

# **STRENGTH OF POSITION**

**ANNUAL  
SHAREHOLDER  
REVIEW  
2009**

“ At the heart of the NAB Group is a belief in potential. This belief motivates us to make a positive and sustainable impact in the lives of our customers and communities and underpins a strong and sustainable business for our shareholders. ”

**Cameron Clyne**  
NATIONAL AUSTRALIA BANK GROUP CEO

## **STRENGTH OF POSITION**

Sustainable, secure and supportive. As National Australia Bank navigated through the most challenging global financial environment since the Great Depression, we knew those qualities were important to our customers, our communities and our people.

In fact, it's these qualities, built upon a simple but steadfast belief in potential, that have enabled NAB to endure and prosper for over 150 years.

This Shareholder Review looks back over the past 12 months which have been some of the most turbulent in recent banking history. During this time we've concentrated on managing the complexities of the present, while also being mindful of the future. We're in great shape with strong options for growth and a continued capacity to support our customers and communities.

This year, we led the industry on the issue of fees, abolishing overdrawn fees in Australia and New Zealand. We continued to actively foster financial inclusion through our microfinance programs and to change the way we behave to help build a better environment for the future. And we are helping young people realise their potential through programs such as Schools First, Better Buddies and Auskick.

NAB thanks all those in Australia, New Zealand, Asia, the United Kingdom and the United States who have supported us through the global financial crisis. We're committed to doing our best for you.

### **ABOUT THIS REPORT**

This Shareholder Review includes financial summaries and information derived from the Company's 2009 Annual Financial Report and 2009 Full-Year Results Announcement. This document is not a concise report prepared under section 314(2) of the *Corporations Act*. The Company has not prepared a concise report for the 2009 financial year. The Company's 2009 Annual Financial Report is available to all shareholders upon request and can be viewed at [www.nabgroup.com](http://www.nabgroup.com)

All figures quoted are in Australian dollars unless otherwise stated. A reference to "\$" is to an amount in Australian dollars and a reference to "£" is to an amount in British pounds sterling. References to, "nab", "NAB", the "National", "National Australia Bank" or the "Company" are to National Australia Bank Limited ABN 12 004 044 937. The "Group" refers to the National Australia Bank Limited and its controlled entities. All references are as at 30 September 2009 except where stated otherwise. Any references to changes (including an increase or decrease) relate to the previous year, unless otherwise stated.

### **ANNUAL GENERAL MEETING 2009**

Our Annual General Meeting will be held at the Brisbane Convention & Exhibition Centre, Corner of Glenelg and Merivale Streets, South Bank, Brisbane, Queensland on Thursday, 17 December 2009 at 11.00am (Brisbane time). For the first time, an interview-based session will take place prior to the formal business of the meeting at 9.30am (Brisbane time), providing greater opportunity for the Chairman and Group CEO to respond to issues of importance to shareholders. The AGM will be webcast live on the internet at [www.nabgroup.com/agm](http://www.nabgroup.com/agm)

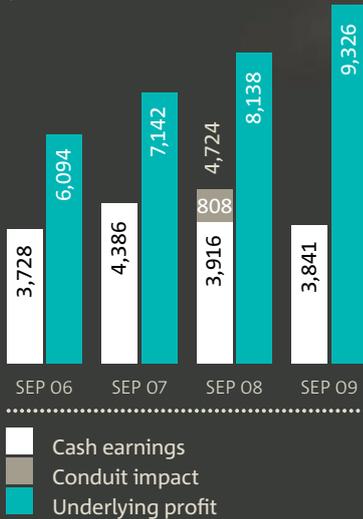
# 2009 OUR RESULTS

- Group revenue increased by 9.7% to \$16.9 billion
- Underlying profit increased by 14.6% to \$9.3 billion
- Cash earnings fell by 1.9% to \$3.8 billion
- Full year dividend of 146 cents
- Capital, funding and liquidity positions strengthened

Source: NAB 2009 Full-Year Results Announcement

## OUR PERFORMANCE

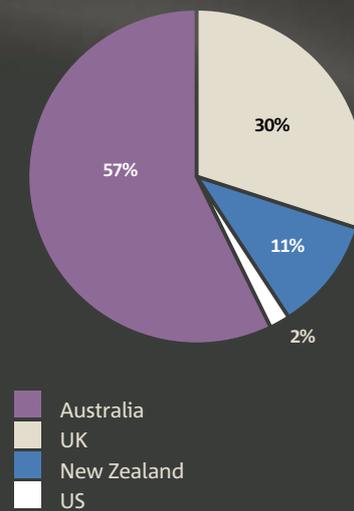
\$ millions



Source: NAB 2009 Full-Year Results Announcement  
Presented on an ongoing operations basis

## OUR CUSTOMERS

Total customers: 10.93 million



Source: NAB Internal

## OUR BUSINESSES

Business	Underlying profit (millions)	Cash earnings (millions)
Australia Banking	\$5,495	\$2,774
MLC (pre IoRE)	\$407	\$311
nabCapital	\$1,883	\$634
UK Region	£529	£78
NZ Region	NZ\$776	NZ\$420
Great Western Bank	US\$94	US\$53

Source: NAB 2009 Full-Year Results Announcement  
Note: Excludes Central Functions, Asia, IoRE (Investment on Retained Earnings) and distributions.

# 2009 OUR IMPACT

## CUSTOMER



- Continued to support customers with average loan volumes up by 6.7%
- Led the industry on the issue of fees, abolishing overdrawn fees in Australia and New Zealand
- Improved access to ATMs for around seven million Australians, thanks to new alliance with rediATM
- Allocated a further \$100 million to expand our microfinance program in Australia

## PEOPLE



- Launched The Academy, our new approach business school
- An Enterprise Agreement was endorsed by Australian employees

## COMMUNITY



- Almost one in six Australian schools applied for Schools First funding
- Implemented our Reconciliation Action Plan for Indigenous Australians

## ENVIRONMENT



- Reduced greenhouse emissions by more than 14,000 tCO<sub>2</sub>-e\*

## SUPPLY CHAIN



- Established a Supplier Sustainability Program in Australia

\*For 12 months to July 2009



**Ian Maclean**  
NAB AGRIBUSINESS CUSTOMER

“In February 2009, our globally renowned Yarra Yarra Vineyard was severely burnt in Victoria’s devastating bushfires and our winery lost. We’re rebuilding and NAB, our banker for more than 25 years, is helping, providing not just financial advice and support but hands on help – a team from NAB Agribusiness spent a day at the vineyard pruning off dead fruit.”

Hear more of  
**Ian Maclean’s story**

[www.nabgroup.com/annualreports/sr](http://www.nabgroup.com/annualreports/sr)



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# CHAIRMAN'S MESSAGE

The last year has been one of great turmoil in the global financial system, with banks and other financial institutions collapsing or being rescued by governments, and developed economies experiencing decline and, in some cases, deep recession.

In this environment it is gratifying that National Australia Bank has remained well capitalised and profitable, and is now rated as one of the safest banks in the world. This has enabled us to continue to support our customers and the communities in which we operate.

Cash earnings for the bank fell by around 2%, marking a second year when large bad debts and write-offs reduced an otherwise improved underlying profit. In the past year, increased funding costs also affected profitability.

The main focus of the company during the year was on keeping the bank safe, and almost \$8 billion of new share capital was raised through dividend reinvestment, placements and share purchase plans. While the directors would always have a preference for raising ordinary equity through pro-rata rights issues, the increased risks associated with extended offer-open periods and short-selling activities in a volatile market precluded this as an acceptable avenue this year.

With an increased number of shares on issue and flat profits, dividends fell to \$1.46 per share from \$1.94 in the previous year. The final dividend of 73 cents is fully franked and will be paid on 17 December 2009. Notwithstanding the external financial turmoil, the company was able to take advantage of some growth opportunities during the year, with acquisitions in insurance, wealth management, mortgage distribution and retail banking supplementing organic growth in our domestic banking franchise.

At the same time, we continued to invest in the communities in which we operate. Notable achievements were the launch of our Reconciliation Action Plan for Indigenous Australians, a successful year for the Schools First education program and continued investment in programs that improve access to financial services for the disadvantaged.

The Board remains cautiously optimistic about the outlook for the Australian economy where our largest operations are based, and it is confident that the Company is well placed to take advantage of opportunities as they occur.

During the year, we farewelled John Stewart as Group Chief Executive Officer and appointed Cameron Clyne as his replacement. We thank John for his considerable efforts in steering the bank through some difficult times and we wish Cameron every success as he takes the organisation forward.

Banking is a people business and we acknowledge the great effort made by all employees – from the Chief Executive down – in keeping the bank safe and strong over the past year.

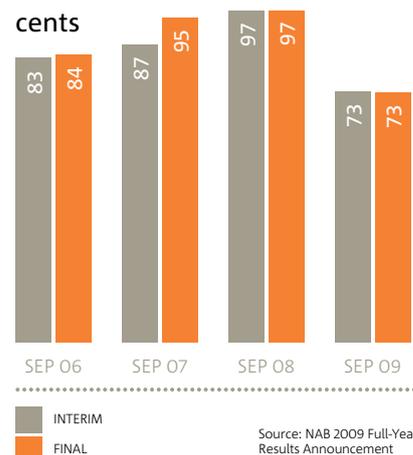
**Michael A Chaney AO**  
CHAIRMAN



**VODCAST**   
Listen to Michael Chaney discuss the economic environment and outlook.  
[www.nabgroup.com/annualreports/sr](http://www.nabgroup.com/annualreports/sr)



## DIVIDENDS





Under the challenging economic conditions of the past year, I am pleased to report that NAB has remained safe and secure, producing a solid result based on revenue growth and continued cost control.

