

**NATIONAL AUSTRALIA BANK LIMITED
ANNUAL GENERAL MEETING 2006
MONDAY 30 JANUARY 2006**

The following is an edited summary of key shareholder issues raised during the Annual General Meeting. Questions and comments that were repeated, or of a personal nature, have been removed. The full version of the question and answer session can be viewed via the web cast archived on www.nabgroup.com.

MICHAEL CHANEY: The most frequently asked question was in relation to the level of franking of the National's dividend. The dividend last year was franked to 80 per cent. Based on current forecasts, the NAB expects its dividends for 2006 to be also franked to approximately 80 per cent. The level of franking depends on a number of things, including the proportion of Group's profits sourced in Australia and are therefore subject to Australian income tax and give rise to franking credits. It is also a function of the pay out ratio that is how much of our profits we pay out as dividends.

This organisation generates profits in other countries - in New Zealand, the UK, US and in Asia, and we do not pay Australian corporate tax on those. Therefore we do not have franking credits. So the more profit we earn overseas the lower the proportion of franking would be.

We expect to be able to maintain that 80 per cent going forward, and it is hard to know whether, and if so by how much that will rise, for example, because it depends on the size and profits from elsewhere.

That sourcing of profits from other countries provides shareholders with a different benefit though and that is benefit of diversification. Knowing that if things turn down in this market, at least we may be making good profits in other markets.

We, along with the Business Council of Australia, are lobbying the Federal Government to try and convince them that we should be able to pay profits sourced elsewhere with a notional franking credit. Or, we should be able to stream profits earned overseas to shareholders overseas and not waste Australian franking credits on them. We have had some success over the past few years in that we now have a tax treaty arrangement with New Zealand, whereby New Zealand franking credits may now be paid to New Zealand shareholders.

MICHAEL CHANEY: The second most frequently asked question was about executive remuneration. There is comprehensive Remuneration Report in the Annual Report. It sets out in some detail the role of the Remuneration Committee, the reward principles, the link between performance and talent, total rewards and pay, and the structure of whole total reward.

The old concept of paying bonuses has gone completely. Executives now receive a fixed remuneration, a short-term incentive and a long-term incentive. The short term and long term incentives are "at risk". That is, if the executive does not perform, or the company does not perform, they simply do not receive their full "at risk" remuneration. If they do perform they get the benefit and shareholders get the benefit.

The major concern expressed to us is about the amount of dollars involved. I am afraid to say, to a large extent, that issue is an unavoidable result of globalisation. Senior executives are operating in a global market and have the ability to leave Australia to go elsewhere to work if the rewards are greater.

When we have been searching for executives like John Stewart or Ahmed Fahour - who have established international track records and have the capability we need to run a business of the complexity and international style of the National - we simply have to pay remuneration that is competitive in the global market place.

Their remuneration, like that of all our executives, is referenced to peers in the industry and more than half of their remuneration, as you see in the Annual Report, is 'at risk' and it is delivered as incentives that are subject to performance hurdles.

One thing many people don't appreciate when they read about remuneration in the Annual Report, or in the newspaper, is that in many cases much of the remuneration shown as being earned by executives will never actually be received by them, because their company has not outperformed their peers and the performance hurdles are not met. So where you see that Joe Bloggs has earned X dollars in the last year you will find, I think, statistically in half the cases it is X minus quite a significant amount because the performance has not been there and those "at risk" elements are never received.

SHAREHOLDER: I am a proxy holder with six and a half million proxies representing the Australian Shareholders Association. Could you please give us a very brief update on the progress the company has made in relation to meeting APRA requirements imposed in 2004?

Could you also tell us how the appeal in the dispute with the ATO (The Australian Tax Office), in relation to interest deductions on ExCaps is going? And, whether there has been any progress in the matter of the amended tax notices in respect of certain structured finance transactions in New Zealand. In relation to the last matter, there is some concern among shareholders that if similar amendments are successful in future years, it could result in a significant charge to profits.

MICHAEL CHANEY: Firstly, with regard the APRA requirements, the progress is satisfactory. We are hoping that this year we will apply to APRA for re accreditation of the internal model. This has been a lengthier process than we anticipated a year ago. In our discussions with APRA what they made very clear to us was: "We'd like you to make sure you get all these things right before you seek accreditation. Don't worry so much about the time deadlines but about getting the job done properly." We have certainly accepted that advice. It is an enormous issue. There are eighty-one requirements that were put on the bank and a majority of those have now been approved and signed off. We have the remaining ones and these will take us through the rest of this year.

