NATIONAL AUSTRALIA BANK LTD
Form 20-F
January 21, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended 30 September, 2004

Commission file number 1-9945

National Australia Bank Limited

ABN 12 004 044 937

(Exact name of Registrant as specified in its charter)

Victoria, Australia

(Jurisdiction of incorporation)

500 Bourke Street, Melbourne, VICTORIA, 3000 Australia

(Address of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary Shares	**New York Stock Exchange**
American Depositary Shares, each representing five Ordinary Shares	**New York Stock Exchange**
Exchangeable Capital units consisting of 7⁷/8% Perpetual Capital Securities and Purchase Contracts	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **NONE**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **NONE**

Indicate the number of outstanding shares of each of the registrant s classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary Shares	**1,550,782,506**
Staff Share Scheme shares	**562,873 paid to 25 Australian cents**
National Income Securities	**20,000,000**
Trust Preferred Securities	**400,000**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 ý

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Presentation of information

Basis of presentation

References in this document to this annual financial report refer to the 2004 annual report on Form 20-F filed with the Securities and Exchange Commission. This annual financial report is prepared in accordance with Australian GAAP, which differs in some respects from US GAAP *(as set out in note 56 in the financial report*). Comparative amounts have been reclassified to accord with changes in presentation made in 2004, except where otherwise stated.

Currency of presentation

All currency amounts are expressed in Australian dollars unless otherwise stated. Merely for the convenience of the reader, this annual financial report contains translations of certain Australian dollar amounts into US dollars at specified rates. These translations should not be construed as representations that the Australian dollar amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated. Unless otherwise stated, the translations of Australian dollars into US dollars have been made at the rate of US$0.7244 = A$1.00, the noon buying rate in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York (noon buying rate) on September 30, 2004.

Certain definitions and glossary

The Company s fiscal year ends on September 30. As used herein, the fiscal year ended September 30, 2004 is referred to as 2004 and other fiscal years are referred to in a corresponding manner. The abbreviations $m and $bn represent millions and thousands of millions (ie. billions) of Australian dollars respectively. Financial statements means the Company s consolidated financial statements for the year ended September 30, 2004, September 30, 2003 and September 30, 2002 included herein at pages 100 to 227. Any discrepancies between total and sums of components in tables contained in this annual financial report are due to rounding.

A glossary of some of the key terms used in this annual financial report is contained at page 255. In addition, non-GAAP financial measures have been defined at page 69.

Forward-looking statements

This annual financial report contains certain forward-looking statements within the meaning of section 21E of the United States *Securities Exchange Act of 1934*. The United States *Private Securities Litigation Reform Act of 1995* provides a safe harbour for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation, so long as the information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. The words anticipate, believe, expect, project, estimate, intend, should, could, may, target, goal, objective, plan and other similar expressions are used in connection with forward-looking statements.

In this annual financial report, forward-looking statements may, without limitation, relate to statements regarding:

economic and financial forecasts, including but not limited to statements under the financial review and report on the directors and officers;

anticipated implementation of certain control systems and programs, including, but not limited to those described under the financial review risk management; and

certain plans, strategies and objectives of management.

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 the Group, that may cause actual results to differ materially from those expressed in the statements contained in this annual financial report. For example:

the economic and financial forecasts contained in this annual financial report will be affected by movements in interest and foreign currency exchange rates, which may vary significantly from current levels, as well as by general economic conditions in each of the Group s major markets. Such variations, if adverse, may materially impact the Group s financial condition and results of operations;

the implementation of control systems and programs will be dependent on such factors as the Group s ability to acquire or develop necessary technology or systems, its ability to attract and retain qualified personnel and the co-operation of customers and third party vendors; and

the plans, strategies and objectives of management will be subject to, among other things, government regulation, which may change at any time and over which the Group has no control. In addition, the Group will continue to be affected by general economic conditions in Australia and worldwide, movements and conditions in capital markets, the competitive environment in each of its markets and political and regulatory policies.

There can be no assurance that actual outcomes will not differ materially from the forward-looking statements contained in this annual financial report.

Financial summary (1)

Profitability

Net profit attributable to members of the Company decreased 19.7% to $3,177 million.

Net profit attributable to members of the Company before significant items*(2)* decreased 10.0% to $3,561 million.

The current year s result includes the following after tax significant items:

net profit of $315 million on sale of shareholdings in St George Bank Limited, AMP Limited and HHG PLC;

foreign currency options trading losses of $252 million;

write-down of impaired application software of $307 million;

charge to provide for doubtful debts of $204 million as a result of a revision of an accounting estimate; and

profit of $64 million on write-back of a provision for costs related to the sale of SR Investment, Inc.

The 2003 result included no significant items.

Net profit attributable to ordinary members of the Company & significant items

Shareholder returns

Diluted earnings per share decreased 19.5% to 196.1 cents. Excluding significant items, diluted earnings per share decreased 9.5% to 220.4 cents.

Diluted cash earnings*(2)* per share decreased 23.1% to 201.7 cents. Excluding significant items, diluted cash earnings per share decreased 13.8% to 226.0 cents.

Return on average ordinary shareholders funds decreased from 18.3% to 14.0% (15.8% excluding the impact of significant items).

Dividends of 166 cents per share compared with 163 cents per share last year. In 2004, the interim dividend of 83 cents per share was fully franked and the final dividend of 83 cents per share was also fully franked. In 2003, the interim dividend of 80 cents per share was fully franked and the final dividend of 83 cents was also fully franked.

Economic Value Added (EVA®)*(2)* decreased 28.4% to $1,617 million.

EVA® is a registered trademark of Stern Stewart & Co. EVA® measures the economic profit earned in excess of the Group s cost of capital.

Diluted cash earnings (before significant items), diluted earnings, and dividends per share

Growth and diversification

- Total assets grew by 2.4% in local currency terms.
- Net assets grew by 8.7% in local currency terms.
- Movements in exchange rates increased total assets (in Australian dollar terms) by $4.2 billion.
- Gross loans and advances increased 8.3% in local currency terms.
- Assets under management and administration grew by 10.9%.

Assets under management and administration

(1) *Refer to note 57 of the financial report for developments up to the date of signing this annual financial report.*

(2) *Refer to non-GAAP financial measures on page 69 and reconciliations of non-GAAP financial measures on page 6.*

Selected financial data

The information hereunder has been derived from the audited financial report of the Group, or where certain items are not shown in the Group s financial report, it has been prepared for the purpose of this annual financial report. Accordingly, this information should be read in conjunction with and is qualified in its entirety by reference to the financial report. Comparative amounts have been reclassified to accord with changes in presentation made in 2004, except where otherwise stated.

	Group					
	2004 $m	**2004 (1) US$m**	**2003 $m**	**2002 (2) $m**	**2001 (3) $m**	**2000 (4) $m**
Summary of financial performance						
Australian GAAP						
Net interest income	**7,191**	**5,209**	7,419	7,222	6,960	6,371
Net life insurance income	**1,012**	**733**	444	(10)	128	332
Other banking and financial services income	**4,831**	**3,500**	5,010	7,006	4,749	4,124
Mortgage servicing and origination revenue				378	810	640
Movement in the excess of net market value over net assets of life insurance controlled entities	**(137)**	**(99)**	(160)	(155)	510	202
Significant revenue	**993**	**719**		2,671	5,314	
Operating expenses	**(6,812)**	**(4,935)**	(6,354)	(8,707)	(6,470)	(5,807)
Amortisation of goodwill	**(103)**	**(75)**	(98)	(101)	(167)	(197)
Charge to provide for doubtful debts	**(559)**	**(405)**	(633)	(697)	(989)	(588)
Significant expenses	**(1,675)**	**(1,213)**		(3,266)	(6,866)	(204)
Profit from ordinary activities before income tax expense	**4,741**	**3,434**	5,628	4,341	3,979	4,873
Income tax expense relating to ordinary activities	**(1,190)**	**(862)**	(1,681)	(962)	(1,891)	(1,632)
Net profit	**3,551**	**2,572**	3,947	3,379	2,088	3,241
Net loss/(profit) attributable to outside equity interest Life insurance business	**(365)**	**(264)**	16	(6)	(5)	(2)
Net profit attributable to outside equity interest Other	**(9)**	**(7)**	(8)			
Net profit attributable to members of the Company	**3,177**	**2,301**	3,955	3,373	2,083	3,239
Dividends paid/payable (5)	**2,405**	**1,742**	2,255	2,266	2,080	1,858
Adjusted to accord with US GAAP						
Net income	**2,747**	**1,990**	3,527	3,455	1,794	3,004

	Group					
	2004 $m	**2004 (1) US$m**	**2003 $m**	**2002 (2) $m**	**2001 (3) $m**	**2000 (4) $m**
Summary of financial position						
Australian GAAP						
Investments relating to life insurance business	**41,013**	**29,710**	35,846	31,012	31,381	31,103
Loans and advances (after provisions for doubtful debts)	**247,836**	**179,532**	225,735	212,929	197,827	187,079

Total assets	**411,309**	**297,952**	397,471	377,387	374,720	343,677
Total risk-weighted assets *(6)*	**286,805**	**207,762**	254,266	253,135	257,513	238,589
Deposits and other borrowings	**220,752**	**159,913**	201,194	198,526	186,936	180,699
Life insurance policy liabilities	**36,134**	**26,175**	32,457	30,425	30,257	29,879
Bonds, notes and subordinated debt	**32,573**	**23,596**	24,257	24,961	24,984	21,051
Perpetual floating rate notes	**350**	**254**	367	460	507	461
Exchangeable capital units *(7)*	**1,262**	**914**	1,262	1,262	1,262	1,262
Net assets	**29,766**	**21,562**	27,211	23,251	23,557	21,407
Contributed equity	**10,191**	**7,382**	9,728	9,931	10,725	9,855
Ordinary shares	**7,271**	**5,267**	6,078	7,256	8,050	7,180
Equity instruments *(8)*	**2,920**	**2,115**	3,650	2,675	2,675	2,675
Total equity (excludes outside equity interest)	**25,900**	**18,762**	24,407	23,184	23,489	21,361
Adjusted to accord with US GAAP						
Total assets	**418,050**	**302,835**	398,917	380,280	377,167	344,227
Total equity	**24,818**	**17,978**	23,862	24,005	23,987	21,836

	Group					
	2004	**2004 (1)**	**2003**	**2002 (2)**	**2001 (3)**	**2000 (4)**
	$	**US$**	**$**	**$**	**$**	**$**
Shareholder information						
Australian GAAP						
Earnings per share *(9)*						
Basic	**1.97**	**1.43**	2.49	2.06	1.22	2.02
Diluted	**1.96**	**1.42**	2.44	2.03	1.23	1.99
Earnings per share before significant items *(9) (10)*						
Basic	**2.23**	**1.61**	2.49	2.32	2.47	2.11
Diluted	**2.20**	**1.60**	2.44	2.27	2.43	2.08
Cash earnings per share *(10)*						
Basic	**2.03**	**1.47**	2.69	2.22	1.11	2.06
Diluted	**2.02**	**1.46**	2.62	2.18	1.12	2.02
Cash earnings per share before significant items *(10)*						
Basic	**2.29**	**1.66**	2.69	2.48	2.37	2.15
Diluted	**2.26**	**1.64**	2.62	2.43	2.33	2.11
Dividends per share *(5)*	**1.66**	**1.20**	1.63	1.47	1.35	1.23
Total shareholder return (3 year annualised accumulation) (%) *(11)*	**3.8**	**3.8**	11.1	19.2	12.8	11.3
Economic Value Added (EVA®) ($m) *(12)*	**1,617**	**1,171**	2,259	1,284	1,129	1,379
Dividends per American depositary share (ADS) *(5)*	**8.30**	**6.01**	8.15	7.35	6.75	6.15
Dividend payout ratio (%) *(5)*	**72.14**	**72.14**	56.46	56.62	56.13	57.56
Net assets per share	**19.19**	**13.90**	18.09	15.11	15.15	14.12
Share price at year end	**26.98**	**19.54**	30.80	33.48	25.66	25.51
Number of ordinary shares at year end (No. 000)	**1,551,349**	**n/a**	1,504,635	1,534,840	1,551,575	1,516,111
Adjusted to accord with US GAAP						
Net income per share *(9)*						
Basic	**1.69**	**1.22**	2.21	2.11	1.03	1.87
Diluted	**1.69**	**1.22**	2.13	2.06	1.04	1.81
Dividends per ADS (US$) *(5) (13)*	**n/a**	**6.13**	6.03	4.12	3.51	3.50
Dividends as percentage of net income (%)	**90.90**	**90.90**	66.69	65.59	115.94	61.85

	Group				
	2004	**2003**	**2002**	**2001**	**2000**
	%	**%**	**%**	**%**	**%**
Selected financial ratios					
Australian GAAP					
Average equity (ordinary shareholder funds) to average total assets (excluding statutory funds) *(14) (15)*	**5.8**	5.7	6.3	6.4	6.3
Return on average assets *(16)*	**0.7**	1.0	0.9	0.5	1.1
Return on average equity (ordinary shareholder funds) *(15) (16)*	**14.0**	18.3	15.1	9.0	17.3
Average net interest spread	**1.94**	2.18	2.39	2.34	2.39
Average net interest margin	**2.35**	2.53	2.67	2.71	2.88
Gross non-accrual loans to gross loans and acceptances	**0.46**	0.65	0.76	0.87	0.68
Net impaired assets to equity (parent entity interest)	**3.5**	5.0	5.7	6.0	4.9

Total provisions for doubtful debts to gross impaired assets	**198.1**	138.0	141.5	143.5	182.5
Capital risk asset ratios *(17)*					
Tier 1	**7.3**	7.7	7.6	7.5	6.6
Tier 2	**4.3**	3.3	3.7	3.9	4.0
Deductions	**(1.0)**	(1.4)	(1.3)	(1.2)	(1.3)
Total	**10.6**	9.6	10.0	10.2	9.3
Ratio of earnings to fixed charges *(18)*	**1.4**	1.6	1.5	1.3	1.4
Adjusted to accord with US GAAP					
Net income as a percentage of					
Average total assets (excluding statutory funds) *(14)*	**0.8**	1.0	1.0	0.5	1.1
Average equity	**11.5**	14.8	14.5	7.7	14.6
Total equity as percentage of total assets (excluding statutory funds) *(14)*	**6.6**	6.6	6.9	7.0	7.0
Ratio of earnings to fixed charges *(18)*	**1.2**	1.3	1.4	1.2	1.4

	Group				
	2004 $m	**2003 $m**	**2002 $m**	**2001 $m**	**2000 $m**
Reconciliations of non-GAAP measures *(10)*					
Net profit to cash earnings before significant items reconciliation					
Net profit attributable to members of the Company	**3,177**	3,955	3,373	2,083	3,239
Adjusted for					
Net (loss)/profit attributable to outside equity interest Life insurance business	**365**	(16)	6	5	2
Net profit attributable to outside equity interest Other	**9**	8			
Net profit	**3,551**	3,947	3,379	2,088	3,241
Adjusted for					
Net loss/(profit) attributable to outside equity interest Life insurance business	**(365)**	16	(6)	(5)	(2)
Net profit attributable to outside equity interest Other	**(9)**	(8)			
Distributions on other equity instruments	**(187)**	(183)	(187)	(213)	(198)
Movement in the excess of net market value over net assets of life insurance controlled entities	**137**	160	155	(510)	(202)
Income tax expense/(benefit) on movement in the excess of net market value over net assets of life insurance controlled entities	**(153)**	40	(3)	177	56
Amortisation of goodwill	**103**	98	101	167	197
Cash earnings	**3,077**	4,070	3,439	1,704	3,092
Adjusted for					
Significant revenue	**(993)**		(2,671)	(5,314)	
Significant expenses	**1,675**		3,266	6,866	204
Income tax expense/(benefit) on significant items	**(298)**		(189)	384	(68)
Cash earnings before significant items	**3,461**	4,070	3,845	3,640	3,228

EVA® reconciliation (current methodology) *(19)*		
Cash earnings before significant items	**3,461**	4,070
Adjusted for		
Imputation credit value earned	**681**	727
Other *(20)*	**58**	(7)
EVA® net operating profit after tax	**4,200**	4,790
Average ordinary shareholder funds	**21,341**	20,579
Adjusted for		
Cumulative amortisation of goodwill (average)	**1,748**	1,648
Significant items (average)	**192**	
Cumulative movement (after tax) in the excess of net market value over net assets of life insurance controlled entities (average)	**(202)**	(220)
Average economic capital *(21)*	**23,079**	22,007
Cost of capital *(22)*	**11.0%**	11.5%
Capital charge *(23)*	**(2,583)**	(2,531)
EVA®	**1,617**	2,259

EVA® reconciliation (previous methodology)

Cash earnings before significant items	4,070	3,845	3,640	3,228
Adjusted for				
Imputation credit value earned	733	622	695	545
Net amortisation of prior period significant items	(272)	(243)	(327)	(25)
Other *(20)*	(7)	(67)	(127)	(68)
EVA® net operating profit after tax	4,524	4,157	3,881	3,680
Capital charge *(23)*	(2,856)	(2,873)	(2,752)	(2,301)
EVA®	1,668	1,284	1,129	1,379
Average economic capital *(21)*	24,849	24,985	23,927	20,178
Cost of capital *(22)*	11.5%	11.5%	11.5%	11.4%

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			Group		
	2004	**2003**	**2002**	**2001**	**2000**
Average ordinary shareholder funds reconciliation					
Total average equity *(refer to note 39 in the financial report)*	**27,802**	24,111	23,847	23,427	20,261
Adjusted for					
National Income Securities (average)	**(1,945)**	(1,945)	(1,945)	(1,945)	(1,945)
Preference shares (average)	**(227)**	(730)	(730)	(730)	(730)
Trust Preferred Securities (average)	**(975)**	(5)			
Outside equity interest (average)	**(3,314)**	(852)	(68)	(67)	(46)
Average ordinary shareholder funds *(15)*	**21,341**	20,579	21,104	20,685	17,540

			Group		
	2004	**2003**	**2002**	**2001**	**2000**
Other information					
Total staff					
Full-time and part-time	**47,025**	45,206	46,642	49,710	51,879
Full-time equivalent *(24)*	**43,517**	42,540	43,202	47,597	49,514
Exchange rates (average and closing per A$1.00)					
Average					
British pound	**0.4055**	0.3824	0.3622	0.3626	0.3902
Euro	**0.5970**	0.5648	0.5798	0.5880	0.6310
United States dollar	**0.7265**	0.6125	0.5324	0.5227	0.6102
New Zealand dollar	**1.1254**	1.1142	1.1992	1.2474	1.2648
Closing					
British pound	**0.3973**	0.4072	0.3474	0.3354	0.3710
Euro	**0.5799**	0.5850	0.5528	0.5393	0.6166
United States dollar	**0.7149**	0.6804	0.5440	0.4928	0.5427
New Zealand dollar	**1.0682**	1.1446	1.1565	1.2135	1.3351
United States dollar (per A$1.00)					
Average *(25)*	**0.7263**	0.6167	0.5329	0.5181	0.6032
September 30	**0.7244**	0.6797	0.5628	0.4946	0.5415

On December 31, 2004 the noon buying rate was US$0.7805 per A$1.00.