At the beginning of the year we set our strategic direction around four priorities: maintaining balance sheet strength; accelerating our efficiency, quality and service agenda; investing in our people, culture and reputation; and improving the position of the Australian business, while maintaining franchise value internationally.

Despite the volatile market, it is this course of action that has helped ensure we remain rated as one of the safest banks in the world. In the past year, Group revenue grew by 9.7% to \$16.9 billion, costs increased by only 2.9% (excluding Great Western Bank which was acquired towards the end of the previous year) and our funding target of \$19 billion for 2009 was exceeded.

The year certainly had its challenges and we can see this reflected in our cash earnings, which are down 1.9%, due to the increase in charges for bad and doubtful debts and in line with the difficult conditions.

In an economic environment where confidence levels within financial markets were still fragile, it was important to strike a careful balance between the various expectations of our shareholders, customers and the community.

Improving the reputation of the bank, positioning NAB as a leader in the industry and creating strong, sustainable customer relationships are all vital to improving total shareholder returns and creating sustainable business momentum. We have led the industry in addressing issues of interest rate transparency, fee fairness and financial services for the vulnerable in our community, and this puts us in good shape as markets recover.

We have also delivered a number of growth initiatives that are a core part of our strategy and these will position us for the future. We have:

- Extended our wealth capability and reach with the acquisition of Aviva's wealth management business, and the formation of an alliance with Goldman Sachs JBWere's private wealth management business.
- Launched UBank and announced the acquisition of Challenger's mortgage management business.
- Doubled access to ATMs through a new alliance with rediATM – providing around seven million Australians with greater access to their money.
- Appointed 145 additional frontline bankers to our business bank during the year, with plans to add another 200 during 2010.
- Expanded the branch network of Great Western Bank in the United States in line with our objective of maintaining options internationally.

In this report you will find more detail on the following results:

#### **Australia**

Australia Banking delivered a strong performance. Despite a 5.3% fall in cash earnings to \$2.8 billion, underlying profit was up 16.1% to \$5.5 billion due to both robust revenue growth and continued careful cost control.

#### **MLC**

Cash earnings before IoRE fell by 23.8% to \$311 million due to volatile global investment markets which affected average funds under management and resulted in a decline in the cash earnings of the Investment business. Despite the difficult market conditions, MLC continues to focus on profitable growth and has maintained investment margins.

#### **United Kingdom**

Operating conditions were consistent with the deepest UK recession in the post war period. Domestic property values declined, on average, by 20% from their peak and commercial property fell by 45%. Dislocation in funding markets increased funding costs. In this context, our Clydesdale and Yorkshire Bank operations demonstrated considerable resilience.

## FROM THE GROUP CEO

#### **New Zealand**

Bank of New Zealand (BNZ) continued to perform well, in the face of a domestic recession coupled with ongoing volatility in global credit markets. BNZ delivered cash earnings of NZ\$420 million, a 12.9% fall due to a number of factors including an increase in the charge for bad and doubtful debts.

#### **nabCapital**

nabCapital achieved a strong result with cash earnings reaching \$634 million and underlying profit rising by 43.9%. Strong revenue growth was seen in most product areas, particularly in Global Markets and Treasury.

#### **Great Western Bank**

2009 was the first full year of trading results for Great Western Bank. Cash earnings for the year were US\$53 million and underlying profit was US\$94 million.

I am confident we are laying solid foundations for our future. We have a strong and energised leadership team in place, an organisation aligned to deliver, and we are meeting our responsibilities to our shareholders and the broader community to lift our performance and our reputation.

While much has been achieved this year, our executive team recognises that more work is required to generate the returns our shareholders expect, and this remains our key objective.

The global economy has further to go before we can all breathe more easily. However we end the year with a cautiously optimistic perspective and poised to realise the opportunities ahead.

**Cameron Clyne**  
GROUP CEO

**VODCAST** Cameron Clyne discusses our 2009 financial results and business strategy.

[www.nabgroup.com/annualreports/sr](http://www.nabgroup.com/annualreports/sr)



# CFO'S REPORT



In an extraordinary year, when the Australian dollar, interest rates, and debt and equity markets all went through significant change, a 1.9% decline in cash earnings is a remarkably stable result.

The Group achieved solid revenue growth, with Australia Banking and nabCapital making particularly strong contributions. We remained very disciplined about costs and, importantly, maintained a strong balance sheet.

### KEEPING THE BANK SAFE

A strong balance sheet, in terms of capital, funding and liquidity, remains a core priority. At 30 September 2009, our Tier 1 capital ratio was 8.96%, reflecting capital raisings and other capital initiatives during the year. While recent data might suggest global economic conditions are improving, we still see a significant need for capital, not least for potential regulatory changes.

During 2009, we exceeded our funding target of \$19 billion and put ourselves in a strong position to support customer needs in 2010. We also increased the average maturity of term funding, recommenced the issuance of non-Government guaranteed debt and delivered strong deposit growth across all franchises. Conservative levels of liquidity were retained at all times.

### A SOLID PERFORMANCE IN CHALLENGING TIMES

Solid revenue growth was seen, despite rapidly emerging weakness across relevant economies. Group revenue increased by 9.7% to \$16.9 billion (excluding Great Western Bank which was acquired in June 2008, revenue increased by 8.5%).

Australia Banking and nabCapital's Global Markets and Treasury Division were particular areas of strength. Australia Banking achieved robust business lending growth and effective margin management, while nabCapital's Global Markets and Treasury Division benefited from market volatility, which drove increased client demand for risk management products, improved margins and a strong trading performance.

These results were partially offset by lower revenues in the UK Region and MLC, the latter reflecting declining funds under management and adverse claims experience. All of our franchises have continued to reprice lending portfolios to align pricing to underlying risks.

### SOLID REVENUE GROWTH, DISCIPLINED COST MANAGEMENT



REVENUE GROWTH  
EXPENSE GROWTH

Source: NAB 2009 Full-Year Results Announcement

“During 2009, we exceeded our funding target of \$19 billion and put ourselves in a strong position to support customer needs in 2010.”

**TIGHT MANAGEMENT OF COSTS**

We remain focused on tight cost management and realising efficiencies across each of our businesses. Strong discipline has been maintained, with cost growth remaining at around inflation. Across the Group, cost growth was 2.9% (excluding Great Western Bank, which was under our ownership for only four months of the prior year).

Our Efficiency, Quality and Service (EQS) agenda was accelerated during 2009. These initiatives focused on reshaping the business to increase efficiency, reduce duplication and position the Group to better serve our customers. One-off costs associated with the acceleration of this agenda are incremental to the underlying cost performance of the businesses and are excluded from cash earnings. For the full year, \$254 million of costs have been accelerated, and are expected to deliver \$336 million of annualised benefits in the 2010 year.

**ASSET QUALITY**

Asset quality softened across the Group reflecting deteriorating business conditions in all markets. The bad and doubtful debt charge was \$3.8 billion, an increase of \$2.3 billion excluding the charges for ABS CDOs (Asset Backed Security Collateralised Debt Obligations) booked in the previous year. This increase was due to higher specific provisions in business lending in all regions and higher collective provisions consistent with deteriorating economic conditions. The rate of increase in both the bad and doubtful debts expense and total provisions moderated during the second half of the year.

**THE YEAR AHEAD**

Looking forward, we are seeing positive signs emerge but there remains a high degree of uncertainty around the globe. We will continue to focus on balance sheet strength, target sustainable growth in deposits, and continue to manage our efficiency and cost agenda in a disciplined way.



**Mark Joiner**  
EXECUTIVE DIRECTOR FINANCE

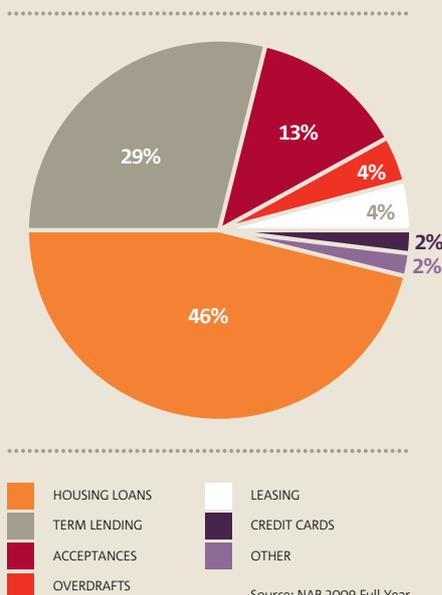
**TERM FUNDING**

\$ billions



Source: NAB 2009 Full-Year Results Announcement

**GROSS LOANS AND ACCEPTANCES BY PRODUCT**



Source: NAB 2009 Full-Year Results Announcement

# OUR BUSINESSES

## Australia Banking

Australia Banking consists of Retail Banking and Business and Private Banking. Cash earnings fell 5.3% to \$2.8 billion while underlying profit was up 16.1% to \$5.5 billion, due to robust revenue growth and continued careful cost control. Business and Private Banking's revenue increased 11.3% due to the success of the integrated Financial Solutions (iFS) and specialist banking models. Growth was particularly strong in the Small to Medium Enterprise (SME), agribusiness and health customer segments. Retail Banking's revenue growth was 10.3%. These factors were offset by the increase in provisions for bad and doubtful debts which rose from \$603 million to \$1.6 billion.

### AUSTRALIA BANKING

Cash earnings and underlying profit

\$ millions



“Getting rid of overdrawn account fees means our people have more time to spend with customers on the things that really matter. It’s a good decision for our business because it’s the right thing for our customers.”

LISA GRAY, GROUP EXECUTIVE, PERSONAL BANKING

## RETAIL BANKING

The retail bank has more than three million personal and micro business customers across Australia and approximately 750 retail outlets, agencies and kiosks. In 2009, we helped a further 34,000 Australians buy or renovate their homes, looked after more than \$51 billion of our customers' money, and lent \$1.1 billion to around 300,000 small business customers.