This has implications for our capital management. Once we are back on accredited internal model, we will have a lower requirement for capital and that gives us some more flexibility.

As far as the Australian Taxation Office is concerned, we are still in dispute with the ATO over the ExCaps matter. We did settle the TrUEPrS matter this year and we were happy with the outcome. We felt that with TrUEPrS our case was not helped by the Macquarie decision that came down during the year and we came to, I think, an acceptable arrangement.

On ExCaps we have strong legal advice that the bank's position is correct so we are pursuing that accordingly.

In New Zealand, similarly, we have some issues around some structured finance products and they are issues that concern a majority of the banks operating in New Zealand. Again, we have legal advice that the arrangements were sensible and that we have a good case. It is now subject to legal action and I would not like to comment further.

SHAREHOLDER: In view of the impact of smaller banks who appear to be gaining market share, the impact of international banks who are becoming more aggressive, and the generally good performances of the other major banks, can we (NAB) maintain the momentum. How does NAB plan to deal with extra competition, improve its market share, and indeed, shareholder returns?

MICHAEL CHANEY: The short answer is yes. Certainly we are feeling the impact of the entry of other players in the business. Smaller banks are getting larger. The whole landscape is changing. International banks are here, much more aggressively and in addition we have non-

bank financial institutions operating in this market that are not subject to the same sort of regulatory requirements.

Whether our market share increases in coming years is one issue. Whether our shareholder returns increase is a much more important issue and they do not necessarily go hand in hand. If you have a very strong shareholder focus at a corporate level, at a board and senior management level, and you manage to communicate this throughout the organization in ways that are meaningful for people operating at the coalface, you end up getting much better returns.

For example, one of the thrusts of banks over the years has been that doing more lending is good; that real men lend money. Some banks do not think about the returns associated with the marginal amounts of lending. You can derive greater shareholder returns by doing less lending as we are in the IMS business and focusing on those parts of the business that give better returns. There is a common focus and strong focus within the board and senior management about shareholder returns and that will be translated through our strategic planning process into concrete strategies that we think will achieve that in due course.

SHAREHOLDER: My first comment is the first question asked, which you answered about APRA. At the AGM last year I asked questions and Mr Stewart was forthright in saying I think about eighty odd items were listed and that about over three-quarters were dealt with and you said today that some of those are still being dealt with and it may be to the end of this year before they are clear. I just want to express a modest concern that it has taken this long to get ourselves completely clear of the regulator.

Last year I asked a question about, and though this is not a personal matter, but it is something I think was in the old culture, but members or customers of the bank have been with the bank a long time, a great difficulty when they had a dispute with the bank about rules or regulations, about lending policy, they could always get an answer from somebody to say, that is the rule, but you could never get an answer from the person who made the policy.

Going high enough up the ladder to at least have a discussion with a person who made the policy. Mr Stewart last year said again that that is part of the culture change and I would just hope that he could give us some more information that that is possible, that if you have as a long term customer of the bank, who has been serious with the bank and recognised as such, if you have a dispute – not me personally but anybody – they can go to the higher level of the bank to discuss the policy of why that policy is there. There may be very good reason for it but many people at a lower level don't know the reasons and cannot give you that answer for it, so I would like some comment on that.

But that led to a comment that a previous question asked, for example, I find it hard to believe that a competitor can go into the rural community and establish branches with the support of the local community and the NAB cannot and that we are closing branches and therefore get an enormous amount of flack in the community about it. If one of our competitors can do it without losing money - you may tell me they are losing money doing it – why can't we do it because I think that is one way we will create stronger values to the brand if we are not actually closing branches and sacking staff, we are expanding and servicing the community. So I just wondered if there is a comment from either Mr Stewart or Mr Fahour about that, why a competitor can do it and we cannot, if that is the case.

Finally, about a month or so ago in the press it was reported that Industry Funds, Superfunds, have been very successful with television campaigns since people have been given a choice of choosing their super, which fund they can go to.

It was apparently reported that many people have gone to the Industry Funds because they charge lower levels of fees for providing that service. I wondered, in view of one of our major subsidiaries is MLC, what is our response to that new form of competition that has come into the market place as far as superannuation is concerned.