			Group 2004			
	December	**November**	**October**	**September**	**August**	**July**
United States dollar (per A$1.00)						
High	0.7805	0.7903	0.7478	0.7244	0.7245	0.7334
Low	0.7495	0.7447	0.7207	0.6880	0.7001	0.6980

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(1) Translated at the noon buying rate on September 30, 2004 of US$0.7244 = A$1.00.

(2) Includes amounts relating to operating assets and operating platform of HomeSide US to February 28, 2002, sold on March 1, 2002, and SR Investment, Inc. (the parent entity of HomeSide US) to September 30, 2002, sold on October 1, 2002.

(3) Includes amounts relating to Michigan National Corporation and its controlled entities to March 31, 2001. The Group sold this entity on April 1, 2001.

(4) Includes amounts relating to the MLC group from July 1, 2000. The Group acquired these entities on June 30, 2000.

(5) Dividend amounts for a year represent the final and interim dividend in respect of that year, irrespective of when they are declared, determined and publicly recommended and includes issues under the bonus share plan in lieu of cash and the dividend reinvestment plan. Dividends and book value per ordinary share and per American depositary share (ADS) calculations are based on year-end fully paid equivalent ordinary shares, adjusted for loans and rights issues as appropriate. Dividend payout ratio is based on the dividend amounts for a year by cash earnings before significant items. Refer to page 6 for a reconciliation of cash earnings before significant items.

(6) The calculation to determine the market risk capital component of risk-weighted assets at September 30, 2004, was carried out under the Standard Method as directed by APRA. In previous years, the market risk capital component of risk-weighted assets was calculated using the Internal Model Method. The Standard Method as prescribed by the APRA Prudential Standard (APS 113), limits recognition of portfolio effects on outstanding positions and is substantially more restrictive on the rules regarding the matching of positions.

(7) The exchangeable capital units of US$1 billion are recorded in this annual financial report at the historical rate of US$0.7922 = A$1.00.

(8) Equity instruments incorporate preference shares, National Income Securities and Trust Preferred Securities.

(9) Refer to notes 8 and 56 in the financial report for an explanation of earnings per share.

(10) Refer to page 69 for explanations of non-GAAP financial measures .

(11) Total shareholder return measures the growth in the value of the investment in shares, assuming reinvestment of dividends. The calculation does not take into account taxation of returns nor franking credits.

(12) EVA® is a registered trademark of Stern Stewart & Co.

(13) Dividend amounts are translated into US dollars per ADS (representing five fully paid ordinary shares) at the exchange rate on each of the respective payment dates for interim and final dividends.

(14) Statutory funds are excluded given the significant restrictions imposed by life insurance legislation, regulations and the regulators thereunder, on these assets. However, current Australian accounting requirements do not allow for these assets and liabilities to be separated and disclosed separately on the statement of financial position. Refer to note 55 for detailed discussion of the separation of assets from the Group s total assets.

(15) Refer to page 7 for a reconciliation of average ordinary shareholder funds.

(16) Return represents net profit attributable to members of the Company after deducting distributions on other equity instruments.

(17) As defined by APRA (refer to capital resources on page 49 and regulation of the financial services system on page 15).

(18) For the purpose of calculating these ratios, fixed charges are comprised of interest on all indebtedness including interest on deposits, and one-third of rental charges (which is used to be representative of an interest factor). Earnings are calculated after all operating and income deductions, except fixed charges, extraordinary items and tax based on profit and are stated before outside equity interest.

(19) The revised EVA® methodology has been applied to 2003 for comparison.

(20) Other relates to the difference between EVA® s use of the long-term projected tax rate of 30% and the effective tax rate used for cash earnings.

(21) Average economic capital is a measure of the amount of capital invested in the Company by shareholders which is based on average ordinary shareholders funds adjusted for significant items and those items excluded from the calculation of cash earnings (refer to non-GAAP financial measures on page 69 for an explanation of significant items and cash earnings).

(22) Cost of capital is calculated based on the capital asset pricing model. The change in cost of capital from 11.5% per annum to 11.0% per annum took effect from April 1, 2004.

(23) Capital charge is the average economic capital multiplied by the cost of capital.

(24) Full-time equivalent employees (FTEs) includes part-time staff (pro-rated) and non-payroll FTEs (ie. contractors).

(25) The daily average of the noon buying rates.

Business overview

Introduction

The Group is an international financial services group that provides a comprehensive and integrated range of financial products and services.

The Company traces its history back to the establishment of The National Bank of Australasia in 1858. National Australia Bank Limited is a public limited company, incorporated on June 23, 1893 in Australia, which is the Company s main domicile. Its registered office is 24th floor, 500 Bourke Street, Melbourne Victoria 3000, Australia. The Company operates under the requirements of the *Banking Act* 1959 (Cth) and *Corporations Act* 2001 (Cth).

Globally, as at September 30, 2004, the Group had:

- total assets of $411 billion;
- over $81 billion in assets under management and administration;
- $443 billion in funds under custody and investment administration; and
- 8.4 million banking customers and 2.3 million wealth management customers.

The Company is the largest financial services institution (by market capitalisation) listed on the Australian Stock Exchange and is within the 30 most profitable financial services organisations in the world (measure: profit; source: Fortune; date: July 2004).

Strategy

To meet the challenges that the Group faces following a difficult 2004 year, the Group is utilising a strategy consisting of four core elements. The strategy is framed around the imperatives of speed to market, sustainable growth and customer focus.

The Group s focus in coming years will reinforce the actions undertaken during 2004 in order to:

- simplify the operations of the business make it easy for customers to do business with the Group;
- deliver sustainable revenue growth realise the potential in the Group s franchises;
- create the right environment for people to excel rebuild the core of the organisation; and
- embed ownership of effective risk practices a critical ingredient of good customer service.

The Group is united by these objectives. Across regions and global businesses, initiatives are either underway or being developed.

Substantial work is being done to make it easier for customers to do business with the Group. Operations are being simplified in direct response to customer feedback.

The Group remains committed to growth in Australasia and the UK. The integration of the banking and wealth management businesses, particularly in Australia, represents a strong avenue for growth.

Cultural renewal has commenced in earnest and the Group has started to embed a set of common principles to guide behaviours and aspirations.

Relationships with key compliance stakeholders have been the subject of intense scrutiny, both externally and internally. The Group has acknowledged these shortcomings and is working closely with these stakeholders to re-establish positive relationships and to more broadly embed a compliance culture.

Business operating model

The Group s operating model for the year to September 30, 2004 consisted of five lines of business:

- Financial Services Australia;

Financial Services Europe;

Financial Services New Zealand;

Corporate & Institutional Banking; and

Wealth Management.

These business lines were supported by the following global functions   Finance, Technology, People & Culture, Risk Management, Corporate Development, and Office of the CEO.

The information contained within the annual financial report 2004 is based on this business operating model.

Changes to the business operating model

In August 2004, the Group announced a number of changes to the structure of its business operating model and executive management team. The new business operating model will be run along regional lines for Australia, Europe and New Zealand, together with Institutional Markets & Services, which will operate on a global basis. This new business operating model will be effective for the 2005 year.

Australia

The Australian and Asian-based businesses will be managed as one regional operation. This will result in the former operations of Financial Services Australia, the Australian components of Corporate & Institutional Banking s Corporate Banking, National Custodian Services and Transactional Solutions units, the Asian component of Corporate & Institutional Corporate Banking, and the Australian and Asian components of Wealth Management, being managed as one regional business.

Europe

The European-based businesses will be managed as one regional operation. This will result in the former operations of Financial Services Europe, the European component of Corporate & Institutional Banking s Corporate Banking unit, and the European components of Wealth Management, being managed as one regional business.

New Zealand

It is proposed that the New Zealand-based businesses will be managed as one regional operation. Subject to applicable regulatory approvals, this will result in the former operations of Financial Services New Zealand, the New Zealand component of Corporate & Institutional Banking s Corporate Banking unit, and the New Zealand components of Wealth Management, being managed as one regional business.

Institutional Markets & Services

The global businesses of the former Corporate & Institutional Banking line of business will continue to be managed together as Institutional Markets &

Services.

This includes the Financial Institutions, Markets, Specialised Finance and Services units of Corporate & Institutional Banking.

Support units

The global corporate centre includes streamlined functions that support all the regional businesses, including Corporate Affairs, Corporate Strategy, Financial and Risk Management, Major Projects, People & Culture, and Technology.

The information contained in the annual financial report 2004 is based on the business operating model that was in place for the year to September 30, 2004. This business operating model is described in detail below.

Introduction to Financial Services

The Group s Financial Services businesses, or the retailing arms of the Group, provide a range of financial products and services tailored to the needs of their customers.

The regional structure of these businesses enables broader authority and more control over distribution, products and services. Each region is managed separately with a distinct focus Financial Services Australia, Financial Services Europe and Financial Services New Zealand.

The Financial Services businesses in each region are structured to provide customers with solutions to all their retail financial needs. In each region, the Financial Services businesses have six core business units Business, Personal, Agribusiness, Cards, Payments, and Asset Finance and Fleet Management supported by the specialist units of Marketing, Channel and Process Optimisation, and Customer Service and Operations. The operations of each of these business units are outlined below.

Business

Business provides financial solutions to its customers, which range from sole traders to multi-national businesses.

Personal

Personal supports its retail and premium customers.

Agribusiness

Agribusiness is dedicated to serving the agricultural sector and concentrates solely on meeting the needs of primary producers, service providers to agriculture and processors of agricultural produce.

Cards

Cards manages the business and personal credit card requirements of customers. Cards is also responsible for the personal loan platforms for the Australian region.

Payments

Payments is responsible for the processing and completion of payment transactions and the development of payment processes and systems, particularly in e-commerce.

Asset Finance and Fleet Management

Asset Finance and Fleet Management specialises in plant, equipment and motor vehicle leasing, as well as the broader area of fleet management.

Marketing

Marketing represents the centralisation of marketing and product development functions within the retailing operations in each region.

Channel and Process Optimisation

Channel and Process Optimisation is responsible for all the electronic delivery channels, call centres, quality delivery of retail products and services, development of major transformation projects and process efficiencies, and improvements within the retail operations.

Customer Service and Operations

Customer Service and Operations enables the Group to more readily take an end-to-end perspective on what it does and to give greater control over the services provided to meet the needs of local customers more effectively. It comprises the following operational services Account Services, Collections, Corporate Real Estate, Lending, Strategic Sourcing, Trade, and Vendor Management. Customer Services and Operations undertakes a number of specialised business activities on behalf of the Group.

Financial Services Australia

Financial Services Australia is the Australian retailing arm of the Group that provides financial solutions that meet the needs of its 3.7 million customers in Australia at September 30, 2004.

At September 30, 2004, Financial Services Australia had 17,514 full-time equivalent employees.

This year has provided challenges for the business as some negative impacts on the Company s brand and reputation were experienced following the discovery of losses related to the unauthorised trading in foreign currency options.

In order to drive business growth and development, Financial Services Australia focused on improving the customer experience.

Processes are being reviewed and new systems implemented to improve customer service. For example, during the year the electronic business lending capability was rolled out across Australia. This is a time-saving electronic alternative to manual business lending processes.

Financial Services Australia s extensive physical distribution operates to service customers at a location convenient to them. The upgrade of branches and the building of integrated financial service centres continued during the 2004 year, with 50 branches refurbished and a further 14 integrated financial service centres built across Australia. At September 30, 2004, there are 34 integrated financial service centres (catering for all customers financial advice needs), 219 business banking centres, 108 agribusiness locations, 787 branches, and over 3,000 Australia Post GiroPost outlets (which allows customers to transact banking business at certain Australian Post outlets).

The array of financial solutions available to customers includes a range of deposit and lending products, financial planning, credit cards, payment facilities, leasing, asset finance and transaction accounts. During the year, a range of new products were introduced, including SMART accounts, which offer flat fee transaction accounts, two new credit cards, which operate on the American Express Company network, and an improved farmers choice package providing long-term interest-only finance. In addition, Wealth Management and Corporate & Institutional Banking products and services are available such as treasury, equity finance, custodian services, superannuation, insurance and investment solutions.

Financial Services Australia s electronic distribution provides customers with the choice to meet their financial needs when they want via the internet, over the telephone, through one of more than 1,500 ATMs at September 30, 2004 or through an extensive network of point of sale (EFTPOS) terminals. At September 30, 2004 there were more than 630 ATMs audio enabled for vision impaired customers. There were approximately 880,000 registered internet banking customers at September 30, 2004. Only 6% of all transactions (by volume) are now carried out through the branch network, reflecting changing customer preferences and behaviour.

Financial Services Australia s relationship management philosophy supports an integrated financial services model as Business, Personal and Agribusiness bankers work closely with Wealth Management and Corporate & Institutional Banking to identify and meet the life goals of customers.

Financial Services Australia has the largest share of business lending (excluding agribusiness) with 25% market share as at September 30, 2004 (source: TNS, measure: credit outstanding), which is the result of initiatives over a number of years, centred on the relationship management model.

Initiatives have included the development of Business and Agribusiness banking teams with specialist knowledge and an understanding of the financial needs of customers. For premium personal customers, Financial Services Australia has a relationship management philosophy where each customer has a personal banker to manage their needs. Specialists, such as financial advisers and estate planners, are introduced to meet more complex needs.

A comprehensive customer relationship management (CRM) system underpins the physical and electronic distribution channels and the relationship management philosophy.

This CRM system has the capability to record and integrate a substantial proportion of customer interactions, which enables better knowledge of customers preferences and future financial needs. Analytical capabilities allow this knowledge to be used to identify customer needs and provide leads and information to bankers and financial planners to pro-actively contact customers to meet those needs. In December 2003, the CRM system won the National Centre for Database Marketing (USA) Gold Award for excellence in CRM.

In March 2004, most staff commenced relocating to the Australian operations new headquarters at Docklands, Melbourne. The building was designed to facilitate teamwork, interaction and productivity, and increase employee motivation by providing an excellent working environment.

Refer to page 34 for detailed information of the financial performance of Financial Services Australia.

Financial Services Europe

Financial Services Europe is the European retailing arm of the Group that provides financial solutions to meet the needs of its 3.6 million customers in the UK and the Republic of Ireland at September 30, 2004.

At September 30, 2004, Financial Services Europe had 11,765 full-time equivalent employees.

The Group s retailing activities in Europe (UK and Republic of Ireland) operate under four brands. The Group s regional banks are Clydesdale Bank PLC in Scotland, Yorkshire Bank PLC in Northern England, Northern Bank Limited in Northern Ireland and National Irish Bank Limited in the Republic of Ireland. Each bank offers a broad range of financial services to both retail and business customers. Supporting these services are the products provided by Wealth Management and Corporate & Institutional Banking, offering customers a further range of financial solutions.

Clydesdale Bank was established in 1838 in Glasgow and has a long history of support for Scottish industries and communities. With 226 branches at September 30, 2004 Clydesdale Bank is one of Scotland s largest retail banks, as well as one of the country s leading business banks.

Yorkshire Bank was founded in 1859 in Halifax, West Yorkshire, and today maintains a strong regional focus in the north of England and the Midlands. Yorkshire Bank has a strong personal customer base and a business capability. Yorkshire Bank was acquired by the Group in 1990 and has 234 branches at September 30, 2004.

During the year, the Group progressed the legal entity merger of Clydesdale and Yorkshire Banks to reduce associated corporate and support infrastructure costs. The merger was completed in December 2004. The separate brands of Clydesdale Bank and Yorkshire Bank will be retained.

Northern Bank was established in 1809 when the Northern Banking Partnership was formed in Belfast, where Northern Bank is still based. At September 30, 2004 Northern Bank has 95 branches, while the Dublin-based National Irish Bank has a network of 59 branches.

The 2004 year has seen the implementation of a broad range of initiatives that represent a major investment in the growth, efficiency and quality of the Group s European businesses. Growth initiatives have concentrated on building brands, improving sales effectiveness and expanding the Group s distribution footprint into the south east of England.

The foundations are now set for this expansion program with the establishment this year of a network of strategically located financial solutions centres. Financial solution centres offer integrated business and private banking services to business and high net worth customers and, at September 30, 2004, 8 centres were operating, being in Bristol, London City, London West End, Milton Keynes, Oxford, Reading, Southampton and Watford. Aligned to this program, the Group also entered the intermediary market, selling Clydesdale Bank s mortgage products through a range of key broker partners.

In February 2004, a new integrated branding program was launched which is designed to instil a number of key brand values trust, expertise, approachability, and empowerment into every aspect of the customer experience. A significant part of this branding program was a series of new television commercials shown in prime time across key market areas in Scotland, England and Northern Ireland.

Efficiency programs are primarily focused on improving manufacturing productivity and the standardisation of processes and business operating models. A key initiative was the creation of a new branch model, which has seen the introduction of new sales and service structures and the centralisation of administrative and processing functions to allow staff to focus on customers. This is supported by other initiatives such as the standardisation and optimisation of employee roles and improvements to channel offerings such as internet banking, call centres and ATMs.

At September 30, 2004 the distribution network was made up of 614 outlets and 143 business banking centres and premium outlets, supported by two customer contact centres, internet facilities and 1,180 ATMs.

