Address by the Chairman

Mr DCK Allen

to the

Annual General Meeting of

National Australia Bank Limited

19 December 2002

Good afternoon ladies and gentlemen.

My name is Charles Allen and I have the honour to be the Chairman of The National.

It is now 2.30, this is a properly constituted meeting and a quorum is present. I therefore declare the 2002 Annual General Meeting of National Australia Bank Limited open.

I welcome you here today, along with those shareholders and guests who are viewing a live telecast of this meeting in Sydney and in Brisbane.

Your host in Sydney is Mr Wayne Rees, General Manager, Business Financial Services New South Wales & the Australian Capital Territory.

In Brisbane we have Mr Julian Pearce, General Manager, Business Financial Services, Queensland.

I also welcome those shareholders viewing the Chairman's Address and the Managing Director & Chief Executive Officer's Address on the internet.

The National was the first financial institution in Australia to broadcast its AGM over the internet three years ago.

The internet enables us to communicate directly with shareholders who cannot get to one of our meeting venues, including those shareholders who live in Tasmania, the Northern Territory, South Australia and Western Australia, and in broader global locations.

The National has over 310,000 shareholders who have invested directly in the Company.

In addition, there are many thousands who have invested indirectly through the Group's funds management products, and through the funds management products of a large number of other organisations.

The number of shareholders present here, and at our interstate venues, and the many who are not able to join us in person today but have returned their completed proxy forms, demonstrates a gratifying interest in the Company's affairs.

I will now report to you on the year just past and our strategies for the future.

This was clearly a pivotal year for the National, a year in which we consolidated the business after our HomeSide problems and a year in which we started to move forward with our focused core banking and wealth management strategy.

We also announced a major restructuring that streamlined the group,
a restructuring that is changing our culture and the way we do business,
a restructuring that is producing a more efficient company that is generating cost savings to re-invest in and grow our business.

Despite all this change, we remained focused and recorded a solid full year result with a 62% increase in net profit before significant items to $3.4 billion.

We continued our active capital management program, by extending our share buy back, which will increase earnings per share, and by increasing the dividend.

Other highlights of the year include:

the successful sale of our mortgage service business in the United States, HomeSide

double digit earnings growth in all three regions in which we operate – Australia, the United Kingdom and Ireland and New Zealand

collective retail banking profits up 23%

wholesale banking profits up 12%

and a strong underlying wealth management performance with our retail market share up to 14.5% despite volatile global equity markets that adversely affected returns for all companies with equity related investments.

The strength and diversity of our global banking business has offset the short-term impact of equity markets on our wealth management business, and enabled us to increase your dividend.

The final dividend was 75 cents – up 10% on last year.

It took the full year dividend to 147 cents per share.

This is the tenth consecutive year in which we have increased the dividend to shareholders.

The final year dividend was 90% franked only because our Australian shareholders do not receive any tax credits for foreign tax paid on our offshore profits.

It is worth pointing out that the National is one of Australia's largest foreign currency earners.

Approximately 50% of the company's total revenue is generated from our offshore businesses.

As we will continue to generate significant offshore income, we expect our dividend to be franked next year by between 85-100%.

Addressing these tax impediments would clearly improve returns to you, our shareholders.

We have made representations to the Federal Government about these issues and will continue to pursue reform in this area.

I will now look at each of the major issues in more detail.

The first issue I want to talk about is HomeSide.

I am pleased to announce that we completed the sale of HomeSide on 1 October.

This means we have exited all mortgage servicing rights and associated hedges in the United States.

It also means we have substantially reduced the group's balance sheet and earnings risk exposure.

The Board remains deeply sorry for the write-downs that were necessary when we owned the HomeSide business.

You will recall that the Board commissioned an independent review into the events leading to the write-downs.

That review, by US law firm, Wachtell, Lipton, Rosen and Katz, assisted by Promontory Financial Group LLC, reported to the Board earlier this year.

I sent to all shareholders a summary of the Wachtell report in January.

I can assure you that the Board, and management, were accountable and acted properly in these matters.

We identified the problems at HomeSide

We acted swiftly and openly to correct those problems and we completed the sale of HomeSide in a market of unprecedented interest rate volatility and a market where no equivalent mortgage portfolio has been sold.

As foreshadowed, last year's performance related pay to the Managing Director and other senior executives was cut to reflect the impact of HomeSide on group performance.

In those circumstances last year, the Board also decided it was not appropriate to issue options to the Managing Director.

Since then the group has successfully sold HomeSide in the United States and we have moved forward with a solid full year result and a higher dividend.