Retail Banking delivered strong underlying profit growth of 19.8% while cash earnings increased by 7%. Looking ahead, our strategy for growth is built upon a commitment to 'fair value' banking services, focusing on high growth customer segments, and connecting with our customers through a range of channels and brands.

### DRIVING FAIR VALUE FOR CUSTOMERS

In September 2009, NAB became the first major bank to abolish overdrawn account fees on personal transaction and savings accounts. The abolition of these fees, which are the most common source of customer complaints to the bank, is a tangible sign of our commitment to improving our relationships with our customers. In 2010 we will continue to drive our fair value agenda which is anchored on four key principles: providing quality services and products; fair fees and charges; help, guidance and advice; and compassion and support.

### INVESTING IN OUR CHANNELS AND BRANDS

Over the past three years, we have invested over \$150 million to improve our physical network by refurbishing 393 branches, opening 54 new branches and adding more than 400 new Automated Teller Machines (ATMs). In July 2009, to further enhance our network, we entered into an agreement with Cuscal to combine our 1700 ATMs with its 1400 rediATM network. This creates one of the largest ATM networks in the country and provides around seven million Australians with greater access to ATMs.

We launched a program called **Customer Connect** to centralise administration activities in branches and free up our people to spend more time with customers. We also continued to invest in tools and training to ensure our people could provide customers with the help and guidance needed.

We continued to introduce new ways for our customers to bank with us. These included enhanced self service and direct online offerings, improved functionality in our ATM fleet, products and processes to make it easier to bank with us, and upgraded online channels that rank among the industry's best. In 2009 we became the first Australian bank to introduce voice biometrics to our telephone banking service, enabling us to match customers' voices to previously recorded questions and enhancing customer experience and security.

### STRATEGIC EXPANSION

In line with our strategy to give our customers a broader range of channels and brands to do business with us, we made two strategic moves during the year. The first was the launch of UBank, NAB's new direct banking offering, and the second is the acquisition of the mortgage management business of Challenger. Challenger is one of Australia's largest non-bank lenders, funding a significant number of 'white label' mortgage products through a network of distribution partners who originate and service mortgages under their own brands. The acquisition also includes Challenger's mortgage aggregator businesses PLAN, Choice and FAST which offer support services to around 5,700 mortgage brokers. Together with NAB Broker, this acquisition will cement NAB's presence in the important broker distribution market and strengthen sales of home mortgages in 2010 and beyond.

From 2010, Retail Banking will report as Personal Banking.

## Success for UBank



UBank, NAB's new direct banking offering, attracted a

significant customer base in its first year. The success of UBank's initial term deposit offering was followed by the launch during the year of USaver, a high interest online savings account. USaver added almost 10,000 new accounts in its first month. [www.ubank.com.au](http://www.ubank.com.au)

## HIGHLIGHTS

- First major bank to abolish overdrawn account fees on personal accounts
- Nearly doubled ATM network with new NAB and rediATM alliance
- Awarded *Business Bank of the Year* by CFO Magazine
- Achieved top ranking among major banks for business banking customer satisfaction

## BUSINESS & PRIVATE BANKING

NAB is Australia's leading business bank for both lending and deposit market share. Our relationship bankers provide specialist insights and solutions to more than 700,000 clients, ranging from SMEs and mid-market corporates to large institutional clients. In 2009, NAB won the CFO Magazine *Business Bank of the Year Award*.

Business and Private Banking delivered a solid performance in 2009, despite the subdued environment. Underlying profit rose by 14.3% but cash earnings fell by 10.7% on the previous year, reflecting a material increase in bad and doubtful debt provisions as a result of the economic environment.

**“Relationships with customers are defined in tough times.”**

JOSEPH HEALY, GROUP EXECUTIVE, BUSINESS BANKING

### SUPPORTING OUR CUSTOMERS

In 2009, we grew business deposit market share to 24% and business lending market share to 20.1%. Strong growth was seen in health and agribusiness and in the SME sector where \$35 billion in new lending was achieved. These results demonstrate the commitment of the bank to supporting our customers through economic cycles, which is fundamental to our relationship banking model.

During the year, we continued to invest in supporting our existing clients and developing new opportunities. We recruited 145 new business bankers and plan to add around 200 more during 2010. We increased our geographical footprint by opening new business banking centres in New South Wales and Western Australia.

In 2009, we achieved, for the 13th month running, the highest business customer satisfaction rating among the major banks (in the \$5 million to \$500 million segment) according to a survey by East & Partners.

### MANAGING THROUGH A DIFFICULT ENVIRONMENT

Bad and doubtful debts have increased significantly as a result of the economic downturn. This has involved both large and medium sized businesses and, more recently, the SME sector. Throughout the year, the business has monitored asset quality closely. Credit managers are co-located with experienced bankers, enabling quick decision making and informed risk management. Our portfolio management team has completed detailed reviews in higher risk sectors and locations. As a result of this 'early warning' system, bankers have been able to work closely with customers facing difficulties.

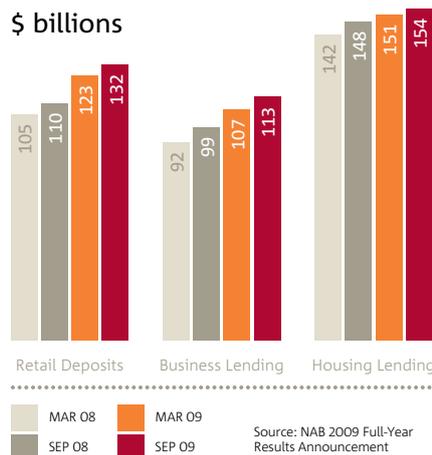
### LOOKING AHEAD

In March 2009, institutional lending businesses from nabCapital were integrated into the business bank. This has created a powerful model that covers all business customer segments, ranging from small and emerging businesses to the top 300 corporates in Australia, providing many opportunities to share best practice for the benefit of our customers.

*From 2010, Business and Private Banking will report as Business Banking and will include figures from the institutional business.*

## AUSTRALIA BANKING

Average volumes



## Know your stuff

**“Our NAB Health bankers have a real understanding of the pharmacy industry, and they work hard to understand how changes may affect our operations and, as a result, our banking arrangements.”**



**NICOLE HARDWICK**  
Pharmacist and NAB Health customer

Nicole Hardwick has been a NAB customer since she bought her first pharmacy nine years ago. She is now a partner in three Melbourne pharmacies.

**“Pharmacy is a very different and regulated industry, both to enter as a business owner and to operate. Goodwill, for instance, is a very significant consideration – NAB Health understands this and takes it into account when financing a new acquisition.”**

*In 2009 NAB Health released **The Changing Face of the Healthcare Industry**, a special report that examines future trends in the healthcare sector. It focuses on five sectors: pharmacy, dentistry, general practitioners, medical specialists and vets. To read this report, visit the business section of [www.nab.com.au](http://www.nab.com.au)*

**MLC provides investment, superannuation and insurance solutions, as well as quality financial advice. It also provides corporate and institutional customers with outsourced investment and superannuation solutions. MLC is the third largest provider of 'manager of managers' investment solutions globally.**

Cash earnings before IoRE\* fell by 23.8% to \$311 million. Volatile global investment markets saw average funds under management decline by 19% during the year, resulting in a 37.1% fall in Investments' cash earnings. Despite these difficult market conditions, MLC has continued to focus on profitable growth and has maintained investment margins. Operating costs reduced by 2.9%, as a result of strong cost management.

### BUILDING TRUST

In a challenging wealth environment, there is growing recognition amongst financial planners, regulators and clients of the merits of a more transparent fee-based advice model, rather than a commission-based structure. MLC has led the industry in this transition. In PricewaterhouseCoopers' 2009 *Wealth Management CEO Survey*, we were rated the most admired wealth management company for promoting trust and confidence in the industry. We are now using this leadership position to attract quality financial advisers, build our client base and, importantly, maintain high client retention rates.

In September 2009, we announced that Apogee Financial Planning and Garvan/MLC Financial Planning would move to a fee-for-advice model for all new investments and superannuation clients from 1 July 2010. Godfrey Pembroke and NAB Financial Planning have already made this move.

### LEADING THE PERSONAL INSURANCE MARKET

MLC continued to focus on writing high quality and sustainable new business. Insurance sales rose across all major life products by 31% on the prior year. MLC received the prestigious 2009 *Life Insurance Company of the Year* award from the Australian and New Zealand Institute of Insurance and Finance (ANZIIF) – the fourth time we have won the award in its six-year history.

### BUILDING OUR OFFERING

During the year we continued to build our offering. In March 2009, MLC and NAB Wealth was created, bringing together NAB Private Wealth and nabInvest with MLC.

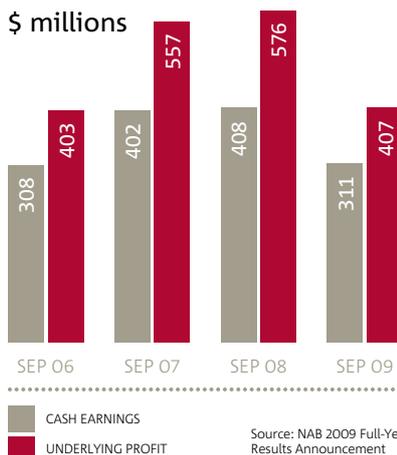
Two strategic acquisitions further bolstered our efforts. We completed the acquisition of Aviva's wealth management business in Australia, including its life insurance operations and discretionary investment platform, Navigator. The acquisition adds scale, efficiency and new capabilities to MLC's operations. We also formed a strategic alliance with Goldman Sachs JBWere (GSJBW), acquiring 80.1% of GSJBW's private wealth management business in Australia and New Zealand which will be branded JBWere. Together with NAB Private Wealth, this alliance will enable MLC to deliver an attractive wealth management offering for high net worth customers.