During the year, significant advances in the rationalisation and enhancement of products to a single product set supporting multiple brands and distribution channels were made, with the release of a new current account and offset mortgage product. Another area of focus is the rationalisation of suppliers to deliver enhanced purchasing power.

Financial Services Europe has concentrated on operating sound businesses that meet its obligations and responsibilities. For example, the upgrading of front-end systems enables the requirements of the Financial Services Authority mortgage and insurance regulations to be met. The system is designed to provide a more efficient platform for sales and servicing. The objective is to improve customer service by capturing all the relevant information at the point of contact with the customer, and having it flow directly through the processing system.

Attention has also been directed to further develop talent and the quality of leadership. Several initiatives, such as the introduction of long service awards and more flexible working conditions, were introduced to attract and retain quality staff, particularly locally recruited managers.

On December 14, 2004, the Company announced that it had reached an agreement to sell its Irish businesses, Northern Bank Limited and National Irish Bank Limited to Danske Bank A/S. *For further information on the sale of Northern Bank Limited and National Irish Bank Limited, refer to the report on the directors and officers events subsequent to balance date on page 87.*

Refer to page 34 for detailed information of the financial performance of Financial Services Europe.

Financial Services New Zealand

Financial Services New Zealand is the New Zealand retailing banking arm of the Group that provides financial solutions to meet the needs of its 1.1 million customers in New Zealand at September 30, 2004.

At September 30, 2004, Financial Services New Zealand had 4,324 full-time equivalent employees.

The Group s retail banking activities in New Zealand operate under the Bank of New Zealand (BNZ) brand.

The Group acquired BNZ in 1992. BNZ has a strong brand position in the New Zealand market with comprehensive coverage across the country. It offers a range of financial services and is one of the largest financial service providers in New Zealand. BNZ offers innovative products and solutions such as GlobalPlus, a loyalty-based program which includes credit card and home loan products.

BNZ is facing increasingly tougher market conditions, characterised by a slowdown in the New Zealand economy and a tightening of competition following Lloyds TSB Bank PLC sale of National Bank of New Zealand to Australia and New Zealand Banking Group Limited in December 2003. Partly in response to these conditions, 2004 was characterised by major investment by BNZ in products and services and in its retail network.

The ongoing enhancement of the physical distribution network, coupled with improved technology, automation and functionality through electronic and remote channels, continues to be a core strategy. BNZ s vision is to provide customers with tailored financial solutions, which are deliverable through a range of convenient and cost-effective channels.

The distribution network at September 30, 2004 comprised of 178 outlets including 14 business banking centres, 405 ATMs, and shared access to an extensive nationwide EFTPOS network. BNZ also has well-established telephone banking capabilities, in addition to its internet banking service catering for more than 200,000 registered users as at September 30, 2004.

Continued growth is being driven through BNZ s CRM strategy called TOPS. TOPS is a computer-based system that notifies staff of trigger events from customer transactional activity and milestone attainment, resulting in customers being contacted by BNZ at a time when they need it.

During the year, BNZ has deployed a new state-of-the-art teller information technology system in its branches, launched new banking products in the youth market, and launched an internet banking service designed especially for businesses.

Refer to page 35 for detailed information of the financial performance of Financial Services New Zealand.

Corporate & Institutional Banking

Corporate & Institutional Banking manages the Group s relationships with large corporations, banks, financial institutions, supranationals (such as development banks) and government bodies. With operations in Australia, Europe, New Zealand, New York and Asia (Hong Kong, Singapore, Seoul Tokyo and Labuan), Corporate & Institutional Banking has dedicated leadership teams to provide local, accessible management for customers.

At September 30, 2004, Corporate & Institutional Banking had 2,832 full-time equivalent employees.

Corporate & Institutional Banking provides debt financing, risk management and investor services and products. It comprises Corporate Banking, Financial Institutions, Markets, Specialised Finance, National Custodian Services, Transactional Solutions and a Services unit.

It embraces the Group s purpose by devoting considerable resources to understanding the needs of customers, and to deliver first-class solutions that exceed their expectations.

This has been a difficult year for the business. Following the unauthorised foreign currency options trading losses announced in January 2004, Corporate & Institutional Banking enhanced its risk systems and procedures and it is continuing to enhance its risk management framework. The remedial actions outlined by the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC) enforceable undertakings in response to this issue are being addressed.

For a detailed discussion of the Company s losses relating to unauthorised trading in foreign currency options and associated remedial actions, refer to the report on the directors and officers on page 84.

Corporate Banking

Corporate Banking is responsible for the Group s relationships with large corporations and provides corporate lending products and other financing solutions. Customer teams are selected to provide the appropriate blend of relationship management, industry knowledge and product skills.

Customer coverage is structured along industry segment lines to promote specialist knowledge and understanding. There are five major industry segments: consumer goods and services; telecommunications, media and technology; industrials, materials and health care; energy and utilities; and property and construction finance.

Financial Institutions

Financial Institutions manages the Group s relationships with banks, other financial institutions (insurance and fund managers), supranationals and government bodies, which includes the Group s correspondent banking relationships.

Markets

Markets focuses on traded products and risk management solutions.It provides foreign exchange, money market, commodities and derivatives products globally through a dedicated 24 hour dealing capability. These products assist both Corporate & Institutional Banking s customers and the Group s small and medium business customers to manage their diverse financial risks.

Markets is active in the debt capital markets, and securitisation and loan syndications markets, helping customers to diversify their financing arrangements and supplying investors with access to a variety of asset classes.

Markets also manages the liquidity portfolio for the Group in each of its major markets. It assists in interest rate risk management and provides short-term funding for the Group.

Specialised Finance

Specialised Finance supplies a range of financial solutions utilised in large-scale, complex transactions such as project finance, structured finance and acquisition finance.

Using its specialised knowledge of the respective legal, commercial, regulatory and financial implications of these transactions, it develops innovative financing structures for customers.

National Custodian Services

National Custodian Services provides custody and related services to foreign institutions, superannuation funds, government bodies, fund managers, insurance companies and other entities within Australia and New Zealand.

The key products offered include sub-custody, global custody, master custody, investment administration outsourcing, securities lending and cash deposit facilities.

The Company, through National Custodian Services, is one of the largest custodian banks in Australia (measure: assets under custody and administration, source: Australian Custodial Services Association, date: June 2004) with assets under custody and administration of $432 billion at September 30, 2004.

On July 14, 2004, the Group announced plans to close its National Custodian Services UK operations and reached agreement to transfer its customers to The Bank of New York Company, Inc., subject to approval of customers. The agreement represents an enhancement of a strong relationship with The Bank of New York Company, Inc., which is the Group s global custodian for offshore assets. As at December 31, 2004, all National Custodian Services UK customers have either transitioned or agreed to transition to The Bank of New York Company, Inc. or other custodians. The operation is expected to close by March 31, 2005.

Transactional Solutions

Transactional Solutions provides a range of products and services including cash management, e-commerce, merchant facilities, liquidity management and international payment services.

Customers have access to a committed team that includes a specialist implementation manager, a transactional manager and a dedicated contact person.

Services

Services is responsible for the management of the operating platform for Corporate & Institutional Banking, including technology, operations and marketing. These key areas have two regional hubs (Australia and Europe) to promote efficiency, optimise future investment and provide common product capability across five geographic regions.

Refer to page 35 for detailed information of the financial performance of Corporate & Institutional Banking.

Wealth Management

Wealth Management works closely with the broader Group to provide customers with an integrated financial services experience. This involves identifying changing customer needs and providing access to the wide range of services and solutions that the Group offers.

Wealth Management partners with financial advisers to provide quality financial planning services including wealth creation, wealth protection, banking, superannuation and retirement solutions to build and protect customers wealth throughout their lives. It also provides corporate and institutional customers with outsourced investment, superannuation and employee benefit solutions. Wealth Management is focused on four main business activities Investments, Insurance, Advice Solutions, and Private Bank.

At September 30, 2004, Wealth Management managed $81.1 billion on behalf of 2.3 million retail and corporate customers in Australia, Europe, Asia and New Zealand. In its core Australian market, as at June 30, 2004, it held the largest share of total individual risk business with a 15.1% share of in force annual premiums (source: DEXX&R Life Analysis Report; date: June 30, 2004). It is ranked second in annual new individual risk business premiums with a 13.6% share (source: DEXX&R Life Analysis Report; date:

June 30, 2004). At the same time, it was ranked number one in market share of master trusts with a 17.1% market share of funds under management (source: Plan for Life Australian Retail & Wholesale Investments Market Share & Dynamics Report; date: June 30, 2004).

As at September 30, 2004, Wealth Management employed 6,048 full-time equivalent employees.

Through its business relationships with financial advisers, Wealth Management is focused on encouraging the community to seek financial advice to help them achieve their lifestyle goals. Wealth Management has more than 3,100 aligned and salaried advisers and relationships with more than 2,600 external advisers at September 30, 2004.

Investment in the business has continued with the launch of a new integrated advice platform, AdviserCentral, and ongoing enhancements to investment platforms and reporting and service capabilities in the Australian market. This places Wealth Management in a strong position to be the partner of choice for financial advisers and enabler of quality advice solutions.

Internationally, Wealth Management is growing its competitive advantage by leveraging core capabilities that the business has developed in Australia into the European and Asian markets. During the year, Pivotal in the UK expanded its current offering to external financial advisers beyond the MLC manager of managers capability to include a business consultancy service and the launch of the MLC Personal Pension Plan.

Investments

Investments incorporates the following business activities:

investment platforms that provide investments, superannuation and retirement solutions for retail customers. This incorporates investment choices ranging from fully-implemented solutions for customers utilising the manager of managers capability, to fully-discretionary options where the customer and financial adviser can direct investments to the offering(s) of their choice. All of these platforms provide reporting and administration services;

investment, superannuation and employee benefit solutions for corporate and institutional customers; and

asset management, providing investment management advisory services including research, selection and monitoring of investment managers under a multi-manager, multi-style approach that underpins Wealth Management s investment offerings.

Insurance

Insurance includes:

life insurance, income protection and other risk insurance cover for retail customers in Australia, New Zealand and Asia;

life insurance services in the UK. The Group sold its UK-incorporated life insurance company, National Australia Life Company Limited, on December 31, 2003. This has enabled Wealth Management to focus on customer relationship management and distribution, rather than product manufacture. Further, a strategic alliance with AXA was formed to offer commercial insurance to business customers of the Group s banks in the UK and the Republic of Ireland;

general insurance agency services (incorporating home and contents, motor vehicle, loan protection, credit card and other general insurance cover) for retail customers in Australia and the UK; and

group life insurance for corporate, club or business customers to enable life insurance policies to be incorporated as part of employee entitlements.

Advice Solutions

Advice Solutions provides the financial planning tools and support services for Wealth Management s network of salaried, self-employed aligned and external financial advisers, including:

AdviserCentral, an integrated advice platform that supports the delivery of investment, insurance and debt advice;

business development and consulting services to assist advisers to operate their financial planning businesses more efficiently;

marketing, business and customer management tools and processes;

technology, research and technical support, including paraplanning and quality review services; and

recruitment, education and development of advisers and their support staff, including quality advice programs.

Private Bank

Private Bank provides financial services to high net worth individuals, including banking, financial planning, superannuation, and access to taxation, estate planning and special expatriate services through external advisers.

Refer to page 36 for detailed information of the financial performance of Wealth Management.

Other

Support functions

The Group s support functions focus on strategic and policy direction for the Group and incorporate the following units: Finance, Technology, People & Culture, Risk Management, Corporate Development, and Office of the CEO. While these support functions are organised on a global basis, many of their operations are integrated within the Group s business lines and their contribution to the Group is reported within the results of those businesses.

Sale of HomeSide US

The sale of the operating assets and platform of HomeSide US to Washington Mutual Bank, FA was completed on March 1, 2002, in accordance with the agreement reached on December 12, 2001. Under the terms of the sale, the Group received cash of $2,314 million for the operating assets, which consisted primarily of $2,081 million in warehouse and pipeline mortgage loans. After allowing for transaction costs and triggered costs, primarily employee liabilities, a loss (after tax) of $8 million was recorded by the Group.

On October 1, 2002, the Group sold SR Investment, Inc. (the parent entity of HomeSide US) to Washington Mutual Bank, FA. Controlled entities other than HomeSide US were excluded from the sale. The assets and liabilities of SR Investment, Inc. and its controlled entities were included in the Group s financial position up to and including the year ended September 30, 2002 and their results were included in the Group s financial performance up to and including the year ended September 30, 2002. The Group received proceeds on sale of $2,671 million for assets with a cost of $2,686 million, resulting in a profit on sale of $6 million after all disposal costs and income tax. This result was included in the Group s financial performance for the year ended September 30, 2002.

Competition

The Australian financial system is characterised by a large number of traditional and new players and well-developed equity and, corporate bond markets. There are four major national banks (including the Company) and many other financial conglomerates with national operations offering a complete range of financial services, as well as a number of smaller regional institutions and niche players. Non-bank financial institutions have been a force in the Australian financial system, although many have demutualised over the past decade to capture capital-related and other competitive advantages. Non-bank financial institutions offer a wide portfolio of products and services from insurance, investments and superannuation (pensions) to compete in the markets traditionally serviced by banks. Competition also comes from numerous Australian and, in many cases, international non-bank financial intermediaries including investment merchant banks, specialist retail and wholesale fund managers, building societies, credit unions and finance companies. Product and functional specialists operate and are important players in the household and business mortgage, credit card deposit and other payment services markets. The rapid development and acceptance of the internet and other technologies have increased competition in the financial services market and improved choice and convenience for customers.

These forces are evident across all of the Group s businesses in each of its geographic markets. Within the broader financial services industry, increased competition has led to a reduction in operating margins only partly offset by fees and other non-interest income and increased efficiencies. The latter has been largely achieved through greater investment in new technologies for processing, manufacturing and retailing products and services. These trends towards increasingly contestable markets offering improved access, wider choice and lower prices are expected to continue in the future.

Over the last several years, a number of regulatory authorities have reviewed competition issues, including the UK Competition Commission with regard to the small to medium enterprise banking market, the Reserve Bank of Australia (RBA) and the Australian Competition and Consumer Commission (ACCC) with regard to the payments system *(refer to payment system reforms in Australia on page 17)*, and the review of the *Trade Practices Act* 1974 (Cth) conducted by an Australian Commonwealth Government appointed committee chaired by Sir Daryl Dawson.

In March 2002, the UK Competition Commission issued its conclusion on its inquiry into the small to medium enterprise banking market. The Commission found that major banks in England, Scotland and Northern Ireland, including Clydesdale Bank and Northern Bank, were acting as part of a complex monopoly. Yorkshire Bank was not named as part of the complex monopoly, due to its relatively small share of the English market.

As a result of the Commission s proposals, the four largest clearing banks operating in England were required to comply with a pricing remedy from January 1, 2003. The four largest clearing banks were singled out as they were not only considered to be acting as part of a complex monopoly, but were considered to be acting against the public interest. This remedy has resulted in these banks offering their small to medium enterprise banking market customers a more competitive proposition. The impact of these changes on the Group s UK operations has been negligible.

In 2003, the UK Office of Fair Trading also obtained further undertakings from the eight main banking groups, including Clydesdale Bank and Northern Bank, relating to the time it takes for small to medium enterprises to switch their main bank accounts to other lenders. The banks commenced reporting their performance against targets from January 1, 2004.

In June 2004, the Australian Commonwealth Government introduced the Trade Practices Legislation Amendment Bill 2004 based on the recommendations reported on April 16, 2003 by an Australian Commonwealth Government appointed committee chaired by Sir Daryl Dawson reviewing the *Trade Practices Act* 1974 (Cth). This Bill was passed by the House of Representatives on August 4, 2004, and was introduced into the Senate on August 5, 2004. It then lapsed with the calling of the Australian federal election on October 9, 2004 and is due to be reintroduced into Parliament in early 2005.

The legislation focuses on six key areas: mergers and acquisitions, joint ventures, authorisation, third line forcing, ACCC powers and accountability, and small business. The Group supports a number of these measures as they will provide greater flexibility and accountability in the merger approval process, provide more certainty in respect of pro-competitive joint ventures and simplify the regulatory process for industry reform.

Regulation of the financial services system

Australia

APRA is the prudential regulator of Australian authorised deposit-taking institutions (referred to as ADIs), which comprise banks, building societies, and credit unions as well as life and general insurance companies, friendly societies and superannuation funds.

The RBA has overall responsibility for monetary policy, financial system stability and, through a Payments System Board, payment system regulation including the operations of Australia s real-time gross settlement system.

ASIC enforces and regulates company and financial services laws to protect consumers, investors and creditors. ASIC is an independent government body that regulates financial markets, corporations, securities, futures, consumer protection in superannuation, insurance and deposit taking.

The ACCC administers the *Trade Practices Act* 1974 (Cth). The ACCC promotes competition and fair trade in the marketplace to benefit consumers, business and the general community.

Consumer Affairs offices in each State and Territory are responsible for specific credit and fair trading legislation. Financial transaction reporting legislation is federally monitored by the Australian Transaction Reports and Analysis Centre (AUSTRAC).

The *Banking Act* 1959 (Cth) allows APRA to issue prudential standards that, if breached by ADIs or groups containing ADIs, can trigger legally enforceable directions. Under the *Banking Act* 1959 (Cth), APRA has strong and defined powers to direct the activities of an ADI in the interests of depositors or when an ADI or a group containing an ADI has contravened its prudential framework. These direction powers enable APRA to impose corrective action without taking the step of assuming control. The *Banking Act* 1959 (Cth) also requires an ADI to inform APRA of breaches of prudential requirements and of any materially adverse events (whether in respect of an ADI in a group or the overall group containing that ADI), and makes provision for the application of fit and proper tests for directors and management of ADIs.

APRA has issued prudential standards covering liquidity, credit quality, market risk, capital adequacy, audit and related arrangements, large exposures, associations with related entities and group risk management, outsourcing, funds management and securitisation, and risk management of credit card activities. APRA is reviewing board composition, and has issued draft prudential standards covering fit and proper requirements and business continuity management.

APRA requires ADIs to provide regular reports covering a broad range of information, including financial and statistical data relating to their financial position and prudential matters. APRA gives special attention to capital adequacy *(refer to capital adequacy on page 49 for current details)*, sustainability of earnings, loan loss experience, liquidity, concentration of risks, potential exposures through equity investments, funds management and securitisation activities, and international banking operations.

