National Australia Bank

Chairman

800 Bourke Street
Docklands, Victoria 3008
Australia

31 August 2009

Dear Shareholder

There has been a great deal of discussion and comment in recent days on institutional share placements and Share Purchase Plans. I would like to give NAB shareholders some context on the issues that were considered in raising capital.

Maintaining a strong capital position in these unprecedented economic times is a key element of National Australia Bank's overall strategy.

In today's volatile market conditions a capital raising requires consideration of various, often competing factors. It is not possible to know what market conditions will prevail following a decision to raise capital and in these uncertain times these risks must be carefully managed.

For example, if a rights issue had been pursued, and volatile market conditions reduced its success, shareholders may well have questioned the logic of having taken that course of action. The potential consequences of a steep discount or indeed a poor take-up may have resulted in an unacceptable share price effect.

On this occasion, undertaking the institutional placement combined with a Share Purchase Plan for retail investors was considered the best opportunity to successfully raise capital at a satisfactory discount whilst still recognising the interest of retail shareholders in participating.

When participating in a placement institutions bear a greater risk. Through the SPP process retail shareholders have the benefit of:

- knowing the price and level of support associated with the institutional share placement,
- observing market conditions and share price reaction in the days and weeks following the placement to institutions before deciding to participate; and
- greater time to consider their financial position and take advice.

This makes it much easier for retail shareholders to come to an informed and appropriate decision in relation to participation. Institutional investors have to make a decision within a very short time frame on participating in a placement on the basis of the existing financial data and without the option of assessing market conditions in the following days and weeks.

In 2008 our SPP offer for a lesser amount of $250 million was not oversubscribed. In 2009 the conditions have been markedly different and this has contributed to the over-subscription requiring the scale back, despite this SPP being three times larger than in 2008.

The bank's capital must be managed to meet regulatory requirements, the prevailing economic conditions and our own expectations for the growth, performance and the risk settings of the business. This is an on-going task and capital is raised as required in response to all these factors.

With regard to the question of increasing the $750m limit, it is not in shareholders' interest for the company to hold excess capital for any length of time because of the depressing effect doing so can have on return on equity, dividends and the share price.

All of these issues were given careful consideration when deciding the recent capital raising approach and will form part of any future capital considerations.

We appreciate and recognise the importance of your support as a shareholder.

Yours sincerely

Michael Chaney AO
Chairman