MICHAEL CHANEY: Firstly, I will answer the one on APRA. I do not think it was the case that last year somebody said three-quarters of the remedial actions had been taken care of. We have not gone backwards at all. We have been progressively having those signed off and we are at about sixty-five per cent. As I mentioned earlier, our goal really is to make sure these are done very well rather than done to a deadline but we are hoping that by the end of this year we will be through them. John, would you like to talk about the second and third issues?

JOHN STEWART: Yes, I should also add, just to the APRA point, the great majority have been done but the ones that are left are very complicated and each problem is not even. As the Chairman said, we are determined to do it properly for ourselves, as opposed to for APRA. Your second comment about policies is a very good point. One of the reasons that we have done well coming back this year is actually nothing to do with the external environment and nothing to do with the competition; it is our internal environment.

We were downright difficult to do business with, we had complicated policies and we have made a lot of change this year. A lot of the success behind the Business Bank and the Retail Bank in Australia has been more delegated authority, which Michael (Ullmer) has overseen. Going to the lenders and allowing them to make decisions, and Brisbane and Sydney and Perth not having to send everything to Melbourne. We have made a lot of progress.

Have we got there yet? No we haven't. We are on that journey and if you think some of our policies are wrong at policy level, please let me know and we will look into it. We are getting better at it and are working our way through this agenda. That is what makes me confident we can keep being successful. A lot of the impediments were internal. I am afraid to say NAB was quite a big bureaucracy. As we get rid of the bureaucracy, guess what, we do more business with our customers.

As for the rural communities, we are actually not closing branches. We have done in the past but not while any of the current team has been around. If anything, we are opening branches. Not a lot, but a handful of branches where we think growth exist. I think we are probably the biggest rural bank in Australia. We have about 800 branches and look to maintain that, and if anything see a little increase. We are well established. In fact, our agricultural business is one of the strongest businesses we have in this whole group.

As for Superfunds, yes, this is an important opportunity for us and we see it as an opportunity. When the investor gets a choice then that is exactly what we want to do. Just to remind everyone, MLC is very rarely, in fact almost never, a fund manager. Our job is to manage the money on behalf of the investor, and therefore choice is a thoroughly good thing for us. We have been advertising and we hope we are going to see some success there. We wish the industry funds well. I would imagine a lot of their campaign is really to protect their position because they had a protected position and of course they will want to keep that with the investors.

SHAREHOLDER: Some shareholders, particularly retail shareholders whom the ASA represents, do find bank financial statements difficult to understand. But if I could take you to note 29 in the Annual Financial Report, which details the provisions that have been made in the accounts, including \$410 million for "Other". This provision was increased by \$388 million during the year without any indication of its intended purpose. Given that, and I quote from the Annual Report, "the changes required to stabilise the Groups performance is now largely complete." Can you assure us that those who suggest this is simply "a free kick in profit for the next three years" are wrong?

MICHAEL CHANEY: Yes, I can. I can confirm they are wrong. That is a provision largely for restructuring and under the accounting standards, you cannot raise such a provision unless you have an established plan for how the expenditures will be incurred. For example, if there are redundancies, which positions are going to be made redundant and what is the cost of redundancy and so on. If there are branch closures, which branches will close and which

branches are opening and so on. And so behind that figure that you mentioned is a very large amount of detail for expenditures that will be incurred over the next couple of years.

The plan announced by the bank, for example, for 4,500 jobs to be cut out of the organization is only about a third of the way through, as at September about 1,700 redundancies have been completed so there is, as I say, nearly two-thirds of those to be completed over the next two years. If the suggestion was, and I think it was from one of your shareholders or your members, that that is a provision that will be debited as we go forward and therefore increase our profits, it is not true. The amount of that will be expended on actual items identified.

SHAREHOLDER: I have two suggestions and one question. One suggestion is, there should be more representatives of women on both the board and the management group. The second suggestion is there should be more representation on the board of minority groups. My question is this: In your presentation you suggested that remuneration should be based on performance. In the years that the performance was not satisfactory how did the compensation go?

MICHAEL CHANEY: I agree with you. We now have two women on our board and I am delighted we will have a female company secretary as well. We will have at least three women in the board room and I would certainly like to see more as time goes by and I would like to see minorities represented as well. The bank does take its responsibilities with regard to equal treatment of people very seriously, so I take that on board. With regard to remuneration performance, there are some quite detailed tables provided in the remuneration report that show how remuneration has been affected by performance over time.