In carrying out its supervisory role, APRA supplements its analysis of statistical data collected from ADIs with selective on-site visits by specialist teams to overview discrete areas of banks operations. These include asset quality, balance sheet, interest rate risk management, market risk and operational risk reviews and formal meetings with ADIs management and external auditors.

APRA also formalises a consultative relationship with each ADI s external auditor with the agreement of the ADI. The external auditors provide additional assurance to APRA that prudential standards applying to ADIs are being observed, and that statutory and other banking requirements are being met. External auditors also undertake targeted reviews of specific risk management areas selected at the annual meeting between the ADI, its external auditor and APRA. In addition, each ADI s chief executive officer attests to the adequacy and operating effectiveness of the ADI group s management systems to control exposures and limit risks to prudent levels.

The association of an ADI with related entities is regulated by Australian Prudential Standard APS 222 Equity Associations . Under that prudential standard, the Company is required to obtain APRA s prior approval for the establishment or acquisition of a regulated presence domestically or overseas. There are also prior consultation requirements whereby the Company must consult with APRA before establishing or acquiring a subsidiary (other than certain special purpose financing entities), committing to acquire more than a 10% equity interest in an entity that operates in the field of finance, or in certain circumstances taking up an equity interest in an entity in a work-out situation. Further, without the consent of the Treasurer of the Commonwealth of Australia, no ADI may enter into any agreement or arrangement for the sale or disposal of its business (by amalgamation or otherwise), or for the carrying on of business in partnership with an ADI, or effect a reconstruction.

Wealth Management is regulated by both ASIC and APRA. ASIC administers legislation relating to Wealth Management s key financial services, including managed investments, superannuation, retirement income streams and insurance. Its role is to ensure industry participants comply with legislation, while promoting fair, confident and informed participation in the Australian market by investors and consumers. APRA provides prudential regulation through the oversight of Wealth Management s life insurance companies and approved trustees of superannuation funds.

Non-Australian jurisdictions

APRA, under the international Basel framework, assumes the role of home banking supervisor and maintains an active interest in overseeing the operations of the Group, including its offshore branches and subsidiaries.

The Group s branch and banking subsidiaries in Europe are subject to supervision by the Financial Services Authority (FSA) in the UK, and in the Republic of Ireland, the Irish Financial Services Regulatory Authority. The Group s banking subsidiary in New Zealand is subject to supervision by the Reserve Bank of New Zealand (RBNZ).

In the UK and the Republic of Ireland, the local regulatory frameworks are broadly similar to those in force in Australia. Each of the banking regulatory authorities in those countries has introduced risk-based capital adequacy guidelines in accordance with the framework developed by the Basel Committee on Banking Supervision.

The emphasis of the RBNZ s regulatory approach is primarily on enhanced disclosure and directors attestations to key matters. Under conditions of registration, banks are required to comply with minimum prudential and capital adequacy requirements. The RBNZ monitors banks financial condition and conditions of registration, off-site, principally on the basis of published disclosure statements.

The Group s largest branches in the Asian region are in Hong Kong and Singapore. The primary regulator in Hong Kong is the Hong Kong Monetary Authority, which is responsible for maintaining monetary and banking stability by regulating banking business and deposits and the supervision of authorised institutions.

In Singapore, the Monetary Authority of Singapore is responsible for the regulation of monetary, banking and financial policy including insurance, securities and currency issuance.

In the US, branch operations are subject to supervision by the Office of the Comptroller of the Currency. The other key regulators of financial services are the Securities and Exchange Commission (SEC) the Board of Governors of the Federal Reserve System and the Office of Foreign Assets Control.

In the UK, Wealth Management is regulated by the FSA, which is responsible for maintaining market confidence, promoting public awareness, protecting customers and reducing financial crime. In other offshore areas of banking and wealth management activity, the Group is subject to the operating requirements of relevant local regulatory authorities.

Changing regulatory environment

Both within the financial services industry and more generally, businesses are working within a changing regulatory environment. An outline of the more significant current or pending regulatory changes impacting the Group is set out in the following sections. In response to these and other new legislative and regulatory requirements, the Group has established initiatives to implement compliant business processes with particular focus on improving the customer experience.

Australian Financial Services Licences

The Group has obtained from ASIC its new Australian financial services licences issued pursuant to the *Corporations Act* 2001 (Cth). The Group s Australian operations are operating under 19 licences representing the wide variety of financial services that it offers. The Group entered into the new regulatory regime from December 1, 2003, ahead of the conclusion of the industry transition period on March 11, 2004.

For a discussion of enforceable undertakings given by the Company to ASIC, refer to the *report on the directors and officers on page 86.*

Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act **2004 (Cth)**

On July 1, 2004, the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act* 2004 (Cth) (CLERP 9) became law and introduced a range of disclosure, audit oversight and independence, conflict of interest and other reforms.

In relation to financial reporting, many of the disclosure requirements introduced by CLERP 9 will take effect for the Company in 2005. However, the Company has taken those new requirements into account, and a number of specific disclosures that will be required from 2005 have been included in this annual financial report on a voluntary basis.

Operating and financial review

Information that members of the Company would reasonably require to make an informed assessment of:

- the operations of the Group;
- the financial position of the Group; and
- the Group s business strategies and future prospects,

has been included in the report on the directors and officers.

Non-audit services provided by the auditor

Details of non-audit services provided to the Group by the auditor (including the amount paid or payable to the auditor for those services) are included in the report on the directors and officers.

Remuneration of directors and executives

The remuneration report within the report on the directors and officers includes the Board s policy regarding remuneration, performance incentives, shares and performance options. Detailed information regarding remuneration paid to each director and executive, shares, performance options and performance rights granted to each director and executive, and other related information is disclosed in note 51 in the financial report to minimise duplication of information currently required by relevant accounting standards. The remuneration report includes cross-references to the location of this information. The concise annual report also includes a detailed discussion of the Company s remuneration arrangements.

Basel II Capital Accord

In 1988, the Bank for International Settlements (BIS) developed the Basel Capital Accord that sets out international benchmarks for assessing banks capital adequacy requirements. In response to changes in banking practices, BIS reviewed the Basel Capital Accord and released a revised regulatory framework known as the Basel II Capital Accord (Basel II).

APRA supports the introduction of the revised framework, which will commence for the Group from the end of the 2005 financial year with the parallel run of existing and new requirements.

The new framework proposes changes in the formulae used to measure banks minimum capital requirements and additional identification of risk types. The framework is structured on:

- minimum capital requirements;
- key principles of supervisory review processes; and
- market discipline (public disclosure).

The Group is committed to the implementation of the revised framework and has a program underway to achieve this. As part of this, areas of impact are expected to include the Group s risk management processes and public disclosure of its risk profile.

The Group continues to monitor developments and is working with its key regulators in Australia and overseas to ensure that the Group s Basel II program aligns with regulatory requirements.

International Financial Reporting Standards

In July 2002, the Financial Reporting Council in Australia formally announced that Australian reporting entities would be required to comply with Australian accounting standards equivalent to International Financial Reporting Standards (AIFRS) for financial years commencing on or after January 1, 2005. The adoption of AIFRS is expected to have a material effect on the Group s reported financial performance and position.

The Group continues to evaluate the areas most impacted by the standards. *Refer to note 2 in the financial report for additional information on the impact of adoption of AIFRS by the Group*.

Australian tax consolidation regime

Under Australian income tax legislation that has now been enacted (tax consolidation regime), Australian resident entities of a corporate group may be taxed as a single taxpayer from July 1, 2002. During the year, the Company (as the ultimate Australian parent entity of the Group) made an election to consolidate and lodged its first consolidated income tax return. The decision to consolidate resulted in a decrease in the income tax expense of $150 million, which is reflected in the results of the Wealth Management business during 2004.

Payment system reforms in Australia

The first stage of the RBA s reforms on the credit card payment system in Australia were introduced during 2003, providing merchants with the ability to charge an additional fee for credit card transactions. The Group has not noticed any material impact from this change. The second stage of the credit card reforms, effective October 31, 2003, introduced a new cost-based approach to calculating credit card interchange fees. Interchange fees are wholesale fees that banks pay one another. The cost-based approach has significantly reduced credit card interchange fees.

The third stage of the credit card reforms has also been introduced. In February 2004, the RBA imposed Access Regime changes under the *Payment Systems (Regulations) Act* 1998 (Cth). The Access Regime requires that the class of specialist credit card institutions supervised by APRA be eligible to apply for membership in the scheme on the same basis as other ADIs. The Access Regime also requires the removal of certain restrictions and penalties on the credit card acquiring activity of members of the scheme.

The effect of the Access Regime is to facilitate participation in the scheme by institutions that specialise in credit card issuing, acquiring, or both, and that do not conduct other banking business.

In September 2004, the RBA made a decision to designate the Electronic Funds Transfer at Point of Sale (EFTPOS) debit card payment system as a payment system under section 11 of the *Payment Systems (Regulation) Act* 1998. This follows the Australian Competition Tribunal decision to disallow banks from reducing EFTPOS interchange fees to zero. Having designated EFTPOS as a payment system, the RBA may impose an access regime on participants and / or determine standards to be complied with by participants in the system. After considering whether it would be in the public interest to do so, the RBA has decided not to designate the ATM system as a payment system at this stage.

Anti-money laundering

In most countries in which the Group operates, measures have been adopted to restrict the financial capacity of terrorists and their organisations, and to combat use of the financial system for money laundering. The Group continues to develop its business practices and systems for the detection and prevention of transactions that may involve prescribed terrorists or money laundering.

In December 2003, the Australian Commonwealth Government announced its endorsement of the global anti-money laundering standards and the proposed overhaul of the Australian legislation. The proposed reforms will impact the Group s Australian banking and financial services operations. Following the public release of an issues paper and a policy paper in 2004, the Australian Commonwealth Government is preparing a draft exposure Bill which is expected to be released by early 2005.

UK domestic reforms to retail financial services regulation

There have been substantial policy reforms under way in the UK initiated by the UK Government and the UK Financial Services Authority. These include depolarisation, responding to the proposals of the Sandler Review, reforming soft commission rules and extending regulation to general insurance and mortgage business.

Mortgages are now subject to Financial Services Authority regulation for the first time since October 2004. The Group has re-engineered its platforms in the UK to streamline compliance with pre- and post-sale regulation of mortgages that came into effect at that time.

General insurance has also come within the ambit of the Financial Services Authority s regulation for the first time from January 2005. Any entity involved in the broking of insurance needs to be authorised as an insurance intermediary. The Group has identified the relevant entities and obtained the required authorisations.

Internal control reporting under the US *Sarbanes-Oxley Act of 2002*

With effect from the 2005 year, the *Sarbanes-Oxley Act of 2002*, and associated US SEC rules and US Public Company Accounting Oversight Board auditing standards, will require the Company to include in its annual report a report of management on the Company s internal control over financial reporting. The internal control report will be required to include, amongst other things, management s assessment of the effectiveness of internal control over financial reporting and a statement that the external auditor has issued an attestation report on management s assessment. The Group has a global project in place to enable management to evaluate and report on internal control over financial reporting to the level of detail required by the legislation and associated rules and auditing standards.

Organisational structure

National Australia Bank Limited is the holding company for the Group, as well as the main operating company. During 2004, the Company had seven wholly-owned main operating subsidiaries: Bank of New Zealand, Clydesdale Bank PLC, MLC Limited, National Australia Financial Management Limited, National Irish Bank Limited, Northern Bank Limited and Yorkshire Bank PLC.

On December 14, 2004, the Company announced that it had reached an agreement to sell its Irish businesses, Northern Bank Limited and National Irish Bank Limited to Danske Bank A/S. *For further information on the sale of Northern Bank Limited and National Irish Bank Limited, refer to the report on the directors and officers events subsequent to balance date on page 87.*

Refer to note 43 in the financial report for details of the principal controlled entities of the Group.

Description of property

As at September 30, 2004, the Group operated around 2,042 outlets and offices worldwide, of which 49% were in Australia, with the largest proportion of the remainder being in the UK. Approximately 20% of the 2,042 outlets and offices are owned directly by the Group, with the remainder being held under commercial leases.

The Group s premises are subject to continuous maintenance and upgrading and are considered suitable and adequate for the Group s current and foreseeable future requirements.

Certain legal proceedings

Entities within the Group are defendants from time to time in legal proceedings arising from the conduct of their business.

On August 29, 2003, a civil class action complaint was filed in the US District Court, Southern District of New York, against the Group and others for alleged violations of the US federal securities law relating primarily to disclosure concerning the valuation of the mortgage servicing rights held by HomeSide US (sold in October 2002). The complaint failed to specify any quantum of damages. The plaintiffs in the complaint filed their consolidated amended class action complaint on January 30, 2004, and the Group moved to dismiss the consolidated amended class action complaint on March 11, 2004. It is anticipated that the court will rule on the motion to dismiss during the 2005 financial year.

On February 26, 2004, the Company announced that it had received a voluntary document request from the SEC as part of an investigation into certain Australian registrants and public accounting firms. The document request covers the Company and controlled entities and includes issues relating to audit independence (refer below). In addition, the Company has provided certain information to the SEC about the accounting and internal

controls of the Company and its controlled entities, including the foreign currency options trading matter and HomeSide US.

On July 30, 2004, the Director of Corporate Enforcement in the Republic of Ireland released the report of the High Court Inspectors into certain past business activities of National Irish Bank Limited (a controlled entity of the Company). Since 1998, when the High Court Inspectors investigation commenced, the Group has paid or provided $109 million associated with its involvement in the investigation and the remediation programs implemented or proposed by it. It is not expected that any further material costs will result from these programs.

The Group does not consider that the outcome of any proceedings, either individually or in aggregate, is likely to have a material effect on its financial position. Where appropriate, provisions have been made.

For further information on contingent liabilities of the Group, refer to note 44 in the financial report.

Certain services provided by the external auditor and SEC investigation matters related to independence

The Company is subject to both Australian and US auditor independence rules. The US rules apply to the Company as it is a registrant and files reports with the SEC.

From time to time, the Company engages major accounting firms to furnish employees to supplement its own staff in performing reviews of loans categorised as requiring management by the Company s Credit Restructuring unit in Australia. The Company has no centralised method to identify such employees; however, since October 2003 it has been identified that, at different times during the years ended September 30, 2001, 2002 and 2003, seven employees of the Company s external auditor, KPMG Australia (and one of its affiliated overseas firms) (KPMG), from its Corporate Recovery Services group, provided certain non-audit services to the Company s Credit Restructuring unit. Each of these employees may have performed initial reviews to determine whether a loan file should have been categorised as requiring management by the Credit Restructuring unit (a categorised loan). Six of these employees also provided review services in respect of categorised loans.

These loan review services on categorised loans consisted primarily of reviewing files relating to selected problem loans and approving (either individually or jointly with another colleague of at least the same seniority) credit analyses or credit actions on those loans, including approvals or joint approvals regarding loan loss provisions. These approvals or joint approvals were subsequently overviewed by a more senior person within the organisation. For a period of approximately five weeks in 2002, one of the KPMG employees was undertaking functions that included the overview of approvals made by more junior persons.

On occasions, up to six of the KPMG employees also communicated about these matters, in the name of the Company, with some debtors. In addition, some of the KPMG employees that provided these services were temporarily assigned titles by the Company and, in some instances, were provided business cards. No such services have been provided by KPMG employees from around October 1, 2003.

Information to identify the fact that a KPMG employee worked on any particular loan file is not maintained by the Company in any centralised system. Accordingly, it is not possible to precisely determine the amount of loan files worked on by KPMG employees, nor the associated

specific provision for doubtful debts or non-accrual amount in the Group s financial statements. To provide some context for the scale of the activities undertaken by KPMG employees, monthly status reports prepared by the Credit Restructuring unit have been used to identify loan files allocated to KPMG employees. Because these reports were originally prepared for a different purpose (ie. workflow management), they do not identify all relevant files (for example, due to informal reassignment of the loan file to another reviewer), and several reports have not been retained. Also, the reports do not identify instances where a KPMG employee acted as a joint approver of loan actions or where a KPMG employee undertook preliminary review work to determine whether a loan file should be considered a categorised loan. The loan files identified in these management reports, and some additional files identified through other means as having been allocated to the KPMG employees, are referred to as the KPMG employee-allocated loans . As noted, these do not include all loan files with which the KPMG employees were involved.

At September 30, 2003, the total amount of KPMG employee-allocated loans was $181 million (representing 0.08% of the Group s total loans and advances), including $33 million of non-accrual loans (or 2.02% of the Group s non-accrual loans). At September 30, 2002 and 2001, the analogous figures were $259 million and $268 million of loans in total (0.12% and 0.14% of the Group s total loans and advances, respectively), including $45 million and $89 million of non-accrual loans (or 2.48% and 4.59% of the Group s total non-accrual loans). These percentages reflect restated loans and advances, and non-accrual loans for respective years. The specific provision for doubtful debts established for the KPMG employee-allocated loans was $11 million, $10 million and $31 million at September 30, 2003, 2002 and 2001, respectively. These numbers are sourced from management information systems designed for purposes other than statutory financial reporting and do not include KPMG employee-allocated loans that at balance date were no longer managed by the Credit Restructuring unit because during the year they had been exited by the Company, fully written off or returned to the business as performing loans. Such loans do not have a specific provision raised against them at balance date and are not non-accrual at that date.

The seventh KPMG employee providing services to the Credit Restructuring unit assisted for a short period in 2001 in assessing whether to categorise certain loans as requiring management by the Credit Restructuring unit. That activity, while inherently involving credit quality, did not involve specific provisioning or decisions regarding non-accrual status of loans. The loans analysed by this KPMG employee are not included in the figures for KPMG employee-allocated loans.

The provision of loan review services was brought to the attention of the Audit Committee in October 2003 and an internal review of the matter was conducted by management under the supervision of the Audit Committee. The review included a third party review of certain loan files identified by the Company as having been KPMG employee-allocated loans. For each of these loans, the third party identified where a KPMG employee had been involved in any financial decision making on the loan, obtained an understanding of the relevant issues that should have been considered and determined the appropriate loan loss provision, if any, that should have been applied. The third party concluded that, during the relevant period of KPMG employees involvement, the loans were properly classified in accordance with the Company s loan grading guidelines and that the loan loss provisions applied were appropriate. The Company and KPMG have also provided information about these services to Australian regulators and the SEC.