Our position in direct asset management continued to grow through nabInvest. Since its establishment in October 2007, nabInvest has taken strategic stakes in five boutique investment managers.

*From 2010, the combined business will report as MLC & NAB Wealth.*

### MLC (pre IoRE\*)

Cash earnings and underlying profit



\* IoRE: Investment on Retained Earnings

## HIGHLIGHTS

- Awarded *Life Insurance Company of the Year* by ANZIIF
- Acquired Aviva's wealth management business in Australia
- Formed strategic alliance with Goldman Sachs JBWere
- Operating costs declined by 3%

**"We believe we'll see a flight to quality and the essence of trust becoming much more important."**

STEVE TUCKER,  
GROUP EXECUTIVE, MLC & NAB WEALTH

## Trust and transparency

**"There's a lot more comfort – for both clients and advisers – when clients can relate the fee they pay to the service and advice they receive."**



**SHARON WALKER, CFP**  
Senior Financial Planning Manager,  
NAB Wealth, Albury/Wangaratta

Despite unprecedented market volatility, Sharon Walker didn't lose a client in the past year. It's something she puts down to a couple of things.

**"My clients understand and expect volatility and we had strategies in place to manage and reduce its impact. In addition, when markets did drop sharply, they kept their long-term goals in mind, while trusting that I was looking out for their best interests – that's something a fee-for-service approach promotes."**

*In November 2008 Sharon Walker won the Financial Planning Association's Value of Advice national award in the wealth and accumulation category.*

# nabCapital

nabCapital, our capital markets and institutional banking division, operates in Australia, New Zealand, the United States, United Kingdom and Asia. We provide a range of structured financial products and services, including investments for private banking clients, risk management solutions for business banking clients and capital market products for institutional clients.

In 2009, nabCapital returned to profit, with cash earnings reaching \$634 million and underlying profit rising by 43.9%. Strong revenue growth was seen in most product areas, with Global Markets and Treasury performing particularly well.

## STRONG GLOBAL MARKETS PERFORMANCE

Our previous investments in Global Markets' infrastructure meant that we were well positioned to take advantage of the significant market volatility associated with the global financial crisis. This led to higher customer demand for risk management products and increased lending opportunities. In line with an improving global economy, there was less market volatility in the second half of 2009 as markets began to settle. The strong performance of Global Markets was recognised externally, with the business ranking as the top interest rate provider in Asia Risk's *Australasian Derivatives Survey*.

## nabCapital

Cash earnings and underlying profit

\$ millions



## HIGHLIGHTS

- Return to profit with cash earnings of \$634 million
- Outstanding revenue growth in Global Markets and Treasury
- Completed transition to new Wholesale Banking structure
- Focused on closely aligning product capabilities with customer needs

## DIFFICULT CREDIT ENVIRONMENT

nabCapital's revenue growth was partially offset by the continued deterioration of the credit environment. This resulted in a higher number of impaired assets and an increase in provisions to cover loan exposures in Australia and the United Kingdom. Bad and doubtful debts declined in the second half, indicating initial signs of stabilisation, but the full impact of the economic downturn is not expected to be felt until mid to late 2010, particularly in the UK and the US, which have shown more severe signs of economic stress.

The conduit portfolio continued to be actively managed by nabCapital. Asset quality has generally remained stable and extra protection measures have been taken where required. From 1 October 2009, this portfolio will become part of a new business called Specialised Group Assets.

## LEADING FINANCING SOLUTIONS

nabCapital supported a number of major transactions in 2009. We were awarded *Project Finance Deal of the Year* by CFO Magazine for the Hallett Hill wind farm transaction, which included renewable energy credits in the financing structure. We also led the financing of the Victorian Government's desalination plant, one of

the largest in the world, and arranged private funding to build social housing in the United Kingdom and schools across Australia. nabCapital played a significant role in the reinvigoration of Australia's capital markets as we were involved in the first corporate bond, hybrid bond and securitisation transactions to take place since late 2007. We were also behind the largest syndicated loan and the best priced private placement transaction for the year.

## INTRODUCING WHOLESALE BANKING

nabCapital was restructured as part of a Group strategy initiative announced in March 2009. Lending to large corporations was merged into the regional business bank and activities inconsistent with our future priorities placed into Specialised Group Assets. From 1 October 2009, Global Markets and Treasury, Financial Institutions, Specialised Finance and Asset Servicing (previously National Custodian Services) among others, were integrated into a new division called Wholesale Banking.

*From 2010, the business will report as Wholesale Banking.*

## The upside of volatility



### VINCE PAVIA

nabCapital customer and owner of Hapuku Fisheries, a commercial fishing business on the Gold Coast

**"A long-term approach to foreign exchange risk management has given us surety – and potential upside."**

"We sell most of our catch to Japan so we regularly change Yen into Australian dollars. We used to do this each time an invoice was paid but the extreme rate movements of the last 18 months were unpredictably affecting our profits. Thanks to the tireless efforts of my banker and FX specialist, we were able to take a proactive, longer term approach. We've now got a guaranteed minimum exchange rate for the next four years and the flexibility to benefit from positive moves, which is a real bonus."

# United Kingdom

**Our United Kingdom banking franchises, Clydesdale Bank and Yorkshire Bank, provide retail, business and corporate banking services to more than 2.7 million customers across the country.**

In 2009, the UK banking franchise delivered a resilient performance in difficult market conditions. Our assets, while far from immune to the poor conditions, are performing better than our peers on a number of measures and the franchise remained profitable, well capitalised and with clear underlying strength. Underlying profit of £529 million was up 2.1% driven by robust cost management. Cash earnings fell to £78 million, reflecting an increase in the charge for bad and doubtful debts from £175 million to £421 million.

**“Our ability to continue supporting our customers through market upheaval is due to our strong foundations, the strength of our capital position, and improved funding from strong deposit growth.”**

LYNNE PEACOCK  
GROUP EXECUTIVE, UNITED KINGDOM

## A PRUDENT APPROACH

In a difficult climate, our strategy continues to centre on driving ever-greater efficiency from our operations and maintaining very conservative liquidity and capital positions. At the same time, our commitment to supporting customers is an enduring focus.

Operating expenses were carefully managed and declined by £48 million, relative to the previous year. This is the fourth year of falling or flat costs. Capital ratios were strengthened during the year and, as at year end, the Tier 1 ratio was 8.2%. Attracting and retaining a strong retail deposit base was a key strategic priority and, despite significant competition, deposit growth of 14.3% was achieved, almost four times the industry average.

## SUPPORTING CUSTOMERS

We continued to be open for business during a year when some UK lenders were criticised for low lending volumes. New lending of £4.1 billion, including £2.0 billion for business and £1.8 billion for mortgages, was advanced. Lending was appropriately priced to reflect current risk settings.

We intensified our efforts to help customers who are experiencing financial difficulty. For retail customers, a Customer Support Unit was created to provide a single access point for those in difficulties. Additional resources have been made available to our Business Recovery Unit to ensure increased support is provided to businesses in financial difficulty.

## YORKSHIRE BANK CELEBRATES 150 YEARS

In 2009 Yorkshire Bank celebrated its 150th anniversary. Established in 1859 as a philanthropic organisation aimed at providing a means of saving for workers, the bank marked its anniversary with the launch of a special £150,000 fund to help support charities and community groups. An additional £200,000 was raised for local charities through the auction of new and historic banknotes from Clydesdale Bank.

## UK REGION

Cash earnings and underlying profit



## HIGHLIGHTS

- Deposits rose by 14.3%, more than four times the industry average
- More than £4.1 billion of new business and mortgage lending
- Yorkshire Bank celebrated its 150th anniversary

## The right thing to do

**“History has shown us that, if you stick with your customers in the bad times, they tend to stick with you in the good times. Putting the longer term business benefits aside, we believe that keeping our customers in their homes is, quite simply, the right thing to do.”**



### PHILIP MILLS

Head of Collections Strategy and Performance  
National Australia Group – UK Region

“Mortgages haven’t been a major issue for us in the recent past, largely due to our prudent approach to lending. However, in the current economic climate, our customers are experiencing difficulties and we want to support them.

“To do this, we are being proactive in identifying patterns that indicate emerging problems, and we’ve also broadened the tools we use, so we’re in a better position to help. Instead of simple repayment arrangements, for instance, we’ve developed more flexible solutions such as capitalisation, consolidation and interest-only repayments.”

*Our UK franchise has a relatively low rate of repossessions, repossessing 84 properties in six months, compared to 24,000 industry-wide.*

# New Zealand

**Operating under the BNZ and BNZ Partners brands, our retail, business, agribusiness and insurance franchises provide banking services to more than one million customers across New Zealand.**

A domestic recession, coupled with ongoing volatility in global credit markets, created a very challenging environment in New Zealand in 2009. BNZ's response has been to continue working on our long-term strategic agenda while maintaining balance sheet strength. We have held conservative levels of liquid assets, diversified and lengthened the term profile of customer deposits and wholesale funding, and maintained physical capital levels well above prescribed levels. Our focus on balance sheet strength, combined with increased bad and doubtful debt charges, led cash earnings to decline by 12.9% to NZ\$420 million. Underlying profit was up 1.7% to NZ\$776 million and costs remained flat for the fourth year.

## BNZ PARTNERS PERFORMS WELL IN FIRST YEAR

Despite difficult economic conditions, our core strengths in relationship banking, asset quality, retail innovation and culture have allowed us to continue building the foundations for longer term growth and returns.

BNZ Partners – BNZ's version of the Group's iFS relationship banking model – made a strong contribution in its first full year.

Our strong asset quality capability meant we continued to lend and were able to assist customers at a time when overall system growth slowed considerably. Business lending volume rose by 8% year on year with increased market share in lending across all key business segments.

