

***Address by the Managing Director &  
Chief Executive Officer***

***Mr FJ Cicutto***

***to the***

***Annual General Meeting of  
National Australia Bank Limited***

***19 December 2002***

Today I want to tell you about The National Story.

Firstly, I will look at the strength and diversity of our operations.

Secondly, I want to explain our corporate strategy and our future growth plans.

And finally, I will make some comments on the 2003 outlook.

Our business has grown over time through a combination of organic growth and acquisitions, both here and overseas.

Phase one represented the consolidation of the Australian banking industry eventually culminating in the policy preventing major bank mergers.

In a market the size of Australia, the competitive constraints of the Four Pillars policy means that sensible offshore growth is a viable strategy.

As a result, we acquired off-shore assets such as our UK banks and diversified our income streams in phase 2.

Phase 3 was typified by the acquisition of businesses that provided new capabilities to meet the challenges of a rapidly changing environment.

And phase 4 has seen us move from a global model to a more targeted regional approach designed around capability and integrated financial services.

We define Integrated Financial Services as combining our banking and wealth management capabilities to achieve end to end solutions for all customer segments.

Our international expansion makes the National unique amongst Australian banks.

As you can see from the chart before you, our banks in Australia, the United Kingdom, Ireland and New Zealand, form a banking entity of similar size to many well-known international banks.

The National's market capitalisation now compares favourably with banks such as Deutsche Bank, Standard Chartered, ABN Amro, and Societe Generale.

For your interest I have also shown the market capitalisation of our major domestic competitors.

You will notice our growth strategies and offshore focus have delivered a significant lead over the other Australian banks.

Some tried to expand offshore but have since retreated to Australia.

We have had some short term set backs, but our targeted growth strategy has produced solid results.

As the Chairman said, we produced a solid profit.

This slide shows the strength and diversity of cash earnings that generated this profit.

Each of our regional banking businesses had solid cash earnings growth.

Our Australia and New Zealand retail banks increased cash earnings by almost one third.

Retail banking in the United Kingdom and Republic of Ireland was up by 10 per cent.

Our Wholesale banking division performed well in a difficult environment.

Our wealth management profits fell, in part due to market volatility.

This chart shows our cash earnings by geographic region and is another example of our diverse income streams.

It is encouraging that this growth has been achieved with strong attention to credit risk, which is important in today's world.

The ratio of non accrual loans to total loans for the year to September is the lowest the Group has seen since 1986.

I will now turn to our corporate strategy.

This slide summarises, on one page, how we plan to grow our business.

Our purpose is clear – it is to grow through excellent relationships.

The 5 strategies to achieve this comprise:

- \* delivering complete customer solutions,
- \* creating a high performance culture,
- \* building trust with our stakeholders,
- \* building and leveraging competitive advantage, and
- \* managing for strong and sustainable total shareholder return.

All of these strategies provide a clear framework for our business going forward.

This chart shows continuing improvement in customer satisfaction.

We have a strong belief that the winners in financial services will be those institutions that customers trust to meet their needs.

A strong focus on distribution capabilities and customer service is imperative.

Getting the basics of customer service right every time, not just most of the time, is paramount.

We have room to improve, but our progress is encouraging.

We believe passionately in delivering an integrated banking and wealth management service.

I will talk about this in more detail later.

To monitor our progress towards better customer satisfaction, we have a dedicated call centre that exclusively monitors customer service.

The centre surveys around 200,000 customers a year, across all areas of our business, to understand their service needs and expectations.

Responses show continuing improvement in customer perceptions of the National and its front line people.

We act on this and other feedback to improve our service.

We have also made considerable progress over the past year to build a high performance culture which better values diversity and encourages people to perform to their full potential.

Earlier this year I announced my new leadership team.

Following that there has been a revitalisation of management down through the next three levels of the organisation.

As part of the revitalisation of our people, in the last financial year we spent \$55 million on employee training and development.

In respect of diversity, we have made progress in a number of areas.

There has been a gradual increase in the number of women in Management.

Growing numbers of employees are arranging flexible work agreements involving job-sharing or working from home.

During the year we employed 18 indigenous people and expect a further 20 to join in the New Year.

We employed 24 people with disabilities and received several awards for creating a disability friendly work place.

I would now like to discuss our future growth plans.

We have restructured to concentrate on markets where we have strong growth opportunities or significant market share positions.

We will focus on our core capabilities in banking and wealth management.

