



## Overview & Investment Thesis:

- **Largest Australian bank-based financial services group and among the world's top 30**, by market capitalization, engaged primarily in retail banking, wholesale banking and wealth creation/protection management. A dominant financial services group in Australia and New Zealand with one in five Australians and one in four New Zealanders using its services. Worldwide, the Group has 1,808 branches and service centres, 4,654 ATMs and 38,953 employees serving nearly 11 million customers via multi-brand retail banking and wealth management.
- An easing in deposit competition, cost containment initiatives and meaningful penetration into Asia and wealth management are all ongoing drivers of this group.

### Australia (Retail & Wealth Management)

- **Business Banking** - the industry leader, growing lending market share to 22.5% and retaining a 20.9% share of business deposits, via 5,480 staff in Business Banking Centres.
- **Personal Banking** - serves over 4.1 million retail and small business customers, via 8,900 staff, 773 branches and 3,154 ATM's. Growing lending market share to 13.2% and household deposits to 13.6%.
- **MLC and nab Wealth** - a market leader in wealth management committed to growing and fostering more than 4,000 independent financial advisor relationships - has over 18,000 client groups equivalent to 33% market share of high net worth connections and via JB Were (acquired from Goldman Sach) serves approximately 40,000 clients in brokering and private wealth advisory markets across Australia and New Zealand.
- Acquired MLC in June 2000 and via this brand, is 4<sup>th</sup> largest Manager of Managers firm in the world - via this investment approach, utilizes 20 leading investment managers worldwide, outsourcing the management function to them. Over 2.8 million customers, managing A\$116 billion funds. In Australia, MLC is the market leader in the wealth protection industry with strong advice brands: JB Were, Garvan; Godfrey Pembroke, MLC, NAB Financial Planning and NAB Private Wealth (includes Private Banking).
- Leading positions in core markets - Ranked: #1 Retail Investment (15.9% market share); #1 Retail Superannuation/Pensions (20.3% market share); #1 Total Wholesale (9.3% market share); #1 Risk (19.1% market share); and #5 Group Insurance (9.8% market share).

### Americas (Retail & Wealth Management)

- **'Great Western Bank'**, a regional bank with 1,500 staff and a network of 197 locations across 7 midwest states predominantly in the agricultural region of U.S.

### U.K. (Retail & Wealth Management)

- The business has 2 franchises which do not overlap: Clydesdale and Yorkshire - with approximately 8,300 full-time equivalent staff garnering about 3% market share of U.K.'s financial services.
- **'Clydesdale Bank'** - 3<sup>rd</sup> largest business bank and 4<sup>th</sup> largest retail bank in Scotland, 150 branches and 1 million customers.
- **'Yorkshire Bank'** - large regional retail bank in Yorkshire & North West England, 190 branches, 23 Financial Solution Centres and 1.7 million customers.

### New Zealand (Retail & Wealth Management)

- **Bank of New Zealand, 2<sup>nd</sup> largest bank** with over 4,000 staff serving over 1 million customers - 490,000 online - via 178 branches and 442 ATMs.
- Significant and growing market shares in (approximately): Housing (16%), Agribusiness (19%), Cards (28%) and Retail Deposits (personal and business 18%).

### Wholesale Banking

- A **strong Australasia-centric** investment banking business and a principal point of access to the wholesale markets for corporate, institutional and government clients. Employs over 3,000 across Australia, New Zealand, Asia, U.K. and U.S. Its 'originate-warehouse-distribute' operating model is focused on project finance and traded debt capital markets.
- One of Australia's larger custodian services firms. Global assets under custody and administration exceed A\$660 billion. Discussions with Bank of New York Mellon continue, aiming to deepen existing partnership with new systems and processes.

## Business Description:

The Group's principal activity is providing banking services, credit and access card facilities, leasing, housing and general finance, international banking, investment banking, wealth management, funds management, life insurance and custodian, trustee and nominee services.

In October 2009 the group acquired the life insurance and investment management business Aviva Australia Holdings Ltd.; in November 2009 it acquired 80% of Goldman Sachs JB Were's private wealth management business in Australia and New Zealand and in June 2010 it acquired Presina, a manager of listed real estate trust banks in Montreal - all to expand its wealth management operations. In April - June 2010 it acquired F&M Bank and Bank of Nebraska to expand its retail banking operations in Midwest U.S.A.