The Board therefore believes it is appropriate to recommend a new performance-based package for the Managing Director as an incentive to improve future company performance and returns to shareholders.

It is worth emphasising that the options in this package are not free, the shares must be purchased, and will only be available in three year's time if company performance improves substantially.

The Managing Director, and for that matter other senior executives who have the opportunity to excercise their options, will only be able to do so if shareholders have already benefited.

I will come back to the detail of that recommendation later when we discuss Resolution 5 in the notice of meeting.

It is also worth noting that sound corporate governance practices are required to deal with extremely difficult issues such as HomeSide.

It is therefore gratifying to record that the National was recognised as one of the leading corporate governance practitioners this year.

An independent study found the National was one of only nine companies in Australia with the highest possible standards of corporate governance.

We were the only major Australian bank in the 2002 Howarth Corporate Governance Report, to achieve the highest rating.

Sound corporate governance is vitally important but it is only one element of good corporate citizenship.

The Board is encouraging a more balanced approach to dealing with all of our stakeholders in the community.

An important stakeholder initiative in Australia is our Community Forum led by the Reverend Tim Costello.

The Community Forum provides the National with valuable guidance and insight into the way we interact with society.

Last year, the National adopted a proposal sponsored by the Community Forum for a Concession Card.

Under this scheme, people that have a Pension Concession Card, Commonwealth Health Card or Seniors Card, effectively enjoy fee free banking.

We are currently discussing a range of other proposals and issues with the Community Forum.

We have a strong tradition of working with the communities in which we operate here and overseas.

We donated over $11 million to our local communities world-wide during the year.

We gave an additional $1 million to the Australian appeal for Bali victims following the terrorist attacks on 12 October.

A key plank of our approach is to share the skills our staff have with the community.

For example, 1,000 of our Wealth Management staff donated over 7,000 hours to over 40 community groups.

And our lawyers volunteer their time to provide legal advice to the Homeless Persons Legal Clinic here in Melbourne.

This approach is company wide and is practiced in our offshore banks as well as Australia.

Many of our staff in Northern Ireland participated in Time 2 Count - an award-winning program to promote numeracy in schools.

This program led to other numeracy initiatives in Ireland such as Maths in a Bag for pre-school children.

Yorkshire Bank in Great Britain also supported over 160 schools with educational programs targeting the arts, music, science and conservation.

And across the Tasman, Bank of New Zealand, supported the Heart Children street appeal and BNZ's Heart House.

We also aim to make our services more easily available for people with disabilities.

A small but important step in this direction is our move to install ATMs with audio features for the sight impaired,

By the end of March 2003 we expect to have installed 65 ATMs – or about 5% of our network – for this purpose.

As part of a more balanced stakeholder approach, we have also intensified our focus on the environment.

In 1997, we joined the Australian Government's Greenhouse Challenge.

Earlier this month, the National formally became a signatory to the United Nations Environment Program for Financial Institutions.

The new Australian headquarters of the National being built at the Docklands in Melbourne, will be the most environmentally friendly building in the Southern Hemisphere when it is completed next year.

It will have a four-star energy rating – one of the first commercial buildings in Australia to achieve this.

In a similar vein, Northern Bank in Ireland has signed an agreement to supply 80% of branches with renewable energy such as wind power.

Similar agreements are being investigated for Clydesdale Bank in Scotland and Yorkshire Bank in Great Britain.

I will deal with our environmental credentials in more detail under Resolution 6 in the notice of meeting about a proposal by the Wilderness Society to amend the Constitution.

The second issue I would like to deal with is strategies for future growth.

I must start by emphasizing that revenue growth is important for shareholders.

I can assure you that the alternative is not very attractive!

Empirical evidence indicates that there is a strong correlation between revenue growth and shareholder value.

Accordingly, the National has a strong focus on revenue growth in a controlled and measured way, with the creation of shareholder value as our primary objective.

It is also important to note that the National does not pursue revenue growth without regard to the risks involved.

Other key value drivers such as costs and capital requirements are always taken into account.

There are three ways in which to achieve this objective:

expansion within the existing business by better performance – this is called organic growth;

through diversification;

and through acquisitions.

The National is pursuing all of these strategies simultaneously in a controlled and measured way.

We have learnt some important lessons in the last few years that are helping us to assess our strategic opportunities.

One of the most important lessons is that we must be more focused and more efficient to remain competitive.

Our Positioning for Growth statement announced earlier this year was designed to do just that.

This strategy simplifies the way we do business and removes barriers, creating an innovative team environment.

It generates cost savings for re-investment in our businesses.