We are successfully developing all of our banks by utilising our areas of distinctive capability.

These distinctive capabilities are focussed around customer relationship management and its associated CRM technology, business banking and wealth management.

We believe, our approach to segmentation and relationship management provides the National with an advantage over our competition.

Our CRM technology has won international recognition.

This technology allows us to provide seamless customer service across the many ways we service our customers such as Internet banking, ATM's, call centres and face to face contact.

These systems improve our ability to anticipate and meet customer needs.

In Australia our investment in CRM and our segmented approach to banking has allowed us to consistently grow in key areas such as mortgages.

Another area of distinctive capability is wealth management.

We do have a different model that integrates well with banking.

We are not a fund manager. We are a "manager of managers" and the fourth largest in the world.

Over the last 17 years we have developed investment solutions by diversifying across asset classes, fund managers and investment styles.

In Australia our wealth management operation distributes roughly one-third through aligned planning groups, one-third through independent financial advisers and one-third through our branch network.

We have extensive experience in providing research, practice development and business services to financial planners to allow them to better serve their customers better and increase their own productivity.

Our model is working.

In the September quarter, our wealth management business attracted in excess of 20 per cent of net retail funds flows.

No other major Australian bank appeared in the top ten in retail funds inflow for that quarter.

In the UK, as a result of changes recently announced we believe the financial planning industry there will evolve down a similar path to what we have experienced in Australia over the last decade.

The wealth management business we are building in the UK will be similar to our proven model in Australia.

I would now like to explain the strategic logic behind our wealth management ambitions.

Let me build up a picture to show that wealth management is integral in satisfying the total needs of our customers.

Customers go through a wealth accumulation phase, until their 50's.

During this phase they are big users of traditional banking services such as home loans.

The bulk of the population - the baby boomers - are moving through this wealth accumulation phase and as they enter their 50's, they will be starting the Wealth Consumption phase of their lives.

In another decade they will be well into this consumption phase.

This will result in growing demand for wealth management services rather than banking.

As a result, we need to be offering both banking and wealth management services which will ensure we capture the emerging area of future growth - shown in blue.

This strategic analysis provides the medium to long term rationale for our significant investment in wealth management.

It is our view that the move into wealth management is as significant as our expansion off shore more than a decade ago.

It is also central to our purpose of growing through excellent relationships with customers.

Let me now turn to the 2003 outlook.

Our view of the global environment has not altered since the full year results.

We expect it to remain subdued over the coming year.

In Australia we expect a softening in consumer credit growth largely as a result of a downturn in home lending.

However, we do expect this will be offset by an improvement in business lending.

We are well positioned for this as we have significant market shares in business banking in Australia and New Zealand.

All of us in Australia are concerned about the impact of the drought on farmers.

The National understands the farming sector very well.

We have been the largest lender to this sector for a very long time and we have a dedicated rural lending platform, staffed by agricultural specialists.

As part of our commitment to assist drought-affected farmers, the National will consider a range of solutions.

These include:

- \*Restructuring loans

- \*Providing carry-on finance to cover cash-flow shortages

- \*Loan fee concessions, and

- \*Waiving penalties for early withdrawal of deposits.

The National will not change its interest rate risk margin on lending to the rural sector where the Government's interest rate assistance package is utilised.

We believe the sector is better prepared for a down turn now than in the past because the current drought follows several strong years and farm deposits are high.

The average net value of farm production over the last 3 years has been 50% higher than the average of the last 10 years.

Our agricultural lending is well placed with non accrual loans as at Sept 2002 at a 10 year low.

But we will have to work through this difficult period with our rural customers.

We expect some deterioration in rural lending, however the impact is not expected to be significant to our full year result.

Investment markets are expected to remain soft.

Interest rate increases are expected to remain on hold until the middle of next year.

Against this economic and financial backdrop we will focus on the things we can control, namely:

- \* Improving our customer service and support
- \* Investment to maintain long-term growth
- \* Capturing efficiency improvements
- \* Maintaining asset quality
- \* Continuing cultural change to create a high performance organisation
- \* And finally, active capital management.

In line with comments I made at our full year results cash earnings per share growth in the range 8 to 11 per cent for 2003 continues to be appropriate.

In summary,

We have built a strong and diverse financial services group that has produced excellent growth in shareholder returns over the last 20 years.

We have a clear corporate strategy and specific plans to deliver future growth.

This is a compelling story - The National Story - a story of solid growth in the past and in the future for you, our shareholders.

Thank you.