The Company has received a voluntary document request from the SEC Division of Enforcement as part of an investigation into certain Australian registrants and public accounting firms. The SEC Division of Enforcement has requested documents and information and is investigating issues since at least as early as October 1, 2000 (the commencement of the 2001 year) regarding auditor independence and regarding the Company s accounting and internal controls, including the foreign currency options unauthorised trading matter and HomeSide US.

During 2003, 2002 and 2001, KPMG employees also performed other non-audit services for the Group, including in the tax and internal audit functions, while on secondment to entities within the Group. All internal audit secondments were terminated by the end of the 2002 year and, all KPMG secondments have ceased from around the end of the 2003 year. The Company is investigating these and other non-audit services performed by KPMG, including a loan review and recovery outsourcing engagement performed by KPMG in 2001 and 2002 in which KPMG proposed for Company approval action plans for recovery of certain problem loans and at the Company s request implemented the plans. While KPMG has reported that some of these engagements are potential violations of the SEC s independence rules, KPMG has advised the Company that it does not consider its independence to have been compromised as a result of these engagements.

KPMG has also informed the Company and the SEC that during the 2004 year, twelve KPMG professionals maintained savings or checking accounts and three had loans with the Company that are not permitted by the SEC s auditor independence rules. KPMG has advised the Company that upon discovery of these accounts and loans, the KPMG professionals were removed from their assignments, the accounts and loans were closed and review or re-performance of the work undertaken by such professionals was conducted by a more senior member of the audit team. KPMG has also advised that during 2003 and 2002, a number of KPMG professionals maintained savings or checking accounts with the Company. While the holding of these savings / checking / loan accounts constituted violations of the SEC independence rules, KPMG has advised the Company that it does not consider its independence to have been compromised as a result of these accounts and loans.

The SEC is also reviewing services of KPMG relating to potential or actual borrowers from the Company, such as acting as receiver and manager, investigating accountant, monitoring consultant and an agent for a mortgagee in possession.

The Company announced in July 2004 that Ernst & Young had been selected as the Company s new external auditor for the 2005 year, subject to the approval of the Company s shareholders at the annual general meeting to be held on January 31, 2005. The Company and KPMG have stated there have been no disagreements regarding accounting or financial reporting matters.

The SEC Division of Enforcement has also requested information about the Company s investment in HomeSide US, which resulted in the recognition of $1,323 million (after tax) impairment loss on mortgage servicing rights (MSR), $1,436 million provision for changes in valuation assumptions to reduce the carrying value of the MSR to an estimated market sale value and a $858 million goodwill writedown in 2001. Investigations conducted into the circumstances which led to these losses concluded that one of the causes of the write down of the HomeSide US asset was the existence of deficiencies in the staffing and structure of the risk management area within HomeSide US and noted that the absence of a Group executive located at HomeSide US resulted in areas of risk management weakness that the Group identified not being corrected as immediately or rigorously as the Group directed.

The Company has also provided to the SEC information about the Company s $360 million pre-tax losses from foreign currency options trading announced in January 2004. *For a discussion of the foreign currency options trading losses, refer to the PricewaterhouseCoopers and APRA*

reports, described in the report on the directors and officers on pages 84 to 86 and disclosure controls and procedures and internal control over financial reporting on pages 63 to 65. The SEC has also requested information about the Company s former head of risk management who, prior to joining the Group in July 2001, had been the KPMG engagement partner for the Company s audit. He departed in March 2004 in connection with a review of senior management following the foreign currency options unauthorised trading matter discussed above.

While the Company cannot predict action the SEC may take in response to its investigation, it has authority to impose or negotiate a broad range of possible sanctions for any breaches. These could include requiring the Company to make a monetary payment, entry of a cease-and-desist order or injunction requiring the Company to cease future violations of the securities laws or face substantial monetary sanctions, and requiring the Company to improve the Company s internal controls or policies, change or curtail the Company s business, change the Company s management or take other steps, such as engaging an independent consultant to evaluate and report on the Company s controls, policies or other matters and the Company s progress towards improvement within mandated time frames. The SEC could also require the Company to engage an accounting firm other than KPMG to perform procedures and report on aspects of the Company s accounts or financial statements relevant to areas raising auditor independence concerns. However, as stated above, the Company cannot predict the outcome of the SEC investigation.

Financial review

Summary

		Group	
	2004	**2003**	**2002**
	$m	**$m**	**$m**
Net profit attributable to members of the Company	**3,177**	3,955	3,373
Adjust for significant items:			
Significant revenue	**(993)**		(2,671)
Significant expenses	**1,675**		3,266
Attributable income tax benefit	**(298)**		(189)
Significant expenses after tax	**384**		406
Net profit attributable to members of the Company before significant items	**3,561**	3,955	3,779
Net profit attributable to members of the Company	**3,177**	3,955	3,373
Adjust for:			
Distributions on other equity instruments	**(187)**	(183)	(187)
Significant revenue	**(993)**		(2,671)
Significant expenses	**1,675**		3,266
Movement in the excess of net market value over net assets of life insurance controlled entities	**137**	160	155
Attributable income tax (benefit)/expense	**(451)**	40	(192)
Amortisation of goodwill	**103**	98	101
Cash earnings before significant items	**3,461**	4,070	3,845

Year ended September 30, 2004 compared with year ended September 30, 2003

Net profit attributable to members of the Company of $3,177 million in 2004, decreased $778 million or 19.7% compared with 2003. Net profit of $3,551 million in 2004, decreased $396 million or 10.0% compared with 2003.

Significant items are those individually significant items included in net profit. The current year result included the following after tax significant items:

- foreign currency options trading losses of $252 million;
- write-down of impaired application software of $307 million;

charge to provide for doubtful debts of $204 million as a result of a revision of an accounting estimate;

net profit of $315 million on sale of strategic shareholdings in St George Bank Limited, AMP Limited and HHG PLC; and

net profit of $64 million on write-back of a provision for costs related to the sale of SR Investment, Inc.

The 2003 result included no significant items.

Net profit attributable to members of the Company before significant items of $3,561 million in 2004, decreased $394 million or 10.0% compared with 2003. Cash earnings (before significant items) of $3,461 million in 2004, decreased $609 million or 15.0% compared with 2003.

Net interest income of $7,191 million in 2004, was $228 million or 3.1% lower than 2003. This was driven by a decrease in the net interest margin from 2.53% to 2.35%, partly offset by lending growth. The fall in margin largely resulted from the strong growth in lower margin mortgages and fixed rate lending within the retail banking business, as well as a reduction in contribution from the Markets and Specialised Finance divisions of Corporate & Institutional Banking.

Net life insurance income increased by $568 million from $444 million in 2003 to $1,012 million in 2004. This was driven by an increase in investment earnings resulting from improved performance in global equity markets and favourable claims experience, partially offset by an increase in policy liabilities.

Other banking and financial services income of $4,831 million in 2004, was $179 million or 3.6% lower than 2003. This outcome reflects:

lower trading income;

a reduction in money transfer fees;

the negative impact of the Reserve Bank of Australia credit card interchange fee reform in Australia effective October 31, 2003;

lower dividend income following the sale of strategic shareholdings in January 2004;

the inclusion in the prior year of a one-off benefit on the restructure of the hedging swaps on the TrUEPrS[SM] preference shares;

flat loan fees from banking; and

growth in the Fleet Management and custody businesses following recent acquisitions.

The movement in the excess of net market value over net assets of life insurance controlled entities was a loss of $137 million in 2004, an improvement of $23 million from 2003, impacted by the effect of assumption and experience changes underlying the valuation, and the impact of the Group s election to consolidate under the Australian tax consolidations regime.

Personnel, occupancy and general expenses of $6,812 million in 2004, were $458 million or 7.2% higher than 2003. This outcome reflects:

increased costs associated with the European defined pension funds, partly offset by a superannuation contribution holiday in Australia reducing Australian defined contribution superannuation expenses;

higher personnel costs (excluding pensions) reflecting salary increases and growth in staffing levels;

growth in costs associated with major Group-wide projects Basel II and International Financial Reporting Standards;

higher occupancy costs as a result of annual rent increases and relocation costs;

increased advertising and marketing costs, including the sponsorship of the 2006 Melbourne Commonwealth Games;

higher software amortisation across the business reflecting prior year investment in infrastructure; and

$22 million (after tax) write-off of development work associated with the Integrated Systems Implementation program in the first half.

The charge to provide for doubtful debts (before significant items) of $559 million in 2004, was $74 million or 11.7% lower than 2003. The charge was favourably impacted by the continued focus on credit quality across the business.

Income tax expense relating to ordinary activities of $1,190 million in 2004, was $491 million or 29.2% lower than 2003. Income tax expense has been impacted by Wealth Management products and international activities, to which a wide range of tax rates are applied. In addition, the decision to elect to consolidate under the Australian tax consolidation regime resulted in a tax

benefit of $150 million recognised in the 2004 year, due to the reset tax values of assets of life insurance subsidiaries within the Wealth Management business. Further, the income tax expense has been impacted by the decision not to book a tax benefit on the interest expense relating to exchangeable capital units following the receipt of an Australian Taxation Office assessment.

Year ended September 30, 2003 compared with year ended September 30, 2002

Net profit attributable to members of the Company of $3,955 million in 2003, increased $582 million or 17.3% compared with 2002.

Significant items are those individually significant items included in net profit. There were no significant items in 2003. The 2002 year result included the following significant items:

$412 million (after tax) of restructuring expenses paid/provided for; and

$6 million net profit (after tax) on sale of SR Investment, Inc., including its controlled entity, HomeSide US, which conducted the Group s mortgage servicing rights business in the US.

Net profit attributable to members of the Company of $3,955 million in 2003, increased $176 million or 4.7% compared with 2002. Cash earnings (before significant items) of $4,070 million in 2003, increased $225 million or 5.9% compared with 2002.

Net interest income of $7,419 million in 2003, was $197 million or 2.7% higher than 2002. This was driven by asset growth, particularly in relation to housing lending, partly offset by exchange rate movements and a 14 basis point decrease in net interest margin to 2.53%. The fall in margin largely arose from the impact of strong growth in housing lending within the retail banking business, which was slightly offset by the funding benefit on the proceeds from the sale of HomeSide US.

Net life insurance income increased by $454 million to $444 million in 2003, from a $10 million loss in 2002. This was driven by an increase in investment earnings resulting from improved performance in major stock markets over the six months to September 2003.

Other banking and financial services income of $5,010 million in 2003, was $1,996 million or 28.5% lower than 2002. Excluding the proceeds received from the sale of HomeSide US s operating assets and operating platform of $2,314 million in 2002 *(refer to page 14 for an explanation on the sale of HomeSide US)*, other banking and financial services income was up 6.8%. This was driven by higher income resulting from fee growth with higher volumes in housing lending and transaction fees, partly offset by exchange rate movements.

Mortgage servicing and origination revenue was $nil in 2003, as compared to $378 million in 2002. Following the sale of SR Investment, Inc. (the parent entity of HomeSide US) on October 1, 2002, mortgage servicing and origination revenue was no longer derived by the Group.

The movement in the excess of net market value over net assets of life insurance controlled entities was a loss of $160 million in 2003, a slight decline of $5 million from 2002, impacted by the effect of assumption and experience changes underlying the valuation.

Personnel, occupancy and general expenses of $6,354 million in 2003, were $2,353 million or 27.0% lower than 2002. Excluding the expenses relating to HomeSide US of $2,693 million in 2002, total expenses increased 5.7%. This outcome reflects salary increases, higher pension fund expense, computer and software expenses, an increase in costs associated with regulatory reform and compliance, partly offset by a reduction in the Group s staff numbers and exchange rate movements.

The charge to provide for doubtful debts of $633 million in 2003 was $64 million or 9.2% lower than 2002. The 2003 year s charge was favourably impacted by exchange rate movements.

Income tax expense relating to ordinary activities of $1,681 million in 2003, was $719 million or 74.7% higher than 2002. It was impacted by the accounting regime, which applies to unrealised gains and losses relating to Wealth Management s statutory funds of the life business. The income tax expense in 2003 attributable to this impact was $126 million expense, compared to an income tax benefit of $248 million in 2002.

Adjusted to accord with US GAAP

Prepared in accordance with US GAAP, consolidated net income for the year to September 30, 2004 was $2,747 million compared to $3,527 million in 2003 and $3,455 million in 2002. There were no individually material adjustments between US GAAP net income and Australian GAAP net profit attributable to members of the Company for the years ended September 30, 2004, 2003 and 2002, other than those disclosed in note 56 in the financial report.

Economic outlook

This section contains forward-looking statements. *Refer to forward-looking statements on page 2.*

Global economic conditions improved significantly in 2004, with a strong pick-up in the US, as well as in Asia. Activity in the Euro area also improved, but remained relatively weak and heavily dependent on international demand.

Business conditions in the countries that contain the bulk of the Group s assets namely, Australia, the UK and New Zealand continued to fare better than other industrialised economies, mainly driven by ongoing strength in household spending. Business investment spending was also quite strong in these regions, given relatively favourable profitability, relatively high rates of capacity utilisation and low unemployment rates.

The global outlook is for some moderation in growth during the next financial year. Higher interest rates particularly in the US and to a lesser extent higher oil prices, as well as some policy tightening in China, are expected to slow the pace of the global expansion under way. Growth is also expected to be sustained in the Group s main operating regions. In Australia, some moderation in household spending is expected to be offset by continued gains in exports. In both the UK and New Zealand, growth is expected to slow down, mainly in response to significantly tighter monetary and fiscal policy. Slower immigration may also weigh on New Zealand growth.

The Group s main areas of operation continue to face similar economic risks and vulnerabilities. With limited spare capacity, which is vulnerable to supply disruptions, sustained higher oil prices would slow the global expansion. Already stretched fiscal positions especially in the US and Europe could limit any response to any increased geopolitical tensions. Finally, house prices could soften, after their rapid rises in past years albeit much would depend on the nature of any economic downturn.

Net interest income

2004	$	7,191 million
2003	$	7,419 million
2002	$	7,222 million

Net interest income is the difference between interest income and interest expense.

Net interest income decreased by $228 million or 3.1% to $7,191 million in 2004, after increases of 2.7% in 2003 and 3.8% in 2002. During 2004, movements in exchange rates decreased net interest income by $199 million, after a decrease of $124 million in 2003 and an increase of $25 million in 2002. Excluding the impact of exchange rate movements, the decrease in 2004 was 0.4%, compared with increases of 4.4% in 2003 and 3.4% in 2002. The decrease in 2004 was driven by a decline in the average net interest margin from 2.53% to 2.35%, partly offset by lending growth, with margin decline accelerating and lending growth slowing compared to the 2003 year. Consistent with the 2003 year, the fall in margin was largely due to the strong growth in lower margin mortgages and fixed rate lending, as well as a reduction in contribution from the Markets and Specialised Finance divisions of Corporate & Institutional Banking. In addition, higher wholesale funding costs in 2004 placed futher pressure on the average net interest margin.

Volume and rate analysis

The following table allocates changes in net interest income between changes in volume and changes in rate for the last two years ended September 30. Volume and rate variances have been calculated on the movement in average balances and the change in interest rates on average interest-earning assets and average interest-bearing liabilities. The variance caused by changes of both volume and rate has been allocated in proportion to the relationship of the absolute dollar amounts of each change to the total.

		2004 over 2003 Increase/(decrease) due to change in			**2003 over 2002 Increase/(decrease) due to change in**	
	Average balance $m	**Average rate $m**	**Total $m**	**Average balance $m**	**Average rate $m**	**Total $m**
Interest-earning assets						
Due from other financial institutions						
Australia	**(10)**	**(3)**	**(13)**	105	4	109
Overseas	**(200)**	**(82)**	**(282)**	123	(59)	64
Marketable debt securities						
Australia	**255**	**94**	**349**	122	10	132
Overseas	**(122)**		**(122)**	(126)	(17)	(143)
Loans and advances						
Australia	**1,210**	**214**	**1,424**	1,186	(43)	1,143
Overseas	**35**	**(5)**	**30**	133	(308)	(175)
Regulatory deposits						
Overseas				2	(3)	(1)
Other interest-earning assets	**9**	**233**	**242**	(141)	(400)	(541)
Change in interest income	**1,177**	**451**	**1,628**	1,404	(816)	588

Adjusted to accord with US GAAP

	2004 over 2003 Increase/(decrease) due to change in			2003 over 2002 Increase/(decrease) due to change in		
	Average Balance	**Average rate**	**Total**	**Average balance**	**Average rate**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Interest-bearing liabilities						
Due to other financial institutions						
Australia	**(4)**	**68**	**64**	109	(7)	102
Overseas	**(229)**	**(90)**	**(319)**	165	29	194
Savings (short-term) deposits						
Australia	**3**	**31**	**34**	83	(1)	82
Overseas	**(12)**	**12**		9	5	14
Other on-demand deposits						
Australia	**47**	**84**	**131**	32	137	169
Overseas	**(12)**	**14**	**2**	(24)	(59)	(83)
Term deposits and certificates of deposit						
Australia	**365**	**313**	**678**	335	(24)	311
Overseas	**(17)**	**19**	**2**	29	(144)	(115)
Government and official institution deposits						
Australia	**1**	**4**	**5**	4	1	5
Overseas	**(8)**	**(2)**	**(10)**	5	(21)	(16)
Short-term borrowings						
Australia	**254**	**(33)**	**221**	61	(3)	58
Overseas	**31**	**9**	**40**	(48)	(124)	(172)
Long-term borrowings						
Australia	**148**	**74**	**222**	15	(155)	(140)
Overseas	**32**	**7**	**39**	(103)	23	(80)
Other debt issues						
Australia	**(3)**	**(2)**	**(5)**	(11)	2	(9)
Overseas	**6**	**(23)**	**(17)**	9	(26)	(17)
Other interest-bearing liabilities	**(1,078)**	**1,847**	**769**	(457)	545	88
Change in interest expense	**(476)**	**2,332**	**1,856**	213	178	391
Change in net interest income	**1,653**	**(1,881)**	**(228)**	1,191	(994)	197

Average interest-earning assets for 2004 increased by $13.2 billion or 4.5% to $306.5 billion, from $293.3 billion in 2003 and $270.5 billion in 2002. *(Refer to volumes below for information.)* The impact of the volume growth on interest income was an increase of $1,177 million in 2004, after an increase of $1,404 million in 2003. This reflects a continued environment of housing lending-driven volume growth, although there has been a slowdown in 2004. The movement in rates over the same period resulted in an increase in interest income of $451 million in 2004, after a decrease of $816 million in 2003. The increase in 2004 reflects an environment of rising interest rates in Australia and the UK, while the decrease in 2003 was primarily impacted by a fall in rates in the UK.