## HELPING OUR CUSTOMERS AND COMMUNITIES TO BE BETTER OFF

BNZ continued to help customers and communities achieve their goal of being 'better off'. In September, BNZ became the first major bank in New Zealand to stop charging dishonour, honour and unpaid bill fees on transaction and savings accounts for both business and personal customers. In addition, BNZ has boosted resources to help customers through difficult times. Our banking advisors are spending more time with customers talking about their banking needs, while a financial literacy program has been developed for customers and the wider community.

## INNOVATIVE RETAILING

BNZ has pioneered a number of innovative concepts designed to provide customers with a retail, rather than a traditional banking, experience. During the year we introduced new concept stores, mobile banking carts and trailers and a refreshed *Out of the Box* system that provides packaged solutions to meet customer needs.

## HIGHLIGHTS

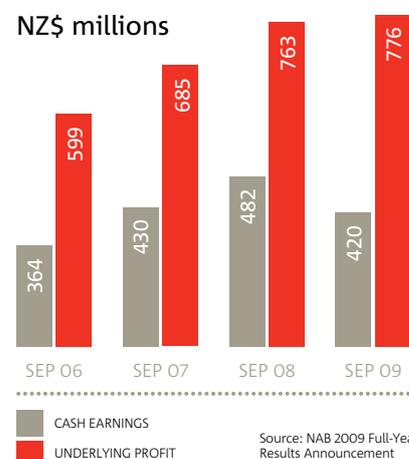
- Resilient performance in tough economic climate
- BNZ Partners makes strong contribution in its first year
- First major bank in New Zealand to abolish overdrawn account fees

**“We are emerging from a tough year with a sound balance sheet, good asset quality and strong capital ratios.”**

ANDREW THORBURN,  
CEO BNZ

## NZ REGION

Cash earnings and underlying profit



## US Banking

**In the United States, Great Western Bank (GWB) has over 900 employees and provides retail banking, business banking and agribusiness services to more than 300,000 customers. The bank has 125 branches located across seven states, mainly in the mid-west agricultural region of the US.**

In its first full year since joining the Group, GWB posted cash earnings of US\$53 million and underlying profit of US\$94 million. These are strong results

compared to peer group and industry results. The charge for bad and doubtful debts was US\$14 million.

Our strategy in the US is to achieve continued growth in retail, with an increased focus on agribusiness. In 2009, GWB launched its agribusiness strategy. Nine agribusiness centres were opened, 16 agribusiness bankers have been hired and loan volumes of approximately US\$300 million were produced in its first six months of operation.

The challenging credit environment has created the opportunity to acquire select

banking franchises at favourable prices. In June, we acquired the Colorado operations of First Community Bank and the Canon City branch of Wachovia Bank. In September, we agreed to acquire 32 TierOne Bank branches in Nebraska and Iowa, subject to regulatory approvals. These acquisitions are a compelling value proposition for GWB in terms of price and strategic fit, as we explore opportunities to expand in the rural Midwest.

Since joining our Group, GWB has grown overall interest earning assets by 29% from US\$3.4 billion to US\$4.4 billion.

# CORPORATE RESPONSIBILITY

At the heart of our Group is a belief in the potential of our customers and communities, as well as each other.

## CUSTOMER

Delivering clear value and quality service



A NAB Microenterprise Loan helped indigenous entrepreneur Suzanne Grech purchase commercial kitchen equipment and kickstart her bush foods catering business, *Purple Goanna*.

In a year of financial turmoil, our first responsibility has been to provide our customers with safe and secure banking.

### ACHIEVEMENTS

- Continued to support customers with average loan volumes up by 6.7%.
- Led the industry on the issue of fees, abolishing overdrawn fees in Australia and New Zealand.
- Doubled our network of ATMs in Australia through a new alliance with rediATM.
- Allocated a further \$100 million to expand our microfinance program in Australia.
- Provided more detailed and transparent communications about interest rate movements.
- MLC continued to lead the wealth management industry towards a transparent fee-for-advice model.
- Helped customers experiencing financial difficulty in a range of ways including the establishment of a Financial Solutions Unit in the UK.
- Launched the **Your Money Made Easy** series of education booklets to improve financial literacy in New Zealand.
- Recognised by Money Magazine's **Best of Best Awards** for socially responsible products for our continuing support of not-for-profit microfinance programs.

## PEOPLE

Investing in the skills and capabilities of our employees



Yorkshire Bank employees celebrated the bank's 150th anniversary by launching a new Greener School Gardens campaign.

Helping our people reach their potential is at the heart of our long-term approach and the key to our success.

### ACHIEVEMENTS

- Launched **The Academy** in Australia to help our people develop their capabilities and careers. Over 6,000 employees attended a course at **The Academy**.
- BNZ achieved employee engagement at levels well above the average for global financial services. BNZ also conducted a company-wide 'culture jam' session in which employees identified the behaviours required for future success.
- Updated our **Leading for Growth** Program in the United Kingdom to reflect current business challenges. Launched two new network groups focused on workers with disabilities and mature age employees.
- An Enterprise Agreement was endorsed by a majority of Australian employees. It runs until the end of 2010, providing across-the-board pay increases for pre-management, clerical and frontline employees and greater flexibility over leave management.

## COMMUNITY

Supporting communities, with a particular focus on inclusion and investing in our youth



More than 160,000 boys and girls across Australia, supported by over 20,000 volunteers, took part in NAB's AFL Auskick program in 2009.

## ENVIRONMENT

Working to manage the direct impact of our operations and the indirect impacts we have through our customers



The atrium at BNZ Harbour Quays in Wellington, New Zealand is one of eight sustainably-designed buildings in the Group.

## SUPPLY CHAIN

Working to have a positive impact through our purchasing decisions



NAB has introduced Fairtrade coffee and tea in our Australian workplace kitchens – with around 4.5 million cups consumed by employees each year, the decision to switch makes us one of Australia's largest Fairtrade accredited workplaces.

Our success is linked with the success of the communities in which we operate.

### ACHIEVEMENTS

- Implemented our first **Reconciliation Action Plan** for Indigenous Australians.
- Received more than 1,500 applications (approximately 15% of all schools in Australia) in the first year of **Schools First**, an awards program that encourages school-community partnerships.
- Responded quickly to help communities devastated by Victoria's bushfires, setting up a \$1million relief fund, providing grants for our affected customers, and collecting nearly \$22 million for the Victorian Bushfire Appeal through our branch network.
- Contributed over \$700,000 for the Ovarian Cancer Research Foundation's Silver Ribbon campaign in our 10th year of support.
- Increased participation in the Alannah & Madeline Foundation's **Better Buddies** framework – which aims to keep children safe from bullying in schools – from 150 in 2008 to 370 schools in 2009.
- Contributed over £700,000 to the United Kingdom's **Help the Hospices** charity, in the past 22 months.
- The Yorkshire and Clydesdale Bank Foundation has, in its first 14 months, distributed £720,000 to more than 500 good causes.
- Volunteering grew to 12,487 days, a rise of 42% from 2008.

As a bank, we have an impact on the environment directly through our operations and indirectly via our customers and suppliers. This year we have continued our focus on driving energy efficiency through our business, and improving the sustainability of our building portfolio and vehicle fleets.

### ACHIEVEMENTS

- Reduced greenhouse emissions by more than 14,000 tCO<sub>2</sub>-e, as we work towards our 2010 group-wide reduction target of 33,000 tCO<sub>2</sub>-e.
- Moved into four new sustainably designed buildings in New Zealand and Australia.
- Introduced energy-efficient vehicles, such as the Toyota Prius in Australia, to our fleet.
- Expanded our portfolio of renewable energy projects (measured by an 88% increase in design-rated megawatt generation capacity).
- Supported the **World Wide Views** and **Youth Decide** initiatives, giving Australian citizens a voice on climate change.
- Signed the **Poznan** and **Copenhagen communiqués** on climate change along with other global business leaders.
- The first high street bank in the UK to be awarded the **Carbon Trust Standard** for managing energy use and greenhouse emissions.

Note: Environmental results are reported for the period July 2008-June 2009.

With size and purchasing power comes responsibility. We have around 50,000 suppliers, and the procurement decisions we make have a real impact not only on our business, also on the environment and communities we work in.

### ACHIEVEMENTS

- Established a Supplier Sustainability Program in Australia to educate, influence and support our supply chain.
- Developed a panel of international carbon offset providers.
- Introduced **Fair Trade** tea and coffee to our Australian offices, making NAB one of Australia's largest Fairtrade accredited workplaces.
- Undertook compliance reviews with 20 key suppliers in Australia to determine adherence to Supplier Sustainability Principles.
- BNZ reviewed business critical suppliers to ensure compliance with corporate responsibility assessment criteria.
- Surveyed the top suppliers to our UK region on their carbon management practices and conducted an end-to-end review of procurement practices.
- Nominated as a finalist in the ECO-Buy 2009 **Excellence in Green Purchasing Awards** in Australia.

# BOARD OF DIRECTORS



Michael Chaney, Chairman



Cameron Clyne



Patricia Cross



Daniel Gilbert



Mark Joiner



Paul Rizzo



Jillian Segal



John Thorn



Geoffrey Tomlinson



Michael Ullmer



John Waller



Sir Malcolm Williamson

## Michael Chaney AO

**BSc, MBA, Hon. LLD W.Aust, FAICD**

Chairman since September 2005 and a non-executive Director since December 2004, Michael was Managing Director and Chief Executive Officer of Wesfarmers for more than 14 years. He is Chairman of Woodside Petroleum, Chairman of Gresham Partners Holdings and the Chancellor of the University of Western Australia.

## Cameron Clyne

**BA**

Appointed Managing Director and Group Chief Executive Officer in January 2009, Cameron joined the Group in 2004. Most recently, he was CEO of Bank of New Zealand, where he delivered a strong operational performance in a challenging market. Prior to this, he spent 12 years with PricewaterhouseCoopers and led the company's financial services industry practice in the Asia Pacific.

