Address by

the Chairman Mr Mark Rayner

to the

Annual General Meeting

of National Australia Bank Limited

Melbourne Convention Centre

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This was a particularly significant year for the National.

It is easy to focus on the years financial performance. Operating profit was up 20 per cent to almost $3.4 billion after tax but before abnormals and distributions. Dividend was up by 11 cents a share, economic value added up 6.3 per cent and our share price reached $30.15, a record high. However, it is important to see that this years record result is the outcome of more than twelve years of consistent application of a fundamental strategy.

Over twelve years ago the then board and management of the National took a decision that has dramatically changed this group. There were two major parts to that decision: one, that we would become a financial services company and two, that we would compete internationally. During the years since our fundamental strategy has not changed but, of course, the way we implement it has.

Since that journey began we have moved from an Australian bank with some offshore operations to a fully integrated financial services group operating internationally.

More than 45 per cent of our assets and revenues are now outside Australia and, based on profitability, we are now one of the 25 largest banks in the world.

This year we undertook and completed two major transactions, which not only accelerated our transformation but gave us a strong seat at the table at a pivotal time in the consolidation and restructuring of the global financial services industry.

Regional and global consolidation in our industry continues at an unprecedented rate.

As in any other sector of the economy, only those financial services companies who have the proven ability to relentlessly improve productivity, drive down costs and boost shareholder value will be able to control their own destiny.

At the same time capital is being more ruthlessly allocated. It is clear that large investors are classifying companies by the size of their market capitalisation and investing accordingly.

The bottom line is that only companies of adequate size will attract the core capital of the major long term investors.

So growth is important.

Key to that growth is a proven acquisition capability and the scale and ability to succeed against competitors from inside and outside our industry and our region.

This year we bought MLC in one of the largest acquisitions undertaken in Australia. The combined National/MLC businesses in Australia give us immediate scale in funds management, distribution and e-commerce capability as well as leading brands, strong management and global growth potential.

Last month we announced the sale of Michigan National Corporation for some 5.3 billion Australian dollars.

That sale generated an estimated gain to the National of a little over 2 billion dollars after tax and an average annual rate of total shareholder return of 39 per cent over the five years we owned Michigan National.

Whilst we retain an important presence in the United States through Homeside, the sale allows us to more quickly expand our existing operations in the UK and to be an active participant in the consolidation and restructuring of global financial services markets.

I know Frank Cicutto will deal in more detail with our operations and strategy in a few minutes but I would like to come back to the logic of our fundamental strategy.

Since deregulation the major Australian banks have become more efficient and generated the capacity to invest substantial capital for long term growth.

However the size of the Australian market means there are fewer opportunities to make investments of the scale and risk profile of MLC.

As well as the size of the Australian market, the value of the Australian dollar is influencing the strategic direction of major Australian companies like ours. We believed twelve years ago and we continue to believe today that it is in the interests of our shareholders, our customers, our staff and the community to diversify geographically to ensure we can continue to grow.

This allows us to deal with issues like currency weakness, the relative shallowness of the Australian capital markets and differing business and economic cycles. It also makes a very important contribution to our ability to attract, develop and keep talented people.

Let me make the point very strongly that we are committed to continued growth in Australia.

Today the National directly employs 24,000 people in Australia and, through the $1.4 billion it spends here on supplies and services, creates jobs for many thousands more, in large and small businesses across the country. This year we paid $900 million in tax in Australia and collected for government another $570 million of taxes, which was buried in our fees.

And we paid over $1.2 billion in dividends to our mainly Australian shareholders and the institutions which manage the nations superannuation savings.

But in addition, the National brings back into Australia more than $1.5 billion each year in export earnings the profits from our overseas operations to make us one of the nations biggest export earners.

In the UK, the United States, New Zealand and Asia our primary objective is to maximise the opportunities for organic growth from our existing operations.

All our decisions about how and where we grow are guided by the over riding criteria of creating value for shareholders.

In the last ten years total shareholder return has increased on average by 23 percent annually.

During the past year our share price has risen nearly 25 per cent. It has outperformed the Australian All Ordinaries Index by 21 per cent and, after lagging the bank index at the start of the year, our share price has outperformed that index over the last three months.

To ensure we maintain our emphasis on shareholder value, this year we adopted Economic Value Added. Basically Economic Value Added or EVA is operating earnings less the cost of all capital employed to produce those earnings. It measures both value and performance.