Average interest-bearing liabilities increased by $11.4 billion in 2004, after increases of $15.6 billion in 2003 and $10.8 billion in 2002. The impact of the increasing volumes on interest expense was a decrease of $476 million in 2004, after an increase of $213 million in 2003. The movement in rates over the same period resulted in an increase in interest expense of $2,332 million in 2004, after an increase of $178 million in 2003. The increase in interest expense on other interest-bearing liabilities of $769 million in 2004 reflects an increase in interest expense relating to swaps (an off-balance sheet item). In addition, there has been a continued increase in term deposits (primarily in Australia) due to more competitive pricing in 2004, an increase in short-term borrowings (primarily global commercial paper), and an increase in long-term borrowings in 2004.

Interest spreads and margins

	2004 $m	2003 $m	2002 $m
Australia			
Net interest income	**3,822**	3,792	3,613
Average interest-earning assets	**173,071**	151,225	129,458
Interest spread adjusted for interest foregone on non-accrual and restructured loans (%)	**1.89**	2.37	2.67
Interest foregone on non-accrual and restructured loans (%)	**(0.02)**	(0.04)	(0.04)
Net interest spread (%) *(1)*	**1.87**	2.33	2.63
Benefit of net free liabilities, provisions and equity (%)	**0.34**	0.18	0.16
Net interest margin (%) *(2)*	**2.21**	2.51	2.79

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Overseas			
Net interest income	**3,369**	3,627	3,609
Average interest-earning assets	**149,051**	160,169	154,282
Interest spread adjusted for interest foregone on non-accrual and restructured loans (%)	**1.91**	1.86	2.03
Interest foregone on non-accrual and restructured loans (%)	**(0.01)**	(0.02)	(0.02)
Net interest spread (%) *(1)*	**1.90**	1.84	2.01
Benefit of net free liabilities, provisions and equity (%)	**0.36**	0.43	0.33
Net interest margin (%) *(2)*	**2.26**	2.27	2.34
Group			
Net interest income	**7,191**	7,419	7,222
Average interest-earning assets	**306,500**	293,318	270,527
Interest spread adjusted for interest foregone on non-accrual and restructured loans (%)	**1.96**	2.21	2.41
Interest foregone on non-accrual and restructured loans (%)	**(0.02)**	(0.03)	(0.02)
Net interest spread (%) *(1)*	**1.94**	2.18	2.39
Benefit of net free liabilities, provisions and equity (%)	**0.41**	0.35	0.28
Net interest margin (%) *(2)*	**2.35**	2.53	2.67

(1) Net interest spread represents the difference between the average interest rate earned and the average interest rate incurred on funds.

(2) Net interest margin is net interest income as a percentage of average interest-earning assets.

Net interest income decreased by $228 million to $7,191 million in 2004, driven by an 18 basis point decline in net interest margin to 2.35%, partly offset by a 4.5% growth in average interest-earning assets to $306.5 billion. Australian net interest income increased 0.8% to $3,822 million, with average interest-earning assets growing 14.4% to $173.1 billion and net interest margin declining 30 basis points to 2.21%. Overseas net interest income decreased by 7.1% to $3,369 million, with average interest earning-assets declining by 6.9% to $149.1 billion, and the net interest margin falling 1 basis point to 2.26%.

Net interest income increased by $197 million to $7,419 million in 2003, driven by 8.4% growth in average interest-earning assets to $293.3 billion, partly offset by a 14 basis point decline in net interest margin to 2.53%. Australian net interest income increased by 5.0% to $3,792 million, with average interest-earning assets growing 16.8% to $151.2 billion and net interest margin declining 28 basis points to 2.51%. Overseas net interest income increased by 0.5% to $3,627 million, with average interest-earning assets growing by 3.8% to $160.2 billion, and the net interest margin falling 7 basis points to 2.27%.

Volumes

Average interest-earning assets for 2004 increased by $13.2 billion or 4.5% to $306.5 billion, from $293.3 billion in 2003 and $270.5 billion in 2002. Growth in 2004 and 2003 was primarily driven by growth in loans and advances in Australia, which increased by $17.5 billion or 13.9% in 2004 (2003: $17.5 billion or 16.2%). However, this was partly offset by a decline in amounts due from other financial institutions in Europe of $5.8 billion or 29.2% in 2004. Loan growth continued to be predominantly in housing lending. *For a further discussion of the main factors influencing the movement in average interest-earning assets, refer to gross loans and advances on page 52.*

Net interest margin

The net interest margin (net interest income as a percentage of average interest-earning assets), which includes the impact of non-accrual and restructured loans on net interest income, decreased by 18 basis points to 2.35% in 2004, from 2.53% in 2003 and 2.67% in 2002. The decrease during 2004, as with the 14 basis point decrease in 2003, was primarily driven by the mix effect of the strong growth in lower margin mortgage and fixed rate lending and a reduced contribution from the Corporate & Institutional Banking Market s division. The 2004 year was also impacted by higher wholesale funding costs and the reversal of prior period capitalised interest of $28 million on a large exposure which has been re-classified as a non-accrual loan. A funding benefit on the proceeds of the sale of HomeSide US was recognised in 2003.

The interest rate on Australian interest-earning assets increased by 35 basis points to 6.7% in 2004, from 6.3% in 2003 and 6.9% in 2002, while the interest rate on interest-bearing liabilities increased by 81 basis points to 4.8% from 4.0% in 2003 and 4.2% in 2002. The decline in net interest margin in Australia of 30 basis points in 2004 and 28 basis points in 2003 resulted primarily from the mix effect of the strong growth in lower margin mortgage lending, a reduced contribution from the Corporate & Institutional Banking Market s division and the focus on selective business lending to enhance the portfolio asset quality. The 2004 year was also impacted by higher wholesale funding costs and the reversal of prior period capitalised interest of $28 million on a large exposure, which has been reclassified as a non-accrual loan.

The interest rate on overseas interest-earning assets was flat at 5.0% in 2004 compared to 5.0% in 2003 and 5.2% in 2002, while the interest rate on interest-bearing liabilities was also flat at 3.1% in 2004, compared to 3.2% in 2003 and 3.2% in 2002. Overseas net interest margin decreased by 1 basis point in 2004 and primarily reflects a change in product mix towards lower margin mortgage and fixed rate lending products and a decline in personal loans in Europe. The decrease in net interest margin of 7 basis points in 2003 was driven by an increase in structured lending products in Corporate & Institutional Banking in 2003.

Net life insurance income

2004	$	1,012 million
2003	$	444 million
2002	$	(10) million

Net life insurance income comprises the revenue and interest component of premiums, dividends, realised and unrealised capital gains and other returns on investments under the life insurer s control, net of claims expense, change in policy liabilities, policy acquisition and maintenance expense, and investment management fees *(refer to note 54 in the financial report for disclosures in relation to the Group s life insurance business).*

Net life insurance income increased by $568 million to $1,012 million income in 2004, from $444 million in 2003 and a $10 million loss in 2002.

Life insurance revenue increased by $2,139 million to $5,847 million in 2004 from $3,708 million in 2003 and $146 million in 2002. This increase was impacted by an increase in investment revenue (increase of $2,083 million in 2004 and $3,747 million in 2003) reflecting improvement in the performance of global equity markets. This was offset by an increase in the change in policy liabilities of $1,850 million to $3,368 million in 2004 from $1,518 million in 2003. There was a further offset within income tax expense, which includes the tax expense for policyholders relating to investment income. Premium and related revenue increased $56 million, or 5.9%, to $1,005 million due to growth in average in force premiums for personal and group protection products, and strong annuities sales. This was partly offset by reduced earnings as a result of the sale of National Australia Life Company Limited in December 2003.

In 2003 premium and related revenue decreased $185 million, or 16.3%, to $949 million as a result of decreased premium revenue from the international businesses arising from the strength of the Australian dollar, decreased investment business sales in Australia and a decline in premiums from the closed book of traditional business. This decrease was partly offset by increased insurance premiums reflecting growth in volumes.

Life insurance expenses increased by $1,571 million to $4,835 million in 2004 from $3,264 million in 2003 and $156 million in 2002. This was due to the increase in change in policy liabilities resulting from the improved performance of global equity markets, and is consistent with the increase in investment revenue during 2004 and 2003. Claims expense decreased $256 million, or 26.7%, to $702 million, as a result of decreased claims due to the sale of National Australia Life Company Limited in December 2003, and a decrease in claims driven by higher surrenders in 2003, which did not occur in 2004, due to the withdrawal from the traditional life business. In 2003, claims expense increased $2 million, or 0.2%, reflecting higher surrenders in the closed traditional life business and increased insurance claims as a result of volume growth, partly offset by the impact of the strengthening Australian dollar reducing claims expense from the international businesses.

In addition, net life insurance income includes investment revenue attributable to consolidated registered schemes of the Group s life insurance statutory funds, with a corresponding increase in net profit attributable to outside equity interest.

Other banking and financial services income

2004	$	4,831 million
2003	$	5,010 million
2002	$	7,006 million

Other banking and financial services income includes loan fees from banking, money transfer fees, fees and commissions, treasury-related income, investment management fees, fleet management fees and other income (including rental income, dividends received and profit on sale of property, plant and equipment and other assets).

Other banking and financial services income decreased by $179 million, or 3.6%, to $4,831 million in 2004, after a decrease of 28.5% in 2003 and an increase of 47.5% in 2002. Refer below for a detailed analysis of the main categories of other banking and financial services income.

Loan fees from banking

2004	$	1,447 million
2003	$	1,441 million
2002	$	1,361 million

Loan fees from banking primarily consist of acceptance fees for accepting bills of exchange, application fees to cover costs of establishing lending facilities, commitment fees to compensate for undrawn funds set aside for a customer s ultimate use, and service fees to cover costs of maintaining credit facilities.

Loan fees from banking increased by $6 million, or 0.4%, to $1,447 million in 2004, after increases of 5.9% in 2003 and 2.0% in 2002. The flat loan fees result reflects solid bill fee income growth in Australia, offset by the impact of changing customer behaviour to avoid fees and competitive pricing across all regions. Lending growth achieved in 2003, primarily in relation to housing in Australia and New Zealand, is reflected in the increase in loan fees from banking of $80 million, or 5.9%, in 2003.

Money transfer fees

2004	$	983 million
2003	$	1,026 million
2002	$	1,014 million

Money transfer fees are fees earned on the transfer of monies between accounts and/or countries and also include fees for bank cheques and teletransfers, dishonours and special clearances, and periodical payments.

Money transfer fees decreased by $43 million, or 4.2%, to $983 million in 2004, after an increase of 1.2% in 2003 and a decrease of 2.8% in 2002. This decrease reflects customers moving to lower cost transaction channels and a reduction in fees as a result of competition. The $12 million increase in 2003 reflected sustained activity across all regions.

Fees and commissions

2004	$	1,221 million
2003	$	1,158 million
2002	$	1,118 million

Fees and commissions consist of fees charged to cover the costs of establishing credit card facilities, commissions from selling insurance and investment products and other fees.

Fees and commissions increased by $63 million, or 5.4%, to $1,221 million in 2004, after an increase of 3.6% in 2003 and 12.0% in 2002. This increase is primarily due to increased contributions from life commission income in the UK, increased contributions from Plum Financial Services Group, higher fees as a result of growth in funds under management, and increased commissions due to growth in trading volumes, partly offset by negative impact of the Reserve Bank of Australia credit interchange fee reform, which was effective October 31, 2003. In 2003, the increase reflected higher fees from structured finance transactions, which in part was offset by the outsoucing of the merchant acquiring business in Europe.

Trading income

2004	$	575 million
2003	$	625 million
2002	$	563 million

Trading income includes all realised and unrealised profits and losses resulting directly from foreign exchange trading activities, trading securities and interest rate-related and other derivative trading activities.

Trading income (excluding significant items) decreased by $50 million, or 8.0%, to $575 million in 2004, after an increase of 11.0% in 2003 and a decrease of 21.9% in 2002. The decrease in 2004 is a result of a benign trading environment influenced by flatter yield curves and reduced volatility in interest rate and foreign exchange environments. The result was also impacted by the closure of the currency options desk from January 2004 and the inability of Corporate & Institutional Banking to offer a full suite of products to customers following the closure. It was also impacted by a reduced risk profile in response to the Group s revised risk management policy, which was issued following the unauthorised foreign currency options trading losses incident. The increase in 2003 reflected higher interest rate income due to increased activity within Corporate & Institutional Banking. The impact of this was partially offset by lower foreign exchange derivative income.

In January 2004, the Company announced that it has identified losses relating to unauthorised trading in foreign currency options. Based on its assessment, the Company announced a total loss of $360 million before tax, arising from the unauthorised foreign currency options trading, which has been classified as a significant item. The Company analysed the amount of losses that were incurred during the year ended September 30, 2003. This 2003 amount was estimated at $66 million ($42 million due to false transactions and $24 million due to valuation adjustments) before tax, which is included in the $360 million total loss. Under applicable accounting principles, based on a quantitative and qualitative assessment of the loss incurred in 2003, that amount was not recognised in the financial statements for that year, which were published prior to discovery of the losses. The Company recognised the total losses during the 2004 year.

For a more detailed discussion of the Company s losses relating to unauthorised trading in foreign currency options, refer to page 84 of the report on the directors and officers .

Investment management fees

2004	$	321 million
2003	$	303 million
2002	$	297 million

Investment management fee income relates to management fees received for services rendered acting as a responsible entity and/or an approved trustee for retail and wholesale unit trusts.

Investment management fees increased by $18 million, or 5.9%, to $321 million in 2004, after an increase of 2.0% in 2003 and a decrease of 2.6% in 2002. The increase in 2003 and 2004 reflects growth in management fees due to an increase in funds under management, increased trading volumes and higher sales of investment products.

Fleet management fees

2004	$	108 million
2003	$	85 million
2002	$	56 million

Fleet management fees consist of fleet and custom fleet management fees. Specifically, fleet management fees include fleet management, maintenance and fleet fuel card fees, whilst custom fleet management fees includes operating lease, sale and leaseback and management service fees.

Fleet management fees increased by $23 million, or 27.1%, to $108 million in 2004, after an increase of 51.8% in 2003 and 3.7% in 2002. The increase primarily reflects continued growth in the custom fleet businesses following acquisitions during the 2003 year. The increase in 2004 also reflects a change in the accounting treatment for vehicle registrations income during the year, with a corresponding increase in expenses.

Other income

2004	$	176 million
2003	$	372 million
2002	$	2,597 million

Other income includes rental income, dividends received, profit on sale of property, plant and equipment and other assets, other general insurance income and sundry income.

Other income decreased by $196 million, or 52.7%, to $176 million in 2004, after a decrease of 85.7% in 2003 and an increase of 783.3% in 2002. The 2003 result included a one-off gain on the restructure of hedging swaps in connection with the TrUEPrS℠ preference shares, not repeated in 2004. The decrease in 2004 further reflects lower dividend income as a result of the sale of shareholdings in St George Bank Limited and a reduction in proceeds from the sale of property, plant and equipment. The decrease in 2003 was impacted by the sale of HomeSide US. Excluding this sale, other income increased by 56.3% in 2003 as a reflection of the one-off gain on the restructure of hedging swaps in connection with the TrUEPrS℠ preference shares in 2003.

Mortgage servicing and origination revenue

Net mortgage servicing fees related to HomeSide US and represented fee income derived from mortgage servicing activities less amortisation of capitalised costs. Net mortgage origination revenue also related to HomeSide US and comprised fees earned on the origination of mortgage loans, gains and losses on the sale of loans, gains and losses resulting from hedges of secondary marketing activity, and fees charged to review loan documents for purchased loan production.

On March 1, 2002, HomeSide US sold its operating assets and operating platform to Washington Mutual Bank, FA. Following this sale, mortgage origination revenue was no longer derived by the Group. On October 1, 2002, the Group sold SR Investment, Inc., the parent entity of HomeSide US, to Washington Mutual Bank, FA. The sale resulted in the complete disposal of the associated mortgage servicing rights. Following this sale, mortgage servicing fees were no longer derived by the Group. Prior to the sale of SR Investment, Inc. and the operating assets of HomeSide US, $378 million of income was earned in the 2002 year.

Movement in the excess of net market value over net assets of life insurance controlled entities

2004	$	(137) million
2003	$	(160) million
2002	$	(155) million

Australian Accounting Standard AASB 1038 Life Insurance Business requires life insurance entities of the Group to value their investments in controlled entities at net market value, with changes in the excess of net market value over net assets reflected in the consolidated statement of financial performance.

The revaluation of life insurance entities interest in controlled entities gave rise to a loss of $137 million before tax, reflecting the movement in the excess of the net market value over the net assets of companies owned by National Australia Financial Management Limited (NAFiM), adjusted for capital. Values shown are directors market valuations. The valuations are based on discounted cash flow (DCF) valuations prepared by Tillinghast-Towers Perrin, using, for the Australian and New Zealand entities, risk discount rates specified by the directors.