I think it is on page 48 of the concise report, that a number of the options and rights that were granted in the last few years – a long way from being vested and so equity rights that were provided in. From memory, you will see it there, in 2002, 2003, 2004 – the performance of the company compared to the comparative groups has not been adequate to allow vesting if vesting were up for grabs today. In order for those to be vested the company will have to perform its peers as we go forward.

In terms of this last year, total shareholder return for the year to last Friday was 21 per cent, which is good but not as good as it should be. One of the issues that the Remuneration Committee had to grapple with this year was that we had brought on a lot of new executives at an extremely difficult time for the bank. They have worked tremendously hard, 24/7 as well as nights and weekends to recover a situation and get the bank back onto a sound footing. The Remuneration Committee came to the view that - in looking at the key performance indicators that applied to incentive payments this year - we should take account of qualitative things. For example, how well did people make efforts to change the culture for the better. How well did they carry out specific tasks that may not be directly profit related, and balance that with the profit performance and the TSR performance. Overall the committee and the board were very happy with the alignment of actual performance at the coalface and remuneration.

SHAREHOLDER: Over the past couple of years I've been a bit disappointed and no doubt other shareholders have been, that the share price would start to rise and out of the blue there'd be some kind of negative announcement, like a profit downgrade or a problem with the foreign exchange. I know that you can't predict the future, but hopefully from your words today we can probably rule out any of these negative announcements in the future. My second question is the bank's dividend always did increase year by year and then it stopped increasing in the last year and a half or two years. Would you be able to tell whether you think National Bank will start again this upward trend and gradually increase in dividends?

MICHAEL CHANEY: I certainly hope so and you know the future is unpredictable. But as I mentioned during my address, what we'd like to see the organisation doing is providing steadily increasing dividends and increasing share price over time. That depends on the performance of a company and the dividend pay out ratio.

As far as the share prices goes, if you imagine a situation where a company share price went from A to B over 10 years, it would never go from A to B in a straight line. It would go up too much and down too much around a straight line, and over time it would even out and so none of us can guarantee that you won't see falls in the share price and you won't see rises in the share price over time.

What we can say is we'll make every effort to ensure that in due course the share price is higher. The dividend pay out ratio last year was 79 per cent, which is higher than we would like it to be, and that's because our profits dipped. We decided to maintain the level of dividend in a sense so shareholders wouldn't be too disadvantaged. As profits rise again, we expect the dividend pay out ratio to come down, even though the dividend may remain constant for a while. I can't promise anything but I can tell you that long-term dividend and share price growth is at the heart of our ambitions.

SHAREHOLDER: My question goes to the comment on page 11 of the concise report. A pilot program is on the way to outsource a small number of processing roles in accounts payable to provide it in India. Does it mean that jobs start leaving Australia and go somewhere else?

MICHAEL CHANEY: We are conducting a pilot in India on accounts payable. Of course we do make use of call centres and shared services arrangements extensively in Australia and that may well always be the case, but we do owe it to our shareholders to investigate ways of making the bank more and more efficient and that's why we're running a pilot. There are real disadvantages to running call centres in other countries and there are some advantages and in the end you weigh those up. As far as Australia's concerned, and this is beyond the control of the bank, Australia has is a very competitive open economy. If people then aren't working in call centres, they're working in other things where we're productive and competitive. I don't think it's in anyone's interest for the bank to be bearing the load of inefficiencies when it could get efficiencies elsewhere.

I don't want to pre-empt what management will eventually recommend to the Board and it's very early days, but you know I'd be less than honest if I didn't say that we have to keep looking at ways of cutting our cloth and becoming more efficient.

SHAREHOLDER: Mr Stewart has talked about the improvements in the conduct of the bank. Some of these will be presented or represented in the actual financial returns. I want to know if he could tell us who measures the improvements. Are these improvements measured by someone independent of the bank, and in any case what is measured and how is it measured?

MICHAEL CHANEY: John, do you want to comment on that?

JOHN STEWART: The main things that matter at the end of the day are what we do for shareholders. The shareholder value we create is return on equity. It's the ability to keep growing the business and the dividends that we can pay. So that's the ultimate measure there are other things that are more difficult to measure, such as the culture of an organisation.

