market share and achieved the highest bank customer satisfaction score ever recorded by the big four in the Roy Morgan survey.

The story behind these highlights is our fair value strategy, now in its fourth year. It is that commitment to offer fairer products and services and deeper customer relationships that has enabled these results.

Business Banking remained focused on deepening customer relationships during the year, reflected in an improvement in Business Banking's customer satisfaction and market leading position in business lending.

Business Banking cash earnings were down slightly on last year, largely due to the higher charge for bad and doubtful debts as customers were affected by a slow-down in the domestic economy. That said, asset quality indicators are improving for the overall Business Banking portfolio, albeit slowly. Market share continues to grow, and has increased by 270bps in the last three years.

Wholesale Banking's performance was another highlight for the year. In 2009, we made the decision to refocus this business on delivering value-added solutions to our franchise relationships.
We have separately managed and progressively exited non-franchise related activities, including our purchased conduit assets. This year earnings for Wholesale Banking were up by 65 percent.

Our presence in the growth areas of superannuation, funds and insurance were strengthened through our strong customer relationships. NAB Wealth increased cash earnings before IoRE compared to September 2011 and this year successfully launched an innovative new online trading platform called nabtrade.

Adviser numbers increased and the business continued to undertake significant investment in its product and service capabilities to respond to customer needs.

These new and refreshed products will provide a great foundation for this business to grow and improve returns. The Group continues to manage its international businesses for value.

Bank of New Zealand performed strongly, building on its ongoing commitment to deliver a differentiated customer experience and innovative products, and continued to do a great job on costs with cost-to-income ratio down during the year.

I have already touched on the very difficult UK operating environment. We have progressed key outcomes of the UK Banking strategic review to simplify the UK Banking business model and improve its balance sheet structure.

As a result of these changes, the UK franchise now operates with a significantly better funding mix and stronger capital funding position. It is a lower risk and better capitalised bank. This is important progress but there is still more that needs to, and will, be done.

Great Western Bank delivered growth in its core agribusiness and small and medium enterprise segments and remains fully deposit funded. The Great Western Bank operating region continues to experience moderate growth, and leading indicators point to this continuing.

Balance sheet strength was a priority for me when I took over as CEO in 2009, and it remains a priority today.

The new APRA Basel III capital requirements take effect in January and I am pleased to report that we are exceeding our self-imposed Basel III common equity tier 1 operating target. Despite the challenging operating environment, we have successfully raised $31.3 billion in wholesale funding with an average term to maturity of five years.

We have also experienced good growth in deposits, a key source of balance sheet strength with core asset growth fully funded by deposit growth. The Group continues to focus on reducing cost and complexity while transforming the way we do business through a number of initiatives.

We have made significant inroads in our transformation journey which is a total make over from the ground up. We are renewing the fundamental underlying infrastructure of our core technology across NAB as well as the customer-facing and product applications.

I am pleased to be able to report on our success with a number of initiatives:

- As I mentioned earlier, this year we launched nabtrade, our new online share trading platform – providing the first major bank challenge in online trading in more than a decade.
- We also made available every day settlement for all our merchants, meaning businesses can now access funds processed on the weekend.

There is much more to come now that we have done most of the hard work of transforming our underlying systems and I am excited by some of the initiatives we are looking to roll out in the next 12 months.

The Group has continued to enhance our reputation agenda which is central to the long-term sustainable success of the business. What we have seen is that an authentic difference that puts our people and customers first is good for them and good for business.

We are listening to our customers. This year I started regular talkback radio sessions in Melbourne to have an open dialogue with our customers and the public to ensure that we are transparent and accountable.

But reputation is not just about what we do and say externally, it has to resonate with our people, which is why we continue to invest in our people and their potential to ensure they are engaged and enabled to do their job well. Pleasingly, our employee engagement score this year was above the average for the financial services industry.

We recognise that 2013 will be a challenge, and, as the world changes, we must change with it.

We have good momentum in our core Australian and New Zealand businesses and the right cost disciplines for these more difficult times.

The management team and I are committed to continuing to improve our business, providing our customers with the best products and service and providing our shareholders with sustainable and satisfactory returns.

I would like to add my thanks to our NAB people for their resilience, focus and commitment this year.

On that note I will now hand back to the Chairman, and I look forward to hearing your comments throughout the day.

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On behalf of the directors and staff of the company, I thank you for your attendance here today.

I would like to thank our customers and shareholders for their continued support of the National Australia Bank.

Your support is highly valued by the directors and employees.
Before closing, I would like to pay tribute to all of the company's staff for their tireless efforts during what has been a very challenging year.

I now formally declare this Annual General Meeting closed.

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