It will facilitate our evolution towards integrated financial services combining banking and wealth management.

Our diversification strategy into Wealth Management is also an important growth platform for the future.

MLC is one of the top five Manager of Managers in the world.

Its success was recognised with a gold award for Financial Services by Personal Investor magazine this year.

Mr Cicutto will speak further on the strategic importance of wealth management during his presentation to you shortly.

Another important lesson was that we must be very careful in pursuing opportunities outside our core business.

Our former US mortgage service business,
HomeSide, was a very different sort of business for the National.

It required specialist skills and
capabilities that we had to build within the group.

We now believe that a better strategy is to leverage existing capabilities in our core businesses.

As a result, we have narrowed our strategic focus and have exited banking and mortgage service operations in the United States.

We retain a small and growing Wealth Management business in Asia,

however, our strategic focus is now on our core activities in Australia, New Zealand and the United Kingdom and Ireland.

Growth in the three major regions in which we operate has been strong in the last 12 months.

We expect growth in these regions to remain relatively strong in the next 12 months.

The Managing Director will talk more about the economic
environment and the outlook in his review shortly.

Despite the sale of our businesses in the US, the National remains a leading international financial services group.

We have over $370 billion of assets with some 8 million banking customers worldwide.

And we remain the largest listed financial services company in Australia.

We have very strong market positions in our traditional markets - Australia and New Zealand.

Customers can now conduct face-to-face transactions at over 2,900 Australia Post outlets across Australia and at almost 800 National branches.

One in five home mortgages in Australia is held with the National.

And one in four small business loans are held with the National.

We also bank 'one in three farmers' with the National.

We have 500 Agribusiness bankers in more than 100 dedicated Agribusiness Centres in rural and regional Australia,

and we have opened two new Agribusiness Centres this year - one in Toowoomba and one in Albury.

It is worth noting that over 50% of our branches and over 40% of our Australia Post locations are in rural and regional areas,

and over 740,000 customers in Australia, many of them in rural and regional areas, have also embraced the convenience of the National's online service.

The Managing Director will talk to you shortly about our strategies to help the farmers and small business in rural and regional areas during the drought.

Our New Zealand operations contributed over 10% of group profit last year.

Bank of New Zealand is one of the leading banks in that country.

A quarter of small businesses and a third of farmers use BNZ for all their banking needs.

One in five consumers also have their personal banking with BNZ.

It is also important to be aware that our investments in the UK and the Republic of Ireland are substantial.

Our four banks in the UK and the Republic of Ireland include:

Clydesdale Bank based in Glasgow

Yorkshire Bank based in Leeds

Northern Bank based in Belfast;

and the National Irish Bank based in Dublin.

Our operations in the UK provided nearly a quarter of the group's overall profit this year.

The combined value of our UK and Irish banks would be in the top 50 companies on the London Stock Exchange.

In line with our strategy, we are looking to expand our business in the UK by being more competitive and innovative.

We have looked at acquisition opportunities in the UK this year.

We initiated some discussions with Abbey National, the second largest mortgage bank in the UK.

But we did not reach any agreement and the discussions have now ceased.

We remain patient and disciplined and will continue to look at opportunities as they arise.

We are however quite prepared to walk away from acquisition opportunities if they do not add shareholder value.

The third issue I want to talk to you about today is our ongoing focus on capital management.

Our financial strategy this year was to strengthen the balance sheet, improve efficiency and invest for future growth.

The overall objective was to increase shareholder returns.

We achieved this objective by:

The sale of HomeSide in the United States;

Implementing our Positioning for Growth strategy; and

Implementing an active capital management program.

In May this year, we announced our intention to extend the ongoing share buy-back program by an estimated $1 billion until 30 September next year.

The sale of HomeSide on 1 October released additional capital and strengthened our overall capital position.

As a result, we announced a further $750 million worth of shares to be acquired under the share buy-back program.

In total, we have now bought back 51 million shares under the buy-back program.

This has more than offset the number of shares issued under the Dividend Re-Investment Scheme and our employee share schemes.

There remain approximately 37 million more shares to acquire under the current program.

The share buy-back program, and our operating improvements, underpin growth in earnings per share by the National.

Cash earnings per share before significant items increased by 5% to 248.2 cents last year.

Your dividend also increased by 9% to 147 cents this year.

As I said in my introduction, this is the tenth consecutive year of dividend growth for shareholders in the National.

We believe this represents an excellent return on your investment in our company, and we are determined to deliver further shareholder value in future years.

In summary, we have had a year of consolidation, and now we are moving forward on the back of solid full year results and a higher dividend to shareholders.