## Patricia Cross

**BSc (Hons), FAICD**

A non-executive Director since 2005 and Chairman of the Remuneration Committee, Patricia has more than 26 years experience in international banking and finance. She is a Director of Wesfarmers, QANTAS, Methodist Ladies College, Grattan Institute and the Murdoch Childrens Research Institute.

## Daniel Gilbert AM

**LLB**

A non-executive Director since 2004, Daniel co-founded the leading law firm Gilbert + Tobin and has more than 30 years experience in commercial law.

## Mark Joiner

**ACA, MBA**

An executive Director and Group Chief Financial Officer, Mark has been with NAB since 2006. Prior to this he held senior roles in finance and strategy with Citigroup and the Boston Consulting Group.

## Paul Rizzo

**BCom, MBA**

A non-executive Director since 2004, Paul is Chairman of the Risk Committee. He has 39 years experience in banking and finance, is Chairman of the Defence Audit and Risk Committee for the Australian Government Department of Defence, and is a former Dean and Director of Melbourne Business School.

## Jillian Segal AM

**BA, LLB, LLM (Harvard), FAICD**

A non-executive Director since 2004, Jillian has more than 20 years experience as a lawyer and regulator, including as a Commissioner and then Deputy Chair of the Australian Securities and Investments Commission. She was Chairman of the Banking and Financial Services Ombudsman Board, and is a Director of the ASX.

## John Thorn

**FCA, FAICD**

A non-executive Director since 2003, John is Chairman of the Audit Committee. He was a partner of PricewaterhouseCoopers for more than 20 years during a 37-year career in professional services. He is a Director of Amcor, Caltex Australia and Salmat.

## Geoffrey Tomlinson

**BEC**

A non-executive Director since 2000, Geoffrey was with the National Mutual Group for 29 years, including six years leading the organisation. He is the Chairman of Programmed Maintenance Services, a Director of Amcor, and also the Chairman of National Wealth Management Holdings, MLC, MLC Investments and MLC Wealth Management (subsidiaries of the Company).

## Michael Ullmer

**BSc (Maths) (Hons), FCA, SF Fin**

An executive Director since 2004, Michael is Deputy Group CEO. He has more than 37 years experience in banking and finance. He is a Director of Fosters Group, and also a Director of BNZ and Great Western Bank and Chairman of JBWere (subsidiaries of the Company).

## John Waller

**BCom**

A non-executive Director since 2009, John has more than 20 years experience in professional services with PricewaterhouseCoopers in New Zealand. He is a Director of a number of companies including Fonterra and Sky Network Television, and a member of the New Zealand Takeovers Panel. He is Chairman of Bank of New Zealand (a subsidiary of the Company).

## Sir Malcolm Williamson

A non-executive Director since 2004, Sir Malcolm has 52 years experience in banking and finance in the United Kingdom and the United States with Barclays PLC, Standard Chartered PLC and Visa International. He is Chairman of Signet Jewelers Ltd. He is also Chairman of National Australia Group Europe Limited and Clydesdale Bank PLC (subsidiaries of the Company).

Further information about our Directors is available online at [www.nabgroup.com](http://www.nabgroup.com) or in the 2009 Annual Financial Report

# EXECUTIVE TEAM

“This is a team that shares the leadership qualities, values and capabilities that are required to lead the next phase of our business.” CAMERON CLYNE



Our team (from left to right):

#### Steve Tucker

Group Executive, MLC & NAB Wealth  
Steve runs our Wealth business. In 2010 he will focus on integrating Aviva Australia, continuing to build trust in the financial advice industry, expanding our capabilities in direct investment management, and developing our private wealth offering through our alliance with Goldman Sachs JBWere.

#### Andrew Thorburn

Group Executive, New Zealand, Asia and the United States  
Andrew is CEO of BNZ and also responsible for NAB Asia and GWB in the United States. In the next year, Andrew will concentrate on developing our people capabilities and culture, investing in our Retail and BNZ Partners network, and targeting growth in deposits and the SME market segment.

#### Michaela Healey

Group Executive, Governance  
Michaela leads the governance team in the provision of advice to the Board and executives on legal and governance matters. She continues to build the integrity and transparency of the Group and support sustainability initiatives. Her priorities for 2010 include aligning the provision of legal services to support the efficiency and customer initiatives of the businesses and responding to regulatory change.

#### Joseph Healy

Group Executive, Business Banking  
Joseph leads our Australian business bankers and specialists, serving a range of businesses from small and emerging companies through to large, institutional operations. In 2010, Joseph will further improve our world-class relationship banking model by hiring an additional 200 bankers and enhancing our service offering to all customer segments.

#### Gavin Slater

Group Executive, Group Business Services  
Gavin is responsible for operations, technology, support functions and the NextGen program. In the year ahead, he will drive simplification and process efficiency to further improve customers' experiences in their dealings with us.

#### Cameron Clyne

Group Chief Executive Officer  
As Group CEO, Cameron is responsible for Group strategy, with the aim of delivering superior total shareholder returns. In 2010, Cameron will continue to deliver on our strategic priorities by maintaining balance sheet strength; accelerating the efficiency, quality and service agenda; focusing on people, leadership and culture; and improving the position of the Australian franchise, while maintaining franchise value internationally.

#### Lisa Gray

Group Executive, Personal Banking  
Lisa leads the team that delivers banking products and services to more than three million retail and microbusiness customers across Australia. In 2010, Lisa will continue to deliver our 'fair value' agenda across our customer base, whilst also growing market share in targeted customer segments and expanding our reach through different brands and channels.

#### Mark Joiner

Executive Director Finance  
As our senior finance executive, Mark is accountable for NAB's financial plans, managing financial risks and performance, and ensuring the bank invests its money appropriately. In 2010, Mark will focus on keeping the balance sheet strong, developing business strategy and enhancing our relationships with our various stakeholders to advance our culture and reputational priorities.

#### Rick Sawers

Group Executive, Wholesale Banking  
Rick heads up our new Wholesale Banking business which supports our customers requiring risk, funding, investment and asset management solutions. In the year ahead he will establish business capabilities and partnerships around the Group to make it easier for people to understand and promote Wholesale Banking products and services to our clients.

#### Lynne Peacock

Group Executive, United Kingdom  
Lynne leads the Clydesdale Bank and Yorkshire Bank operations in the United Kingdom. Having managed the business through the deepest UK recession in over 60 years, her focus in the year ahead will be ensuring the bank continues to support our customers in what remains a difficult economic climate.

#### Bruce Munro

Group Chief Risk Officer  
Bruce is responsible for the risk management function across the Group. In 2010, he will continue working with each of the NAB businesses to enable sustainable performance by simplifying and enhancing risk processes, practices and systems, and delivering strong, forward-looking risk capabilities across the organisation.

#### Michael Ullmer

Deputy Group CEO  
Michael plays a lead role in developing the bank's key talent, and maintaining our relationships with our principal stakeholders. He is a member of our Community Advisory Council and chairman of the Schools First board. Looking ahead, he will continue to focus on our customers and community, and developing our people through his role as Vice Chancellor of The Academy.

# REMUNERATION SUMMARY

The Group's results for the 2009 financial year reflected the impact and far reaching nature of the global economic downturn, and are an important factor in determining performance payments for 2009.

## OUTCOMES FOR 2009

Performance payments for the Group Chief Executive Officer and senior executives were affected as follows:

- The average Short Term Incentive (STI) amount paid to senior executives fell 22%.
- Current employees derived no value from Long Term Incentive (LTI) during the 2009 year (other than dividends).
- LTI securities held by several senior executives lapsed during the year, unvested and therefore unexercised, as performance hurdles had not been met.

In addition:

- Group Executive Committee members have volunteered to have one-half of their total STI for the 2009 financial year deferred in shares, 25% to be restricted for 12 months and 25% for 24 months.
- Non-executive Director fees have been frozen until March 2010 (there has been no change since March 2008).

The following graph shows the average individual STI payment (as a percentage of each individual's target STI, where 100% is the target) for the senior executives, reflecting both business and individual performance.

## STI OUTCOMES



## INITIATIVES FOR 2010

The global financial crisis uncovered substantial inconsistencies in remuneration frameworks across the globe, especially in financial services organisations outside Australia. In some instances remuneration was clearly not aligned with the interests of shareholders. The remuneration frameworks of Australian financial services companies have proven to be better positioned and much of the remuneration excesses have been avoided.

We have undertaken a comprehensive internal and external assessment of our remuneration practices, and commissioned a review of our framework by external advisers.

In the spirit of continuous improvement, the Board is working with management to update and further improve key aspects of the remuneration systems.

Initiatives include:

- Improving performance management systems.
- Increasing portions of STI rewards deferred, and for longer periods – reflecting the level of responsibility (including risk) and impact of the role.
- Limiting the allocation of LTI to those roles which have the ability to influence Group outcomes over the longer term.
- Increasing focus on risk metrics across all material aspects of performance and reward.

Given anticipated changes to the *Corporations Act 2001 (Cth)* in regard to termination benefits, the Company has conducted a review of its current policies and practices. We are satisfied that current policies can be amended to deliver appropriate benefits under the new legislation (as currently proposed) in most cases.

## NON-EXECUTIVE DIRECTOR FEES

The total fees paid by the Group to the Chairman and the non-executive Directors on the Board, including fees paid for their involvement on Board committees and in relation to their services to controlled entities of the Company, are kept within the total approved by shareholders from time to time. The Board decided that no review of fees would be undertaken in 2009.