## Industry Growth Drivers/Trends:

- Australia is recognized as one of the more resilient economies in the world. Major reforms to workplace, business taxation, competition and protection policy have delivered an economy with ability to respond to global trends and pressures. Much more than just a resource economy, services industries are main stimulant of economic activity and contribute significantly to Australia's gross domestic products.
- Australia has one of the largest and most highly developed marketplaces for financial services in the Asia Pacific. Its pool of investment funds under management is the largest in the region and 4<sup>th</sup> largest in the world, and accounts for more private equity investing than any other country in Asia Pacific (24%).
- NAB is positioned to take advantage of longer term trends in Australian economy namely: (i) aging, superannuation and private wealth development; (ii) advisory trust, transparency and regulation; (iii) services economy with the rise of health and education sectors; and (iv) new technologies changing the nature of NCB's processes and services.
- Geographically and economically, Australia plays an important regional role. The government is deepening bilateral relationships through an ambitious program of free trade agreement (FTA) negotiations.
- Australia provides business with a gateway to Asia. Its advantage is knowing how to do business in Asia within a familiar economic, social and political environment. As Australia's lead business bank NAB is in pole position.
- Management expect revival in Australian business credit growth in 2011, (currently at a 17 year low) mostly from top 400-500 corporates which are a key strength of this bank.

## Competitive Advantages:

- Significant Australian and New Zealand market shares in key retail & wealth management services, via large network and re-engaged broker channel.
- Household brand name within oligopolistic markets.
- Solvency and efficiency ratings arguably best in Asia-Pacific with flight to quality.
- Asia-Pacific-centric bank focused on debt capital markets.
- Engaged, cosmopolitan executive and Board.

## Competitors:

- Other leading Australian/New Zealand banks: ANZ Banking Group, Westpac Banking Corp., Commonwealth Bank (CB), 10 regional lenders and ING Direct re direct/online banking.
- Other lead asset managers: ING, AXA/Alliance Capital, Perpetual/Invesco, UBS, Blackrock.
- Other lead life insurer/protection managers: AMP Life, CB, ING/ANZ, AXA.
- Other lead investment banks: Macquarie, HSBC, UBS, Nomura, Barclays, Goldman Sachs

## Barriers to Entry:

- Governance and regulatory compliance costs include Australian and Basel III capital requirements, regulations and robust info technology platforms.
- Extensive branch network and Asia-Pacific investment banking underwriting capability - prohibitively expensive to replicate.

## Customers:

- Global customer base.
- No single customer contributes greater than 10% of Group's revenue.
- Diversified business.



## Officers and Directors:

**Leadership team:** Group CEO Cameron Clyne, ex CEO Bank of New Zealand. Executive General Managers: Group Chief Risk Officer Bruce Munro, ex CEO NAB Asia; CFO Mark Joiner, ex CFO Citigroup Wealth Management; CEO Business Banking, Joseph Healy; CEO Personal Banking, Lisa Gray; CEO Wholesale Banking, Rick Sawers; CEO MLC and NAB Wealth, Steve Tucker; CEO UK Lynne Peacock, ex COO Woolwich plc, (part of Barclays); CEO BNZ Andrew Thorburn; CEO Specialised Group Assets, Peter Thodey.

## Board of Directors:

- **12 member board** – 9 are non-executive and independent.
- Chairman - Michael Chaney (Sept 2005) among Australia's most admired business leaders (22 years with Wesfarmers Limited including CEO from 1992-2005).
- Directors are drawn from extensive experience across law, accounting and financial services.
- Chairmen of the Board's Audit & Risk Committees (Paul Rizzo) and Remuneration Committee (Patricia Cross) are non-executive and independent.

## Ownership:

Blackrock 6.0%, National Australia 2.6%, Vanguard 1.4%, Australian Foundation 0.4%, Maquarie 0.3%, Axa 0.3%, Fidelity 0.3%. 450,000 shareholders.

## Capital Allocation/Uses:

Portfolio of retail and wholesale businesses is planned and managed for long-term maximization of total shareholder returns. Surpluses beyond planned growth are to be upstreamed to strengthen capital base - sufficient to maintain its 'AA' rating and to sustain strong dividend payout; thereafter towards modest share buy-backs and acquisitions, exemplified by the acquisition (June 2008) of Great Western Bank (GWB), the mid-west regional bank in the U.S.A., with its focus on agri-business. GWB has since opportunistically expanded its footprint via small acquisitions administered by the Federal Deposit Insurance Corp. Such deals are purchased with loss sharing agreements and/or with no goodwill costs recorded. The Group did raise A\$3.25 billion in November 2008 in order to ensure its capital base remained robust to accommodate the global financial crisis' impact on Australia's economy and to take advantage of distressed competitors. More recently, the increasing focus has been on investing in organic growth and delivering a turnaround in underperforming divisions, particularly, Personal Banking; and to improving the banks funding mix with 54% of lending now funded from customer deposits compared to 47% in 2007.