But we endeavour to measure all of those as best we can and that's really the duty of the Board on behalf of shareholders. Management tries to do this to the best of its ability, but it's the duty of the Board on your behalf to challenge us to challenge there is change in culture; that it's not just all smoke and mirrors and it's measurable. In other words, we can see changes in people's behaviours and we can see that we're retaining the best talent.

There's a multitude of measures that we use and I think we're getting better at them. Management information is not the best, but it's getting better every year. I'm afraid at the end of the day, the proof of the pudding is in the eating and we will only really be doing our job if we do the right job for the shareholders over the next say five or ten years.

SHAREHOLDER: I have two issues of many issues I'm interested in. One has to do with the

number of shares that seem to have been issued since 19 December 2002 that were not bought on the market and therefore appear to have been newly written. I'm concerned at the economics of that, Mr Chairman. Obviously dividends are being paid and it seems to me that you may be writing money, which is obviously not desirable.

I am also concerned about remuneration. I am concerned about followship rather than leadership. I am concerned that you earn your keep. I saw today while I was waiting for the bus to come here, a woman who was a street cleaner and she was doing an excellent job and she was earning her pay. I'm not suggesting that your remuneration is in the category of street cleaning, but Caruso apparently said when Metropolitan Opera offered him a huge amount of money, that he couldn't sing any better for any more money and he wouldn't want any more. I've spent a lot of time in East Timor. I've been going there since 1997 and I'm a volunteer up there and I get immense satisfaction from what I do. These days I am working at economic independence at village level. I'm not looking for your money or anybody else's because we are doing it ourselves, Mr Chairman. But I would like to offer any of your management or Board who like to see life as it can be lived. My free services to take you around a country like that just to make sure you do have a grasp of reality.

MICHAEL CHANEY: Firstly, on the issue of new shares, I think that's something that all companies do and it occurs in different forms. In our case we've had dividend reinvestment plans in recent years and they've sometimes been underwritten. That involves the dividends we'd otherwise pay out coming back in return for new shares, and so it's not printing money. It's basically getting new subscriptions for equity.

There are also shares issued in employee share plans. In those cases they may be options which are not actually shares but they may be rights to shares. There has been recognition around the world that the issue of equity to employees and executives costs the company and costs the other shareholders something and results in dilution. Under the new accounting standards, all of those things are taken account of so that the true cost to the company is seen.

It's often difficult to understand why remuneration levels are different, but we live in a competitive market and I think you know, it's one thing to say 'well our executives could go overseas'. What happens more commonly is that if you think of a company like BHP Billiton sitting in Melbourne recruiting internationally and saying we want the best finance director we can get. We'll look all over the world and when we find one, we attract him or her to come and live in Melbourne. It would be totally incongruous if you had companies like that paying international salaries and other Australian companies not, because they'd be very quickly adrift out of companies like NAB, into the companies that were more highly paying. That in practice is how this international sort of equilibrium takes place.

With regard to your other suggestion, I think it would be worthwhile you writing to Gary Nolan with a suggestion along the lines that you made. The bank has a pretty extensive programme of corporate social responsibility, including encouraging employees to give up time for good causes and covering the cost of that and there may well be lots of takers who like to come along and hear about your work in East Timor.

SHAREHOLDER: My question is as many of the banks are expanding to China and like the Asian currency because of the big boom. Why is National Australia Bank actually withdrawing from that area, and are there any plans to expand back into that area to accommodate future growth.

MICHAEL CHANEY: I see the chief executive is itching to answer this question, so I'll hand over to him.

JOHN STEWART: You've got to look at two levels. The withdrawals we are making are off a current footprint. So, one of the jobs that you would expect of me and of my colleagues, says look at what we've got. We say, are we in the right places? We had too much presence in IMS, which is our institutional market, in places like Hong Kong and Singapore and we've cut

it back.

You shouldn't take that as being indicative of any ambitions we may or may not have for Asia. We find Asia a very exciting place. It's on our doorstep, we think most of the economic growth over the next 20 to 50 years, with the exception of the United States, will be in that area. But having said that, it's an easy place to lose your shirt, and we wouldn't want to go there and make unwise investments. So we're spending a lot of time, several of us, looking at the options in various places in Asia. We'll assess them and we will make investments in the future I'm sure, but they'll be carefully considered. We don't see it as any Utopia. We certainly don't see it as an ex-Internet way to get rich quick, but it's not a market we're ignoring. We're very, very interested in it.