NAFiM subsidiaries market value summary

	Net assets (1) $m	Value of in force business $m	Embedded value $m	Value of future new business (2) $m	Net market value $m
Net market value at September 30, 2003	1,572	2,463	4,035	2,598	6,633
Operating profit after tax *(3)*	270		270		270
Net capital transfers *(4)*	(216)	(41)	(257)		(257)
Increase in shareholders net assets	54	(41)	13		13
Movement in the excess of net market value over net assets of life insurance controlled entities, components before tax:					
Roll forward and business assumptions					
Roll forward of DCF *(5)*		385	385		385
Change in assumptions and experience		(354)	(354)	(105)	(459)
Tax consolidations transfer of franking credits to the Group		(63)	(63)		(63)
Movement in the excess of net market value over net assets of life insurance controlled entities before tax *(6)*		**(32)**	**(32)**	**(105)**	**(137)**
Excess movements *(7)*	(21)	21			
Net market value at September 30, 2004	**1,605**	**2,411**	**4,016**	**2,493**	**6,509**

(1) Net assets represent the shareholder capital, reserves and retained profits. A portion of these net assets is non-distributable, as it is required to support regulatory capital requirements. The cost of this capital support is reflected in the value of in force business.

(2) For some smaller entities, the projection of future new business and in force business is combined for the purposes of valuation. For these entities, the value of future new business is reflected in the embedded value.

(3) Operating profit after tax is before the movement in the excess of net market value over net assets of life insurance controlled entities and excludes the profits of entities outside the market value accounting environment (that is, it excludes the operating profit after tax from NAFiM s own business, and other entities not owned by NAFiM)

(4) Net capital transfers represent movements in value such as the payment of dividends, capital injections and reductions, acquisitions of subsidiaries and foreign exchange movements on intra-group debt related to international subsidiaries.

(5) The roll forward of the DCF is calculated on operating profit of $320 million, before the deduction of the $50 million prior year adjustment. The change in assumptions and experience item does not include the $50 million prior year adjustment.

(6) The movement in excess of net market value over net assets of life insurance controlled entities before tax does not include revaluation uplift in respect of NAFiM s own business. AASB 1038 requires assets of a life company to be valued at net market value; since NAFiM is the parent life entity, the change in market value of its own life business is not brought to account.

(7) Excess movements represent excess on the increase of the Group s interest in Plum Financial Services Limited and Advance MLC Assurance Co. Limited and foreign exchange impacts on the net assets of international subsidiaries and market value of intra-group debt.

The components that contributed to the $137 million loss ($16 million profit after tax) in the excess of net market value of the life insurance controlled entities comprised:

the effect of assumption and experience changes primarily comprising lower near-term sales for domestic Retail Investments business, reflecting the impact of slower recovery of retail funds flow from the recent market downturn and the closure of the MLC Platinum Global Fund to new MLC Investment Trust investors, partly offset by lower planned expenses in line with lower business volumes;

the anticipated growth in the business above current levels of operating profit (ie. the roll forward of the DCF); and

the negative impact from the transfer of franking credits from NAFiM s subsidiaries.

The components that contributed to the $160 million ($200 million after tax) negative movement in 2003 in the excess of net market value of the life insurance controlled entities comprised:

the effect of assumption and experience changes primarily comprising lower retail sales volumes than anticipated at September 2002, the effect of weaker operating environments reducing the values of the international businesses, and the overall strengthening in the Australian dollar. The impact of these factors were partially mitigated by the active management of expenses; and

the anticipated growth in the business above current levels of operating profit (ie. the roll forward of the DCF).

Significant revenue

Sale of strategic shareholdings

On January 28, 2004, the Company sold its strategic shareholdings in St George Bank Limited, AMP Limited and HHG PLC. The Group received proceeds from the sale of $993 million for assets with a cost base of $678 million, resulting in a profit on sale of $315 million (after tax).

Proceeds from the sale of SR Investment, Inc.

The results and assets and liabilities of SR Investment, Inc. and its controlled entities were included up to and including the year to September 30, 2002. On October 1, 2002, the Group sold SR Investment, Inc. (the parent entity of HomeSide US) to Washington Mutual Bank, FA. Controlled entities other than HomeSide US were excluded from the sale. The Group received proceeds on sale of $2,671 million for assets with a cost of $2,686 million, resulting in a profit on sale of $6 million after all disposal costs, including income tax.

Operating expenses

Personnel expenses

2004	$	3,616 million
2003	$	3,416 million
2002	$	3,379 million

Personnel expenses increased by $200 million or 5.9% to $3,616 million in 2004, after an increase of 1.1% in 2003 and a decrease of 9.3% in 2002. This result reflects market-based salary increases across regions and growth in staffing (full-time equivalent employee) levels (*refer to employees on page 42)*, higher superannuation costs associated with the European defined benefits pension funds and increased contractor costs largely in relation to regulatory reform projects such as Basel II Capital Accord and International Financial Reporting Standards. The impact of this was partly offset by lower superannuation costs in relation to a superannuation contribution holiday in Australia, which reduced the Australian defined contribution superannuation expense and a reduction in performance-based compensation as a result of the decline in EVA® during the year.

Excluding the impact of the sale of HomeSide US, personnel costs increased by 5.7% during 2003. This increase reflected market-based salary increases across regions, increased defined benefit pension fund expenses and higher contractor costs; which were partly offset by a reduction in staff numbers.

Occupancy expenses

2004	$	591 million
2003	$	556 million
2002	$	559 million

Occupancy expenses increased by $35 million or 6.3% to $591 million in 2004, after a decrease of 0.5% in 2003 and 4.8% in 2002. The increase primarily reflects appreciating rental rates as a result of annual market-based rent reviews and costs associated with the move of staff to the Australian operations new headquarters at Docklands, Melbourne, which commenced in March 2004.

The $3 million decrease in 2003 reflected a reduced contribution from HomeSide US following its sale, offset by appreciating rental rates and on-costs (ie. security expenses) and higher costs associated with the sale and lease-back of buildings in Australia and New Zealand.

General expenses

2004	$	2,605 million
2003	$	2,382 million
2002	$	4,769 million

General expenses increased by $223 million or 9.4% to $2,605 million in 2004, after a decrease of 50.1% in 2003 and an increase of 121.0% in 2002. The increase has been impacted by the large growth in advertising costs, including costs associated with the sponsorship of the 2006 Commonwealth Games in Melbourne and new product launches. It has also been impacted by higher professional fees and other expenses associated with industry-wide regulatory reforms such as as Basel II Capital Accord, International Financial Reporting Standards, Financial Services Reform Act, and the United States *Sarbanes-Oxley Act of 2002*. Fees and commission expenses also increased in line with the increase in trading activity within Wealth Management, as did software amortisation reflecting prior period investments in infrastructure.

Excluding the impact of the sale of HomeSide US of $2,533 million incurred in the 2002 year, general expenses increased $146 million during 2003. The increase was impacted by the write-off of development costs associated with the European Monetary Unit and global roll out of SAP core banking module. Contributing to the increase were higher professional fees and other expenses associated with the industry-wide regulatory reforms, outlined above. The increase was partially offset by lower compensation provided for investors relating to a reduction in unit prices, lower fees and commissions within Wealth Management, and a reduction in communications, postage and stationery costs as a result of telecommunication contract renegotiations within Australia and Europe.

(Refer to notes 4 and 5 in the financial report for details of revenue and expense items.)

Charge to provide for doubtful debts

2004	$	559 million
2003	$	633 million
2002	$	697 million

The total charge to provide for doubtful debts (before significant items) decreased by $74 million or 11.7% to $559 million in 2004, after a decrease of 9.2% in 2003 and 29.5% in 2002. *Refer to significant expenses below for a discussion of the significant item in relation to the charge to provide for doubtful debts in 2004.*

(The nature of general and specific provisioning is explained in note 1(p)(i) in the financial report.)

The charge in Australia decreased by $77 million to $244 million in 2004, after an increase of 197.2% in 2003 and a decrease of 77.2% in 2002. The 2003 charge was unfavourably impacted by a small number of large corporate exposures in Financial Services Australia and Corporate & Institutional Banking, which were not experienced in 2004. The 2002 charge reflected the favourable impact of a review of the portfolio, with a smaller residual impact in 2003.

The charge in Europe decreased by $2 million or 0.7% to $275 million in 2004, after a decrease of 28.1% in 2003 and 2.8% in 2002. The declining charge reflects the favourable impact of the change in the mix of the loan portfolio experienced over the past two years, with falling personal loans and higher housing volumes. In addition, 2003 was favourably impacted by the recovery of a large corporate exposure. The decrease in 2004 was partly offset by an increase in provisioning relating to corporate exposures in Corporate & Institutional Banking.

The charge in New Zealand increased by $9 million to $20 million in 2004, compared with a charge of $11 million in 2003 and a credit of $12 million in 2002. The increase has primarily resulted from a charge in relation to a large Agribusiness exposure in the 2004 year. The $23 million increase in the 2003 year reflected a charge in relation to a large corporate exposure in Corporate & Institutional Banking, whilst 2002 reflected the favourable impact of a review of the portfolio resulting in a provisioning writeback.

The charge in the United States decreased by $15 million or 44.1% to $19 million in 2004, after a decrease of 84.2% in 2003 and an increase of 100.9% in 2002. The decrease in 2004 has resulted from a review of the portfolio favourably impacting the charge to provide for doubtful debts. The 2002 charge included the impact of a large corporate exposure in Corporate & Institutional Banking.

The charge in Asia increased by $11 million to $1 million in 2004 compared with a credit of $10 million in 2003 and a charge of $1 million in 2002. The 2003 charge reflected the favourable impact of a review of the portfolio in that year resulting in a provisioning write-back.

Charge to provide for doubtful debts (before significant items) by region

	2004 $m	2003 $m	2002 $m
Australia	**244**	321	108
Europe	**275**	277	385
New Zealand	**20**	11	(12)
United States	**19**	34	215
Asia	**1**	(10)	1
Total charge to provide for doubtful debts	**559**	633	697

Net write-offs (bad debts written off less recoveries) in 2004 were $605 million compared with $798 million in 2003 and $814 million in 2002. As a percentage of risk-weighted assets, net write-offs were 0.2% in 2004, 0.3% in 2003 and 0.3% in 2002.

Percentage of risk-weighted assets (before significant items)

	2004 %	2003 %	2002 %
Australia *(1)*			
Charge	**0.15**	0.22	0.08
Net write-offs	**0.19**	0.28	0.23
Europe *(1)*			
Charge	**0.33**	0.42	0.52
Net write-offs	**0.27**	0.50	0.54
New Zealand *(1)*			
Charge	**0.07**	0.04	(0.05)
Net write-offs	**0.07**	0.05	0.05
United States *(1)*			
Charge	**0.21**	0.35	1.35
Net write-offs	**0.48**	0.34	0.64
Asia *(1)*			
Charge	**0.02**	(0.23)	0.02
Net write-offs	**0.02**	0.05	(0.02)
Group			
Charge	**0.19**	0.25	0.28
Net write-offs	**0.21**	0.31	0.32

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(1) Ratio calculated as a percentage of risk-weighted assets of Australia, Europe, New Zealand, United States and Asia, as appropriate.

The overall provision for doubtful debts *(refer to notes 1(p)(i) and 17 in the financial report)* is augmented as necessary by a charge against profit having regard to both specific and general factors. *An explanation of the Group s lending and risk analysis policies is provided within risk management on page 58.*

Significant expenses

General provision for doubtful debts revision of accounting estimate

During the year, the Group reviewed the level of the general provision for doubtful debts and the application of the associated statistically-based provisioning methodology, taking into account recent experience, industry practice and emerging developments. As a result, the discount rate in the statistical model was reduced from the shareholder cost of capital to a rate akin to a risk-free debt rate, resulting in a revision to the accounting estimate of general provision for doubtful debts as at September 30, 2004. This discount rate is used to determine the present value of cumulative probability of default rates used for the purpose of loan provisioning.

The impact of this reduction in discount rate and flow on impact was an increase in the charge to provide for doubtful debts of $292 million ($204 million after tax).

Charge to provide for doubtful debts (total) by region

2004	**Ordinary**	**Significant**	**Total**	**Total as a % of risk-weighted assets (1)**
	$m	**$m**	**$m**	
Australia	244	175	419	0.26
Europe	275	85	360	0.44
New Zealand	20	25	45	0.15
United States	19	5	24	0.26
Asia	1	2	3	0.06
Total	559	292	851	0.30

(1) Ratio calculated as a percentage of risk-weighted assets of Australia, Europe, New Zealand, United States and Asia, as appropriate.

Foreign currency options trading losses

In January 2004, the Company announced that it had identified losses relating to unauthorised trading in foreign currency options and had established a structured process to review and resolve all issues arising from this matter.

The Company announced a total loss of $360 million before tax, or $252 million after tax, arising from the unauthorised foreign currency options trading. This total loss consisted of losses arising from the removal of fictitious trades from the foreign currency options portfolio of $185 million and a further loss of $175 million arising from a risk evaluation and complete mark-to-market revaluation of the foreign currency options portfolio in January 2004. The Company analysed the amount of these losses that were incurred during the 2003 year. The 2003 amount was estimated at $66 million ($42 million due to false transactions and $24 million due to valuation adjustments) before tax, or $46 million after tax, which is included in the above total loss announced. Under applicable accounting principles, based on a quantitative and qualitative assessment of the loss incurred in 2003, that amount was not recognised in the financial statements for that year, which were published prior to discovery of the losses. The Company recognised the total losses during the 2004 year. Included within the total loss of $360 million was a valuation allowance for long-dated and illiquid trading derivatives in other portfolios of $26 million as at September 30, 2004.

During the year, the Company also released reports by PricewaterhouseCoopers (PwC) and APRA into this matter. The PwC and APRA reports provide a roadmap for the Company to address issues concerning culture, risk management, governance and operational controls, primarily related to the Market s division of Corporate & Institutional Banking. The Company is in the process of implementing remedial actions required by APRA. On October 20, 2004, the Group announced that it had provided ASIC with a range of undertakings to review certain key systems and controls across those businesses which operate under the primary Australian Financial Services Licence applicable to the Company s Australian banking business. The enforceable undertakings require the Group to carry out work that is in line with current regulatory requirements within a specific timeframe, as agreed with ASIC and to provide reports on each of the areas identified.

Refer to the report on the directors and officers for further information on the foreign currency options trading losses, including key findings arising from the PwC and APRA investigations, and the remedial actions implemented by the Company.

Write-down of impaired application software

During the year, the Group undertook a detailed review of the carrying value of its software assets which resulted in a charge to the profit and loss account of $409 million ($307 million after tax).

The Group ceased its global enterprise resource planning strategy supported by its Integrated Systems Implementation application software and has indefinitely deferred the implementation of further modules of this software. The software was written down by $200 million to its recoverable amount of $87 million as at September 30, 2004.

The recoverable amount of the software was determined through the application of a valuation methodology performed by an external party. In performing the assessment, the external party used a number of assumptions based on its industry expertise taking into account the complexity of the software, the cost of building such software and the build environment. The resulting carrying value of the asset represents the recoverable amount of the software that is in use.

Other software assets that were no longer expected to provide future economic benefits with a carrying value of $209 million were identified as fully impaired and were written off.

SR Investment, Inc. sale of foreign controlled entity and revision of accounting estimate

On October 1, 2002, the Group sold SR Investment, Inc. (the parent entity of HomeSide US) to Washington Mutual Bank, FA. Controlled entities other than HomeSide US were excluded from the sale. The Group received proceeds on sale of $2,671 million for assets with a cost of $2,686 million, resulting in a profit on sale of $6 million after all disposal costs, including income tax. Included within the sale result was a charge to provide for certain sale-related costs of $70 million. During 2004, $64 million of this provision was written back as a revision to the accounting estimate.

The results of SR Investment, Inc. and its controlled entities were included in the Group s financial performance up to and including the year ended September 30, 2002. The assets and liabilities of SR Investment, Inc. and its controlled entities were included in the Group s financial position up to and including the year ended September 30, 2002. SR Investment, Inc. contributed $98 million net profit to the Group in the 2002 year up to the date of sale. The net asset position at the date of sale was $2,267 million. The net cash outflow of SR Investment, Inc. in the 2002 year to the date of sale was $609 million, which is reflected in the Group s cash flows.

Restructuring costs

During 2002, the Group recognised restructuring costs of $580 million resulting from the Positioning for Growth and other restructuring initiatives. The Positioning for Growth initiative comprised a fundamental reorganisation of the management and organisational structure of the Group at the time. The $580 million was comprised of termination benefits of $327 million, occupancy costs of $68 million, write-off of property, plant and equipment of $132 million (which included write-off of redundant components of the Integrated Systems Implementation

application software assets of $54 million) and other costs of $53 million.

Personnel costs of $327 million provided for and expensed in 2002 related to termination benefits for approximately 2,955 positions in management, support and customer-facing roles. In 2004, payments of $37 million (2003: $147 million, 2002: $101 million) were made in respect of 417 positions (2003: 1,317 positions, 2002: 859 positions) made redundant. The reduction in staff numbers occurred in both managerial and non-managerial positions.

The remaining provision for restructuring costs raised in 2002 relates to future payments for redundancies, occupancy and other costs. Final payments for redundancies and other costs will be made in the first half of the 2005 year, whilst future payments for occupancy costs will be made in periods corresponding with the relevant lease terms.

Income tax expense relating to ordinary activities

2004	$	1,190 million
2003	$	1,681 million
2002	$	962 million

Income tax expense relating to ordinary activities of $1,190 million in 2004, was $491 million or 29.2% lower than 2003. The quantum of income tax expense is impacted by Wealth Management products and international activities, to which a wide range of tax rates are applied. The decision to elect to consolidate under the Australian tax consolidation regime resulted in a tax benefit of $150 million recognised in the 2004 year, due to the reset tax values of assets of life insurance subsidiaries within the Wealth Management business. Further, income tax expense in 2004 was impacted by a tax benefit of $95 million relating to the sale of shareholdings in St George Bank Limited, AMP Limited and HHG PLC, and the decision not to book a tax benefit of $33 million on the interest expense relating to exchangeable capital units following the receipt of an Australian Taxation Office assessment.

Net profit by segment

Contribution to Group net profit attributable to members of the Company by operating segment

	2004 $m	**2003 (1) $m**	**2002 (1) $m**
Financial Services Australia	**1,749**	1,868	1,572
Financial Services Europe	**453**	835	757
Financial Services New Zealand	**305**	310	242
Corporate & Institutional Banking	**322**	877	817
Wealth Management	**370**	174	120
Other	**(22)**	(109)	(135)
Net profit attributable to members of the Company	**3,177**	3,955	3,373

(1) Net profit attributable to members of the Company by operating segment has been restated to reflect a change in business segments as described in note 3 of the financial report.