## Key Products:

- Strong bank product focus on health, agriculture and education.
- MLC and NAB Wealth successfully repositioned its wealth management business model as fee-for-service; its key products are Master Key, Master Key Custom and Navigator investment platforms for retail clients; Plum Superannuation master trusts for large corporates; and Master Key Business Super for small and medium enterprises.
- For 2010, voted "Best Business Bank of the Year" by CFO Magazine for the 2nd year in a row; "Bank of the Year" by Your Mortgage Magazine; "Credit Card Issue of the Year" by Money Magazine.

## Portfolio Composition:

Gross Loans by Industry/Region	Australia	Europe	N. Z.	USA	Asia
Government	70%	3%	21%	6%	-
Agri/Forest/Fish/Mining	58%	11%	27%	4%	-
Financial, investment, insur.	68%	18%	6%	8%	-
Real-estate, construction	43%	33%	9%	15%	-
Manufacturing	66%	19%	14%	0%	1%
Instalment loans(inc credit cards)	59%	29%	11%	1%	-
Real estate - mortgage	81%	9%	9%	-	1%
Asset & lease financing	83%	17%	-	-	-
Commercial property	72%	20%	8%	-	-
Other commercial	70%	17%	7%	5%	1%
<b>Regional Totals</b>	<b>74%</b>	<b>14%</b>	<b>9%</b>	<b>2%</b>	<b>1%</b>

Gross Loans & Acceptances	2007	2008	2009	2010
Housing Loans	58%	56%	53%	56%
Overdrafts	5%	5%	4%	4%
Leasing	6%	5%	5%	4%
Credit Cards	2%	2%	2%	2%
Term Lending	27%	30%	34%	32%
Other	2%	2%	2%	2%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Group Sector(cash earnings)	2007	2008	2009	2010
<b>Retail &amp; Wealth Management</b>				
Australia	63%	78%	62%	71%
U.K.	13%	13%	3%	4%
New Zealand	8%	10%	9%	9%
U.S.A.	0%	0%	2%	2%
<b>Wholesale</b>				
NABCapital	16%	(1%)	24%	14%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Interest Earning Assets	2007	2008	2009	2010
Treasury/Acceptances Bills	9%	11%	12%	12%
Loans to Banks	5%	9%	6%	7%
Loans to Customers	68%	67%	67%	64%
Financial Investments	18%	14%	15%	17%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Customers: Loans/Deposits	135%	118%	106%	103%

## Financial Statement Summary: (AUD\$ millions, years ended September 30)

Income Statement	2006	2007	2008	2009	2010
Net Interest Income	8,686	9,746	11,098	12,068	12,256
Other Income	6,307	6,283	3,460	4,709	4,752
Provisions for Credit Losses	(606)	(790)	(1,692)	(3,763)	(2,236)
Non-Interest Expenses	(7,539)	(7,412)	(8,291)	(8,031)	(9,096)
Taxes	(2,134)	(2,255)	(39)	(2,394)	(1,452)
Net Income	4,392	4,578	4,536	2,589	4,224
EPS	2.63	2.69	2.62	1.23	1.92
Diluted EPS	2.62	2.68	2.61	1.23	1.91
Dividend per Share	1.67	1.82	1.94	1.46	1.52
<b>Balance Sheet</b>					
Common Equity	23,473	25,240	28,079	32,901	34,026
Book Value per Share	14.83	15.84	16.77	16.06	16.31

## Key Profitability Ratios and Figures:

Y/E September 30	2006	2007	2008	2009	2010
Tier 1 Capital Ratio	7.3%	6.7%	7.35%	8.96%	8.91%
Total Capital Ratio	10.9%	10%	10.93%	11.48%	11.36%
Efficiency Ratio (Costs/Income)	50.6%	46.2%	57.0%	47.9%	53.5%
PCLs % of Average Loans	0.20%	0.25%	0.48%	1.09%	0.63%
Loan Loss Reserve of Loans	0.66%	0.66%	0.84%	1.48%	1.44%
Loan Loss Reserve Impaired Assets	191%	193%	138%	93%	84%
Return on Average Equity	19.6%	18.8%	17.0%	8.5%	12.6%
S&P Senior Rating of Debt	AA-	AA	AA	AA	AA

Sourced from 2010 Annual Report.

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