SHAREHOLDER: Branches compared to your competitors tend to be very old, less modern. I was even in a branch this morning and the computers crashed and I know you're addressing these issues as part of the restructure. I've also noticed some of the large shopping centres the only National Australia Bank's presence is one ATM. The other banks have at least a branch with two or three ATM sites. I know you are going to go through the restructure process, but exactly who's responsible for how National Australia Bank plots where they're investing in Australia and elsewhere. As a shareholder, I want to know sort of where our money is being invested.

JOHN STEWART: We are embarking on a major investment program on the branch network and we're addressing the sort of things you're talking about. There is a new teller system going in. And, in fact, many places it's in. We're looking at how we invest in the fabric of the branches and also we're looking at the footprint. We are also examining whether we are in the right places, because city centres and shopping habits move and change and you have to keep up to date with that. We have people whose full-time job is to do that and it will take us though probably at least the next two years to do properly.

SHAREHOLDER: Chairman, I briefly had a look at the Annual Report here and I was surprised not to see some sort of comparison of the NAB's performance against the other major banks. I was wondering whether, in future, this can be done, or some comparison could be made in the report?

MICHAEL CHANEY: It would be pretty uncommon I think. Organisations don't tend to highlight anything about their competitors in their annual reports. It's certainly done quite a lot in analysts' reports and in newspaper reports and so on, but the emphasis of our company annual report tends to be on what our company has achieved.

SHAREHOLDER: The basis of my comment is: I understand about other members of the board making an assessment and then recommend whether that the other director should be appointed.

I'm always a bit sceptical about one half of a team assessing the other half who they sit around the table with. What staggered (me) actually, a recommendation came through that a group of my fellow directors said that I was no good and shouldn't be re-elected. I find that a bit hard to believe in human nature. I always think if you're going to do that, you will have an external room, not fellow directors who are making a call to the board, and I think that is a much more fair dinkum way to do it. I don't know whether that is a new process that could come in, but I would ask you to at least consider that because I think that, to me, a group of fellow directors, judging another fellow director, who they sit around the table with almost invites a recommendation that we're all doing okay. That's just human nature.

My second comment is following on some of the other questions about the balance in the board. Although I've read the biographies in the report, have any of the directors, not only those up for election, but all the directors, actually had hands-on experience of retail banking at some stage in their career. I think I don't want a board made up of 15 ex-bank tellers, but it would be nice if there was one or two who had actually worked part of their life facing a

customer every day, handling those range of things at that very bottom level.

MICHAEL CHANEY: Firstly, there is an external part involved in the appraisal, Colin Carter is a pretty well recognised governance guru who carries out a very extensive individual and group appraisal process. All the input is provided to the chairman, the chairman sits with each director and goes through an appraisal. The board sees aggregate results and then the directors decide whether they want to endorse the candidates or not, so it is along the lines of what you'd like to see.

As far as the balance goes, we've got a number of directors with the direct banking experience. John Stewart obviously has had a long career in the banking industry. Malcolm Williamson, ditto, eventually rose to the position of Chief Executive of Standard Chartered and Visa International. We've got Paul Rizzo, who has had many different jobs in the banking industry, including running banks. Patricia Cross again has a career in the banking and finance industries. Some of those may have come in above the level of teller. We haven't consciously gone out to find people who have come all the way through, but we're confident we've got terrific experience, and forgive me if any of those directors have banking experience that I haven't raised now.

SHAREHOLDER: With regard to the re-election of Mr Tomlinson, shareholders acknowledge that the bank has largely implemented the promised board and senior executive renewal program and we compliment the bank on its proactive and transparent approach to these issues. The ASA has a particular concern with non-executive director workloads and shareholders will recall a resolution seeking the removal of Mr Tomlinson at the last AGM in 2005.

On that occasion 40 per cent of the votes cast supported our proposal, but because of his excessive workload, Mr Tomlinson risked voting shareholders in his duty as a director of all the entities with which he was associated, including National Australia Bank. Mr Tomlinson has since signalled that he intends to stand down from two of the companies on whose boards he sits in recognition of the ASA's position on overloaded director. On balance we will therefore be voting undirected proxies in favour of Mr Tomlinson's election, thank you.

SHAREHOLDER: Has the bank a task force that looks at the general running of the bank?