## KEY REMUNERATION OUTCOMES

**Mr Clyne's** fixed remuneration increased since 2008 to reflect his new role as Managing Director and Group CEO (effective 1 January 2009). Mr Clyne earned a reduced STI for the 2009 performance year, as his scorecard includes a significant weighting on the Group's cash earnings outcome for the year, which was less than planned due to higher bad and doubtful debts. Mr Clyne achieved all other measures on his scorecard. The Board believes strongly in Mr Clyne's ability to lead the Group through these challenging times and to improve business performance in the

medium to long-term. Mr Clyne's success in doing so will be reflected in the level of vesting of his proposed LTI award for the 2009 year – which will be made on the same basis and with the same hurdles as LTI for other senior managers at NAB.

**Mr Fahour** left the Group during the year. The termination benefit paid under his contract, payment of a pro-rated STI award based on his outstanding achievements, the decision of the Board to allow the retention of options and rights (with vesting still subject to performance hurdles) and the release of some shares are all in line

with the Group's current practice in such circumstances.

**Mr Hamar** left the Group during the year. The termination benefit paid under his contract, payment of a pro-rated STI award, the decision of the Board to allow the retention of options and rights (with vesting still subject to performance hurdles) and the release of some shares are all in line with the Group's current practice in such circumstances.

**Mr Hooper** moved to a new position as Executive Director – UK Business within the Group's UK operation as a result of the March 2009 Group

restructure. His remuneration has been adjusted to reflect this new position. As is the case for Ms Peacock, Mr Hooper's STI outcome for the 2009 performance year reflects the business result for the UK banks as compared with the business plan and results for the rest of the Group.

**Ms Peacock's** STI outcomes for the 2009 performance year reflect the business result for the UK banks compared with business plan and results for the rest of the Group. The UK results reflect the challenging business environment in that region and the Board is pleased with the

performance of our banks compared to others in the region. Operating conditions were consistent with the deepest UK recession in the post war period. The Board is satisfied that Ms Peacock's remuneration package is appropriate and reasonable, having regard to the circumstances of the Group's UK operations, Ms Peacock's role and responsibilities and market relativity for the role. The Board believes strongly in Ms Peacock's ability to lead the UK banks through these challenging times and to improve the performance of the UK business in the medium to long-term.

**Mr Stewart** left the Group with the approval of the Board, having extended his contract beyond the initial three-year term at the Board's request in order to further advance the Group on its cultural and business journey. Mr Stewart's achievements allowed for orderly succession to the Board's candidate, Mr Clyne. Consequently, the Board determined it was appropriate to provide a termination payment under Mr Stewart's contract, the payment of a pro-rated STI award, and to allow the retention of options and rights (with vesting still subject to performance hurdles).

**Remuneration table for members of the Group Executive Committee on 30 September 2009**

Name	Fixed annual remuneration (1)	% of target STI actually earned (2)	Cash STI for performance to 30 Sep 2009 (2)	Deferred STI for performance to 30 Sep 2009 (deferred in shares) (2)	LTI value derived from previous allocations (excl. dividends) (3)	Remuneration earned for 2009 (5)	Opportunity lapsed during the year to 30 Sep 2009 (6)
<b>Executive Directors</b>							
Cameron Clyne	2,421,560	65%	812,500	812,500	–	4,046,560	(495,550)
Mark Joiner	1,250,471	96%	576,000	576,000	–	2,402,471	–
Michael Ullmer	1,355,396	80%	626,000	626,000	–	2,607,396	(901,000)
<b>Other senior executives</b>							
Lisa Gray	689,144	88%	308,000	308,000	–	1,305,144	–
Michaela Healey	574,569	88%	238,000	238,000	–	1,050,569	–
Joseph Healy	761,711	96%	360,000	360,000	–	1,481,711	–
Bruce Munro	812,511	88%	308,000	308,000	–	1,428,511	(315,350)
Lynne Peacock	1,524,743	40%	241,500	241,500	–	2,007,743	–
Richard Sawers	725,716	96%	384,000	384,000	–	1,493,716	–
Gavin Slater	1,129,938	88%	352,000	352,000	–	1,833,938	–
Andrew Thorburn	1,092,307	96%	384,000	384,000	–	1,860,307	–
Stephen Tucker	732,018	88%	341,000	341,000	–	1,414,018	–

**Remuneration table for senior executives who were not members of the Group Executive Committee on 30 September 2009**

Name	Fixed annual remuneration (1)	% of target STI actually earned (2)	Cash STI for performance to 30 Sep 2009 (2)	Deferred STI for performance to 30 Sep 2009 (deferred in shares) (2)	LTI value derived from previous allocations (excl. dividends) (3)	Termination payments (4)	Remuneration earned for 2009 (5)	Opportunity lapsed during the year to 30 Sep 2009 (6)
John Hooper	1,178,628	60%	601,000	–	–	–	1,779,628	–
Peter Thodey	1,023,684	88%	664,000	67,000	–	–	1,754,684	–
<b>Former executives</b>								
Ahmed Fahour	1,455,912	51%	1,183,000	–	–	1,626,207	4,265,119	(2,906,617)
George Frazis	336,380	–	–	–	–	–	336,380	(2,803,320)
Michael Hamar	271,932	24%	150,000	–	–	747,126	1,169,058	(528,316)
John Stewart	1,746,994	25%	687,500	–	2,311,540	2,750,000	7,496,034	(3,975,300)

- (1) Fixed annual remuneration is the total amount of cash salary, non-monetary benefits such as cars and parking, superannuation and annual leave and long-service leave entitlements. For former executives this is for the period until their leaving date.
- (2) The actual STI amount for each individual (as a percentage of their full year STI target) will reflect both business and individual performance. The Remuneration Report includes more information regarding the Group's performance framework. Current members of the Group Executive Committee have volunteered to have one-half of their STI for 2009 deferred in shares, 25% to be restricted for 12 months and 25% for 24 months. STI amounts for Mr Hooper and for Mr Thodey will be paid in shares to the extent that they include any amounts for above target individual performance as described in the Remuneration Report. Amounts for Mr Fahour, Mr Hamar and Mr Stewart represent a pro-rated proportion of their entitlements calculated to the date they ceased employment with the Company. No deferral was applicable for these former executives. As Mr Hamar and Mr Stewart left the Company before mid-year individual performance assessments were completed in March 2009, their STI amounts reflect only prorating, and not business or individual performance outcomes.
- (3) Value is derived from LTI if it has vested, and has value based on the Company's closing share price on that day (less any applicable exercise price). 77,000 performance rights vested for Mr Stewart (being tranche three of the grant provided in March 2008, following shareholder approval, as described in the Remuneration Report). The value of the vested securities is based on the Company's closing share price of \$30.02 on the date that vesting was determined, being 7 October 2009. The performance rights have no exercise price. LTI in respect of the 2009 performance year (to which performance hurdles apply) is detailed in the Remuneration Report.
- (4) Termination payments are in respect of the Company notice period for each former employee as set out in the Remuneration Report as pursuant to contractual entitlements, plus professional taxation advice for Mr Fahour following the end of his employment.
- (5) Remuneration earned for 2009 is the total of the previous columns, being fixed annual remuneration, STI amounts paid in cash or deferred in shares, value derived from previous LTI allocations, and termination payments.
- (6) The value of opportunity lapsed during the year includes LTI securities that have lapsed, unvested and unexercised, on their expiry date or upon the employee's departure from the Company. These are detailed in the Remuneration Report. The value is calculated using the closing share price of Company shares on the date of the lapse (with the exercise price subtracted in the case of any lapsed performance options).

**Remuneration table for non-executive Directors**

	Board \$	Audit Committee \$	Risk Committee \$	Remuneration Committee \$	Controlled Entities \$	Total \$
<b>Current non-executive Directors</b>						
MA Chaney	770,000	–	–	–	–	770,000
PA Cross (1)	220,000	–	30,000	45,000	25,000	320,000
DT Gilbert	220,000	–	–	22,500	–	242,500
PJ Rizzo	220,000	30,000	60,000	–	–	310,000
JS Segal	220,000	–	30,000	22,500	–	272,500
JG Thorn	220,000	60,000	–	–	–	280,000
GA Tomlinson (2)	220,000	25,358	–	3,571	277,500	526,429
JA Waller (3)	153,882	19,750	19,750	–	139,084	332,466
GM Williamson (4)	220,000	–	27,500	–	387,992	635,492
<b>Former non-executive Directors</b>						
TK McDonald (5)	23,017	3,125	–	–	16,492	42,634
<b>Total</b>	<b>2,486,899</b>	<b>138,233</b>	<b>167,250</b>	<b>93,571</b>	<b>846,068</b>	<b>3,732,021</b>

- (1) The nabCapital Advisory Board was dissolved from 31 July 2009.
- (2) From 5 August 2009, Mr Tomlinson was no longer a member of the Audit Committee and was appointed as a member of the Remuneration Committee.
- (3) Mr Waller became a member of the Principal Board, the Principal Board Audit Committee and the Principal Board Risk Committee on 4 February 2009.
- (4) Sir Malcolm Williamson became a member of the Principal Board Risk Committee on 1 November 2008.
- (5) Mr McDonald retired as a non-executive director on 7 November 2008.