We have engaged Stern Stewart & Co, who developed EVA and have introduced it into 350 of the worlds leading companies, to partner with us on this initiative.

In the same vein, we have decided to cease our practice of quarterly reporting of profit results, introduced in 1996. A review has shown that it incurs significant extra cost and introduces volatility and uncertainty to the market, detracting from shareholder value rather than adding to it. Henceforth, we will follow the standard practice in the Australian and UK markets of reporting only half and full year results, at 31 March and 30 September each year.

While meeting the needs of our shareholders is critical to our success we know we also have to meet the needs and expectations of our customers, our staff and the communities in which we operate.

In Australia there is clearly a perception gap between the major banks and many Australians.

While Australia has one of the worlds most efficient and secure banking industries the reality is that many customers feel banks have not met their expectations on service, distribution and fees.

Since deregulation the Australian banks have made extraordinary progress in developing new products and services, introducing new technology and widening the distribution of financial services.

At the National we regularly meet with customer and community groups to discuss these issues. As a result we have introduced fee free accounts and agreed with Australia Post to enable our customers to access our services at each of its 2800 outlets nationwide.

But the bottom line is that many in the community feel we haven’t done enough.

We are increasing our commitment to consult and widening the number of people in the community we talk and listen to. We will work harder to find acceptable ways to improve service and access to those people whose expectations we are not meeting today.

There is no doubt in our mind that these are important issues.

However, the bigger issue for Australia in the long term has much more to do with a view of the future of Australian business and industry.

The size of our domestic market effectively sets limits on the ability of companies to grow within Australia.

That is why we are seeing a growing focus by major Australian companies on how and where they structure and locate their assets, including their operational bases.

In the case of banking we have an added issue, which is resolving the anomalies caused by the current artificial constraints on major bank mergers.

It is important that Australia have a number of major companies in our key industries of competitive international scale, capability and reach, if we are to retain adequate control over our domestic economy.

These issues are fundamental to Australia's future. I don't believe anyone wants this country to become a branch office. Retaining our brightest people, creating real employment opportunities for our children, our influence in the region and the world and access to and choice of goods and services are all impacted by these issues.

Let me finish by making some comments on the major economies in which we operate.

In the United States we expect growth to slow from around 5 per cent in 2000 to around two and three quarter per cent in 2001.

In the UK economic activity has eased. Manufacturers are still struggling with the strength of the pound and services sectors are slowing, but overall the slow down is moderate. Growth in 2001 should be around two and three quarter per cent.

The New Zealand economy slowed markedly during the year. Confidence levels are low and interest rates higher, so reducing consumer spending and investment. We expect growth to be about 1.5 per cent in 2001.

Japan is, as always, hard to read, but is likely to continue a modest recovery-growing by aroundntwo per cent.

After very strong recoveries in the rest of Asia last year, 2001 looks to be slower with growth of around five per cent.

In Australia we expect GDP to slow from around 4.5 per cent this year to closer to 3 per cent next year. We believe tighter monetary policy and increased gearing levels are likely to reduce household spending.

There are two major forces working to offset the slowdown. The lower than expected value of the Australian dollar is improving the competitiveness of our exports and public sector demand is likely to grow strongly again.

Against the background of lower global growth, we would expect interest rates to be steady or to ease slightly.

Currencies have surprised most commentators this year. We believe the Australian and New Zealand dollars and the Euro have been significantly oversold and expect them to strengthen in the months ahead.

So, as you can see, the coming year will be testing.

But at the National we are now strongly positioned to deal with the changes in our industry and the world economy.

We have begun the year well with profits running above plan.

We are now a fully integrated financial services group operating internationally.

The financial and strategic benefits of the sale of Michigan National mean we are well placed to participate in the consolidation and restructuring of our industry.

We remain alert for opportunities to make appropriate acquisitions which clearly are able to enhance shareholder value. However, I can assure you that the Board is always mindful of the need to efficiently manage and utilise our capital.

At the same time organic growth in our businesses continues to be strong and we have dedicated and committed people working on your behalf around the world.

All of this leaves me optimistic that the year ahead will again provide the National, and its shareholders, with strong growth in the business and another satisfying profit result.

To give you more details on the progress of our operations I would now like to introduce our Managing Director and Chief Executive Officer, Frank Cicutto.

Thank you