MICHAEL CHANEY: I don't know if John wants to add anything, but when you raised that issue of a task force, it really seems to me to be fundamental to what we expect from our managers, our senior executives in particular. That is, to make sure at all times they're monitoring what's happening in the industry, what competitors are doing, how do we stay ahead. I think that describes the job of Ahmed Fahour and people working for him, so I don't think we need a separate task force. It's something that you know constantly occupies the mind of the chief executive.

SHAREHOLDER: I know it's just a question of symbolism, but what have you got against the show of hands on these votes Mr Chairman?

MICHAEL CHANEY: One can have a show of hands. I think the modern governance tendency is to move to a poll because it's a more democratic process. It means that people who aren't here today, along with people who are here today, are able to cast a vote, rather than for that majority who's not able to be here to leave it to those in the room to decide the motions.

SHAREHOLDER: I see from the profile that Mrs (Patricia) Cross was previously employed with NAB. I don't know how long ago it was and I wondered if you could, first of all, give us some indication of what role she had in the NAB.

MICHAEL CHANEY: Patricia, I might get you to quickly summarise that. Patricia was in a senior position in the mid-to-late nineties in what's effectively institutional or market services today.

PATRICIA CROSS: I joined the bank in 1988 and I retired in 1996 to pursue a career as a non-executive director. My last role at the bank was running what was called wholesale banking and financial services and that encompassed the financial markets, corporate banking and capital markets and National banking as well.

SHAREHOLDER: I understand the Business Council of Australia, of which you are also chairman, has meeting guidelines which - following up on an earlier question - suggest that votes on resolution should be taken with a show of hands at meetings and then a poll called if necessary or if desired. If that's still the case, does the BCA have any thoughts about changing that, or are you just adopting your own guidelines on this, rather than those of the BCA?

MICHAEL CHANEY: It's actually news to me. I was a member of the BCA when those guidelines came out some years ago, but they are now a bit out of date and since they came out there have been significant changes in practices and the two that we've talked about today are amongst them. I'll have a look at it I must say because I think it ought to be changed if that's in the guidelines.

SHAREHOLDER: I'd like to make a couple of remarks that refer equally to resolution item five and items six to eight. While supporting these resolutions with undirected proxies and acknowledging that the bank has set an example with its vesting scale commencing with 35 per cent at the fifty-first percentile, we would like to remind the board's remuneration committee, chair line Mr Tomlinson, that long term incentives are designed to reward.

To encourage this, could we ask again, as we have done in the past, that consideration be given to step vesting awards with minimal grants for above median performance, increasing to maximum grants at top decile performance. Perhaps you and the remuneration committee would be happy to give shareholders an undertaking to consider this proposal and report back at an appropriate time, or in any case at the next annual general meeting.

MICHAEL CHANEY: I would say I'll take it on board, but I doubt if the remuneration committee will conclude that the vesting should be much lower at the fiftieth percentile.

We've had this discussion privately with the ASA, and it's fair to say that the 35 per cent vesting that we have now is just about best practice and, by your own suggestions, heading in the right way. One of the difficulties of having something happening suddenly in terms of vesting is the risk that management or the company will sort of try and push the results up just to get to that level. This is something I hope this board or management would never entertain, but it's better to have a progressive vesting. One of the alternative shareholder associations suggested that maybe you should have zero per cent at the fortieth percentile vesting up through the 100 per cent at seventy-fifth. I don't think that's something that ASA would support.

Let me say, we have all of that under constant consideration and the committee will review it during the year. As practices change, no doubt we'll take this into account and we'll do what we think is in the best interests of the shareholders.

SHAREHOLDER: In respect to this resolution, I've just got two questions. The first one is, why do we have to refresh this approval. Why isn't the approval we gave last year adequate. The second question is, what are the conditions you need to actually go ahead with this. You've had a year to do something and nothing's happened. I'm just wondering what you need to go ahead with it in the interest of shareholders.

MICHAEL CHANEY: Mr Daley, it is a nuisance, but the legal advice is that we do need to get this refreshed every year under the terms of the securities. The securities will be brought back if it's considered appropriate with regard to proper capital management. During the past year there have been regulatory changes in relation to capital and they're still in development.

APRA has come out with some statements about Hybrid Securities that I won't bore you with, but the repurchase of these securities really depends on the final outcome of where those things settle. It may be that we deem it in the bank's interest to repurchase those and to replace them with some other securities, but it may also be that they turn out to be worth keeping because of their categorisation under the new APRA rules. The directors will be making sure that if and when they're bought back, it's with all of those considerations in mind.