# FINANCIAL HIGHLIGHTS

## Group Results for the year ended 30 September

	2009 \$M	2008 \$M	2007 \$M	2006 \$M	2005 \$M
Net interest income	12,072	11,142	9,765	8,777	6,860
Other operating income	3,766	3,015	3,519	3,554	4,371
MLC net operating income	1,068	1,257	1,286	1,123	1,116
<b>Net operating income</b>	<b>16,906</b>	<b>15,414</b>	<b>14,570</b>	<b>13,454</b>	<b>12,347</b>
Operating expenses	(7,580)	(7,276)	(7,428)	(7,360)	(7,213)
<b>Underlying profit</b>	<b>9,326</b>	<b>8,138</b>	<b>7,142</b>	<b>6,094</b>	<b>5,134</b>
Charge to provide for bad and doubtful debts	(3,815)	(2,489)	(790)	(605)	(525)
<b>Cash earnings before tax, loRE and distributions</b>	<b>5,511</b>	<b>5,649</b>	<b>6,352</b>	<b>5,489</b>	<b>4,609</b>
Income tax expense	(1,451)	(1,408)	(1,722)	(1,563)	(1,350)
<b>Cash earnings before loRE and distributions</b>	<b>4,060</b>	<b>4,241</b>	<b>4,630</b>	<b>3,926</b>	<b>3,259</b>
Net profit - minority interest	-	1	-	-	-
loRE	26	(14)	39	56	101
Distributions	(245)	(312)	(283)	(254)	(204)
<b>Cash earnings – ongoing operations</b>	<b>3,841</b>	<b>3,916</b>	<b>4,386</b>	<b>3,728</b>	<b>3,156</b>
<b>Disposed operations</b>	<b>-</b>	<b>3</b>	<b>8</b>	<b>175</b>	<b>97</b>
<b>Cash earnings</b>	<b>3,841</b>	<b>3,919</b>	<b>4,394</b>	<b>3,903</b>	<b>3,253</b>
Non-cash earnings items (after tax)	(1,252)	617	184	489	739
<b>Net profit attributable to members of the company</b>	<b>2,589</b>	<b>4,536</b>	<b>4,578</b>	<b>4,392</b>	<b>3,992</b>

## Selected Performance Indicators for the year ended 30 September

	2009	2008	2007	2006	2005
<b>Key indicators</b>					
Cash earnings per share (cents) – basic	198.4	238.4	270.1	233.0	208.6
Cash earnings per share (cents) – diluted	197.5	237.3	268.5	230.6	206.3
Cash return on equity (ROE)	11.8%	14.3%	17.1%	15.9%	15.0%
<b>Profitability, performance and efficiency measures</b>					
Dividends per share (cents)	146	194	182	167	166
Dividend payout ratio	73.6%	81.4%	67.4%	71.7%	79.6%
Cash earnings on average assets	0.56%	0.64%	0.84%	0.81%	0.88%
Banking cost to income ratio	43.9%	46.9%	50.8%	54.5%	59.2%
<b>Capital</b>	<b>Basel II</b>	<b>Basel II</b>	<b>Basel I</b>	<b>Basel I</b>	<b>Basel I</b>
Tier 1 ratio	8.96%	7.35%	6.67%	7.35%	7.86%
Total capital ratio	11.48%	10.93%	9.99%	10.81%	10.45%
Risk weighted assets (\$bn)	342.5	343.5	355.3	318.3	289.8
<b>Volumes (\$bn)</b>					
Average interest earning assets	559.4	506.5	429.1	375.7	325.5
<b>Asset Quality</b>					
Gross impaired assets to gross loans and acceptances	1.26%	0.49%	0.28%	0.26%	0.35%
Collective provision to credit risk-weighted assets (excluding housing) <sup>(1)</sup>	1.46%	1.07%	n/a	n/a	n/a
Specific provision to gross impaired assets	28.2%	30.0%	28.1%	20.4%	34.9%
<b>Other</b>					
Full Time Equivalent Employees (no.)	38,953	39,729	38,822	38,419	38,933

(1) The Group was accredited under Basel II during the September 2008 year. Comparative information is not available for 2005-2007.

## Balance Sheet Summary for the year ended 30 September

	2009 \$M	2008 \$M	2007 <sup>(1)</sup> \$M	2006 <sup>(2)</sup> \$M	2005 <sup>(2)</sup> \$M
<b>Assets</b>					
Cash and liquid assets	25,834	18,209	12,796	12,768	8,441
Due from other banks	33,265	46,996	25,144	24,372	15,595
Marketable debt securities	47,681	39,463	40,682	16,621	26,480
Loans and advances at fair value	29,567	25,732	19,564	16,774	–
Other assets at fair value	1,963	4,868	5,625	5,349	–
Other financial assets at fair value	31,530	30,600	25,189	22,123	–
Loans and advances including acceptances	399,809	406,456	366,525	325,503	292,301
Investments relating to life insurance business	54,254	52,896	62,630	54,784	49,783
Other assets	61,747	62,179	41,254	28,614	29,998
<b>Total assets</b>	<b>654,120</b>	<b>656,799</b>	<b>574,220</b>	<b>484,785</b>	<b>422,598</b>
<b>Liabilities</b>					
Due to other banks	36,148	52,423	42,566	37,489	36,322
Deposits at fair value	10,365	14,485	14,133	10,622	–
Other liabilities at fair value	10,946	9,099	7,717	7,058	1,487
Other financial liabilities at fair value	21,311	23,584	21,850	17,680	1,487
Deposits and other borrowings	336,188	327,466	263,742	222,277	212,557
Liability on acceptances	16,891	16,075	30,443	32,114	27,627
Bonds, notes and subordinated debt	90,792	98,239	80,983	65,006	41,490
Life policy liabilities	47,314	46,150	53,097	46,475	42,123
Other liabilities	67,641	60,016	51,654	35,772	29,445
<b>Total liabilities</b>	<b>616,285</b>	<b>623,953</b>	<b>544,335</b>	<b>456,813</b>	<b>391,051</b>
<b>Net assets</b>	<b>37,835</b>	<b>32,846</b>	<b>29,885</b>	<b>27,972</b>	<b>31,547</b>
<b>Equity</b>					
Equity (parent entity interest)	37,815	32,790	29,571	27,804	25,323
Minority interest in controlled entities	20	56	314	168	6,224
<b>Total equity</b>	<b>37,835</b>	<b>32,846</b>	<b>29,885</b>	<b>27,972</b>	<b>31,547</b>

(1) The consolidation policy in relation to consolidation as it applies to special purpose entities changed during the 2008 year. 2007 comparative information was restated to reflect this.

(2) The 2006 comparative amounts reflect the application of certain accounting, valuation and consolidation methods that were modified to comply with AIFRS. The comparative figures in respect of 2005 are not prepared in accordance with some standards as they were only applicable from 1 October 2005.

The financial data presented in our Shareholder Review is aligned to our management view, rather than the statutory Annual Financial Report. As such, the review focuses on ongoing cash earnings. Cash earnings are one of the main financial targets we use to manage the Group and are a key performance measure used by the investment community. By presenting financial information on an ongoing basis, the results of operations that will not form part of the continuing Group (for example, entities that have been sold) are excluded for the current year and all prior periods shown. Cash earnings do not refer to, or in any way purport to represent, the cash flows, funding or liquidity position of the Group. A full definition of cash earnings and selected performance indicators, along with a reconciliation to our statutory net profit after tax, can be found in our 2009 Full-Year Results Announcement, available at [www.nabgroup.com](http://www.nabgroup.com)

# SHAREHOLDER INFORMATION

## 2009 ANNUAL FINANCIAL REPORT

A copy of our Annual Financial Report is available to all shareholders upon request. You can view our report online at [www.nabgroup.com/annualreports](http://www.nabgroup.com/annualreports) or request a printed copy from the Share Registry either by email at [nabservices@computershare.com.au](mailto:nabservices@computershare.com.au) or by telephone on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia). Current, as well as extensive historical information is posted and maintained on the website at [www.nabgroup.com](http://www.nabgroup.com)

## ANNUAL GENERAL MEETING 2009

When: 17 December 2009  
Where: Brisbane Convention & Exhibition Centre  
Address: Corner Glenelg and Merivale Streets South Bank BRISBANE QLD Australia  
Time: Interview: 9.30AM (Brisbane time)  
AGM: 11.00AM (Brisbane time)

## NATIONAL AUSTRALIA BANK LIMITED

### Chairman

Mr Michael A Chaney AO, BSc, MBA, Hon.LLD *W.Aust*, FAICD

### Group Chief Executive Officer

Mr Cameron A Clyne BA

### Company Secretary

Ms Michaela J Healey LLB, FCIS

### Registered office

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### UK Share Register

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### United States ADR Depository, Transfer Agent and Registrar

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Website: [www.bnymellon.com/shareowner](http://www.bnymellon.com/shareowner)

## 2010 FINANCIAL CALENDAR\*

### 6 MAY 2010

Half year results announcement

### 10 JUNE 2010

Record date for interim dividend

### 8 JULY 2010

Payment date for interim dividend

### 27 OCTOBER 2010

Full year results announcement

### 18 NOVEMBER 2010

Record date for final dividend

### 16 DECEMBER 2010

Annual General Meeting

### 17 DECEMBER 2010

Payment date for final dividend

*\*Dates are subject to change*

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NAB was the first Australian public company to support ShareGift Australia, giving shareholders an opportunity to donate shares to charities without the need to appoint a stockbroker or pay brokerage fees.

Since July 2007, shareholders have donated the total sum of \$72,500 to over 59 Australian not-for-profit charities nominated by shareholders.

Over 200,000 Australians own small parcels of ASX-listed shares with estimated worth of around \$80 million. Imagine the difference it could make if a fraction of these shares were donated to charities.

ShareGift Australia is endorsed by the Australian Securities Exchange and the Australian Shareholders' Association.

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### DISCLAIMER

The Shareholder Review cannot be expected to provide as complete an understanding of the financial performance, financial position, operating, financing and investment activities of the Group as the 2009 Annual Financial Report and the 2009 Full-Year Results Announcement.

This publication contains certain forward-looking statements. The words "anticipate", "believe", "expect", "project", "estimate", "likely", "intend", "should", "could", "may", "target", "plan" and other similar expressions are intended to identify forward-looking statements.

Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of National Australia Bank Group, which may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements. National Australia Bank does not undertake any obligation to publicly release the results of any revisions to these forward-looking statements to reflect circumstances or events subsequent to the date of this review.

[www.nabgroup.com](http://www.nabgroup.com)

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