(Refer to note 3 in the financial report for detailed information by operating segment.)

2004 compared with 2003

Financial Services Australia

Financial Services Australia s net profit decreased 6.4% to $1,749 million in 2004, from $1,868 million in 2003. Excluding the impact of significant expenses incurred during the 2004 year of $119 million (after tax) in relation to the write-down of application software and the charge to provide for doubtful debts, net profit remained flat. Details of this result (excluding significant items) are as follows.

Total revenue increased 1.4% to $5,545 million. Net interest income increased 0.9% to $3,552 million, reflecting higher lending income, primarily driven by housing growth and retail deposits. This has been almost entirely offset by a 33 basis point reduction in net interest margin to 2.81%, caused by the increased proportion of lower margin housing lending in the loan portfolio, higher wholesale funding costs and lower long-term term lending yields in a less favourable interest rate environment.

Non-interest income increased marginally by 2.2% to $1,993 million, driven by changes in accounting treatments of Wealth Management property rental recharges and fleet vehicle registration costs (both of which are offset by corresponding expense increases). Excluding these impacts, non-interest income was flat. Lending and transaction fee growth achieved during the year was offset by the Reserve Bank of Australia credit card interchange fee reforms effective October 31, 2003.

Total expenses increased 2.3% to $2,867 million. Total expenses in 2004 include $8 million of goodwill amortisation and a $204 million charge to provide for doubtful debts. Excluding these items, total expenses increased 6.1%. This increase was driven by higher advertising and marketing expenses partly associated with the 2006 Melbourne Commonwealth Games sponsorship, increase in technology costs arising from the sale and leaseback of voice and data equipment to obtain enhanced service delivery, as well as increased amortisation on major projects. The increase was also driven by an increase in regulatory expenses in relation to Basel II and International Financial Reporting Standards, higher occupancy costs reflecting increased market rentals, rising utility costs, and the cost of upgrading accommodation, as well as the unfavourable impact of the accounting changes offset in non-interest income (as discussed above). Personnel expenses were broadly flat, with annual salary increases offset by a superannuation contribution holiday in Australia reducing the Australian defined contribution superannuation expense and a reduction in performance-related remuneration.

The charge to provide for doubtful debts decreased from $298 million in 2003 to $204 million in 2004. This is primarily a result of a provision for a single large exposure recorded in 2003.

Financial Services Europe

Financial Services Europe s net profit decreased 45.7% to $453 million in 2004, from $835 million in 2003. Excluding the impact of significant expenses incurred during the 2004 year of $83 million (after tax) in relation to the write-down of application software and the charge to provide for doubtful debts, net profit decreased 35.8% or 31.0% in local currency terms. Details of this result (excluding significant items) are as follows.

Total revenue decreased 9.0% to $2,970 million. Net interest income decreased 8.3%, or decreased 2.6% in local currency terms, to $2,133 million, primarily due to a decrease in net interest margin, partly offset by lending growth. Net interest margin declined 27 basis points to 4.03%, reflecting the change in product mix towards lower margin lending products. Lending growth was primarily in housing as a result of increased focus on mortgage lending and business variable rate term lending, while higher margin personal lending volumes declined.

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Non-interest income decreased 10.8% or 5.0% in local currency terms, to $837 million, resulting from a reduction in account maintenance fees, overdraft fees, the outsourcing of the Merchant Acquiring business, lower levels of insurance commission income, and a reduction in credit card income due to lower customer numbers and card transaction volumes.

Total expenses increased 7.3% to $2,176 million. Total expenses in 2004 include $62 million of goodwill amortisation and a $224 million charge to provide for doubtful debts. Excluding these items, total expenses increased 9.9% or 16.3% in local currency terms. This was largely a result of higher defined benefit pension fund expenses, additional provisions for retiree medical expenses, and costs associated with integrated financial solutions centres, including personnel costs from the uplift in the number of customer-facing staff to support the growth strategy in the south of England. In addition, the increase reflects project expenditure on major programs, including investment in the front-end teller system and the integration of Clydesdale Bank and Yorkshire Bank, ongoing expenditure on regulatory projects, such as Basel II and International Financial Reporting Standards, as well higher occupancy costs due to increased property rentals, and growth in advertising costs in relation to branding and communication-related expenses.

The charge to provide for doubtful debts decreased from $247 million in 2003 to $224 million in 2004 and was mainly driven by a reduction in Business provisions.

On December 14, 2004, the Group entered into an agreement to sell its Irish businesses, Northern Bank Limited and National Irish Bank Limited to Danske Bank A/S. *Refer to page 87 of the report on the directors and officers events subsequent to balance date for further information.*

Financial Services New Zealand

Financial Services New Zealand s net profit decreased 1.6% to $305 million in 2004, from $310 million in 2003. Excluding the impact of significant expenses incurred during the 2004 year of $23 million (after tax) in relation to the write-down of application software and the charge to provide for doubtful debts, net profit increased 5.8% or 6.6% in local currency terms. Details of this result (excluding significant items) are as follows.

Total revenue increased 4.7% to $1,026 million. Net interest income increased 7.5% or 8.4% in local currency terms, to $700 million, reflecting strong volume growth in housing, business lending and retail deposits. This has been partly offset by a 13 basis point decrease in net interest margin to 2.58%, resulting from a change in product mix to lower margin fixed rate products in a low, but rising interest rate environment.

Non-interest income decreased 0.9% to $326 million, and remained flat in local currency terms. Growth from higher volumes and transaction levels have been offset by the impact of simplified fee structures and a trend by customers to move towards lower cost channels.

Total expenses increased 3.7% to $534 million. Total expenses in the 2004 year include $1 million of goodwill amortisation and a $17 million charge to provide for doubtful debts. Excluding these items, total expenses increased 4.7% or 5.5% in local currency terms. This was due to annual salary increases, higher pension expenses and higher regulatory costs.

The charge to provide for doubtful debts decreased from a $21 million charge in 2003 to $17 million in 2004. The lower charge is a result of favourable re-ratings of customers, partly offset by a higher specific provisioning resulting from a charge in relation to a large Agribusiness exposure in the 2004 year.

Corporate & Institutional Banking

Corporate & Institutional Banking decreased its contribution to net profit attributable to members of the Company by 63.3% to $322 million in 2004, from $877 million in 2003. Excluding the impact of the significant expenses incurred during the 2004 year of $296 million (after tax) in relation to the foreign currency option trading losses, write-down of application software and the charge to provide for doubtful debts, net profit decreased 29.5%. Details of this result (excluding significant items) are as follows.

Total revenue decreased 11.5% to $1,726 million. As a result of the unauthorised foreign currency option trading losses incident, income was impacted by the inability to offer a full suite of products, resulting in not only lower sales of currency options, but also reduced other income from other products as some customers utilised alternative providers to source their entire business needs. Risk and trading income was also impacted as the Market s division reduced its risk profile in response to the Group s revised risk management policy, which was issued following the currency options incident and the associated remedial actions.

Net interest income decreased 20.0% to $678 million, mainly due to a benign trading environment influenced by flatter yield curves and reduced volatility in interest rate and foreign exchange markets. It was also impacted by the unauthorised foreign currency option trading losses incident, which impacted the broader performance of the Markets division (as discussed above), and the need to reverse prior year capitalised interest of $28 million on a large project finance exposure, which has been reclassified as a non-accrual loan.

Non-interest income decreased 4.9% to $1,048 million, as a result of the factors that impacted net interest income. In addition, the result also reflects reduced Specialised Finance income due to a slowdown in overall deal flow.

Total expenses increased 17.6% to $970 million. Total expenses in 2004 include a $112 million charge to provide for doubtful debts. Excluding this item, total expenses increased 13.6%. This result reflects strategies implemented to support client revenues, increased personnel costs as a result of higher employee numbers, increased investment in the control environment following the foreign currency option trading losses incident, increased rental costs, higher volume-related expenses and higher regulatory costs for Basel II and International Financial Reporting Standards.

The charge to provide for doubtful debts increased from $70 million in 2003 to $112 million in 2004. This higher charge reflects specific provisions taken on US project finance exposures and other exposures.

Wealth Management

Wealth Management increased its contribution to net profit attributable to members of the Company by $196 million to $370 million in 2004, from $174 million in 2003. Excluding the impact of significant expenses incurred during the 2004 year of $55 million (after tax) in relation to the write-down of application software, net profit increased to $425 million. Details of this result (excluding significant items) are as follows.

The result comprised $409 million of profit generated through operations (2003: $374 million), and a $16 million increase (after tax) in the excess of the net market value over the net assets of life insurance controlled entities (2003: was a decrease of $200 million).

The main factors impacting the profit generated through operations were:

- growth in investments profit resulting from growth in average funds under management driven by improved investment market conditions and strong Australian wholesale sales;
- growth in annual inforce premiums and favourable claims experience in the insurance sector;
- growth in the Private Bank sector reflecting strong lending growth in investment and housing;
- improved global equity market conditions increasing earnings generated on shareholders invested capital and retained profits;

offset by

recognition of unfavourable adjustments from prior years; and

strategic investment expenditure of $39 million (after tax), up $11 million on 2003, including operational and amortised capitalised expenditure in Australia and Europe. During the year, the roll out of an integrated advice platform to advisers was commenced.

The valuation of businesses held in the mark-to-market environment decreased by $124 million from $6,633 million at September 30, 2003 to $6,509 million at September 30, 2004. The decrease in value comprised $13 million from growth in shareholders net assets less $137 million ($16 million profit after tax) from other components, which are reported as the movement in the excess of net market value over net assets of life insurance controlled entities.

Contributing to the $137 million negative movement in the net market value of the life insurance controlled entities were the following:

the effect of assumption and experience changes primarily comprising lower near-term sales for domestic Retail Investments business, reflecting the impact of slower recovery of retail funds flow from the recent market downturn and the closure of the MLC Platinum Global Fund to new MLC Investment Trust investors, partly offset by lower planned expenses in line with lower business volumes;

the anticipated growth in the business above current levels of operating profit (ie. the roll forward of the discounted cash flow); and

the transfer of $63 million of franking credits to National Australia Bank Limited.

The after tax result of $16 million was positively impacted by:

an income tax benefit of $150 million which arose from the decision to elect to consolidate under the Australian tax consolidation regime due to the reset tax values of assets of life insurance subsidiaries within the Wealth Management business.

2003 compared with 2002

Financial Services Australia

Financial Services Australia increased net profit 18.8% to $1,868 million in 2003, from $1,572 million in 2002. Excluding the impact of the significant expenses incurred during 2002 of $185 million (after tax), net profit increased 6.3%. Details of the increase in net profit are as follows.

Total revenue increased 7.5% to $5,469 million. Net interest income increased 6.4% to $3,519 million, reflecting growth in lending volumes, particularly housing lending, and growth in retail deposits. This was partially offset by a 31 basis point reduction in net interest margin to 3.14%, caused by the increased proportion of housing lending in the loan portfolio, and the impact of lower market rates on deposit margins and capital.

Non-interest income increased 9.6% to $1,950 million, driven by strong housing loan growth, and strong bill acceptances growth.

Total expenses decreased 1.9% to $2,803 million. During 2002, significant expenses of $261 million were incurred relating to Positioning for Growth restructuring and efficiency initiatives. Total expenses in 2003, included $3 million of goodwill amortisation and a $298 million charge to provide for doubtful debts. Excluding these items, total expenses increased 2.1%. This was due to higher personnel expenses with the impact of enterprise bargaining agreements partly offset by lower staff numbers reflecting the implementation of productivity initiatives. Expenses were further impacted by higher software amortisation and costs associated with the continued roll out of customer relationship and loan processing technology.

Asset quality management remained a key focus during the 2003 year. The charge to provide for doubtful debts increased from $146 million in 2002 to $298 million in 2003, which was impacted by a large corporate exposure. The year saw a continued focus on credit quality and capital efficiency.

Financial Services Europe

Financial Services Europe increased net profit 10.3% to $835 million in 2003, from $757 million in 2002. Excluding the impact of the significant expenses incurred during 2002 of $117 million (after tax), net profit decreased 4.5%. Details of the movement in net profit are as follows.

Total revenue decreased 4.4% to $3,265 million. Net interest income decreased 3.1% to $2,327 million, but increased in local currency terms due to growth in lending, particularly mortgage and business lending. Net interest margin declined slightly reflecting falling interest rates on retail deposits, together with a change in product mix resulting from the growth in mortgage lending and the focus on selective business lending to enhance the portfolio asset quality.

Non-interest income decreased 7.4% to $938 million, driven by lower income from sales of creditor insurance, lower account fee income and the outsourcing of the merchant acquiring business, partly offset by increased lending fee income.

Total expenses decreased 11.1% to $2,028 million. During 2002 significant expenses of $166 million were incurred relating to Positioning for Growth restructuring and efficiency initiatives. Total expenses in 2003 included $62 million of goodwill amortisation and a $247 million charge to provide for doubtful debts. Excluding these items, total expenses increased 2.3%. This was largely a result of higher pension expenses, higher personnel costs due to annual salary reviews offset by reductions in staff numbers, higher investment in core infrastructure such as the teller system and higher costs associated with compliance activities including Financial Services Authority mortgage regulation and the write-off European monetary union development costs.

The charge to provide for doubtful debts decreased from $373 million in 2002 to $247 million in 2003. Asset quality management remained a key priority during the year and improved, with higher security coverage and a lower risk profile. In addition, during 2003 the book value of the largest non-accrual loan was repaid and a large previously written-off debt was recovered.

Financial Services New Zealand

Financial Services New Zealand increased net profit 28.1% to $310 million in 2003, from $242 million in 2002. Excluding the impact of the significant expenses incurred during 2002 of $13 million (after tax), net profit increased 21.6%. Details of the increase in net profit are as follows.

Total revenue increased 17.8% to $980 million. Net interest income increased 18.6%, or 10.4% in local currency terms, to $651 million, reflecting strong growth in lending volumes, particularly in fixed rate housing mortgages and term lending, growth in retail deposit volumes and 10 basis point increase in the net interest margin to 2.71%.

Non-interest income increased 16.3% to $329 million, or 8.3% in local currency terms, with increased lending fees resulting from strong volumes and transaction levels, partly offset by lower income from the transition of customers to lower cost channels.

Total expenses increased 11.7% to $515 million. During 2002 significant expenses of $20 million were incurred relating to Positioning for Growth restructuring and efficiency initiatives. Total expenses in the 2003 year include $1 million of goodwill amortisation and a $21 million charge to provide for doubtful debts. Excluding these items, total expenses increased 11.0%, or 3.4% in local currency terms. This was due to higher personnel expenses from the renegotiation of standard terms of employment, whilst all other expenses remained flat.

The charge to provide for doubtful debts increased from $5 million credit in 2002 to a charge of $21 million in 2003. The higher charge is a result of higher commodity prices and export conditions adversely impacting Agribusiness lending. Further, the 2002 charge was impacted by a statistical provisioning write-back adjustment.

Corporate & Institutional Banking

Corporate & Institutional Banking increased its contribution to net profit attributable to members of the Company by 7.3% to $877 million in 2003, from $817 million in 2002. Excluding the impact of the significant expenses incurred during 2002 of $31 million (after tax), it increased 3.4%. Details of the increase in net profit attributable to members of the Company are as follows.

Total revenue decreased marginally by 2.0% to $1,950 million, as a result of a more challenging environment and the focus on building strong relationships with customers. The split of income between net interest income and non-interest income can vary considerably in the wholesale market, depending on market activity and environmental conditions. This was particularly evident in the 2003 year s results.

Net interest income decreased 22.1% to $848 million, mainly due to flat yield curves and the stabilisation of interest rates which has reduced the Markets unit s net interest income from funding and liquidity management activities, slightly offset by the growth in securities under reverse repurchase agreements.

Non-interest income increased 22.2% to $1,102 million, reflecting growth from specialised finance, debt markets, trading income and corporate banking.

Total expenses decreased 15.5% to $825 million. During 2002 significant expenses of $42 million were incurred relating to Positioning for Growth restructuring and efficiency initiatives. Total expenses in 2003 included a $70 million charge to provide for doubtful debts. Excluding these items, total expenses decreased 0.9%. This primarily reflected the impact of cost containment initiatives.

The quality of the loan portfolio across all regions remains high, with approximately 91.4% of credit exposures equivalent to investment grade or above. The charge to provide for doubtful debts decreased from $172 million in 2002 to $70 million in 2003. This was due to 2002 including a number of large corporate exposures.

Wealth Management

Wealth Management increased its contribution to net profit attributable to members of the Company by 45.0% to $174 million in 2003, from $120 million in 2002. Excluding the impact of the significant expenses incurred during 2002 of $20 million (after tax), it increased 24.3%.

The result comprised of $374 million of profit generated through operations (2002: $272 million) and a $200 million decrease in the excess of the net market value over the net assets of life insurance controlled entities, after tax (2002: negative $152 million).

The main factors impacting the 2003 profit generated through operations were:

growth in insurance business volumes;

reversal of capitalised losses due to favourable expense experience;

growth in the contribution of the Private Bank as a result of strong lending and deposit volumes;

significant improvement in global equity market conditions particularly in the six months to September 30, 2003, which increased earnings generated on shareholders invested capital and retained earnings;

stable disability claims experience;

lower investor compensation costs of $27 million compared with $64 million in 2002;

strategic investment expenditure of $28 million (after tax), up $5 million on 2002, including operational and amortised capitalised expenditure in Australia and Europe; and

increased compliance costs and spend on regulatory projects.

The valuation of businesses held in the mark-to-market environment increased by $158 million from $6,475 million at September 30, 2002 to $6,633 million at September 30, 2003. This increase in value comprised $318 million from growth in shareholders net assets less $160 million ($200 million after tax) from other components over and above the increase in net assets, which are reported as the movement in the excess of net market value over net assets of life insurance controlled entities.

The components that contributed to the $160 million ($200 million after tax) negative movement in the net market value of the life insurance controlled entities comprised:

the effect of assumption and experience changes primarily comprising lower retail sales volumes than anticipated at September 30, 2002, the effect of weaker operating environments reducing the values of the international businesses, and the overall strengthening in the Australian dollar. The impact of these factors has been partially mitigated by the active management of expenses; and

the anticipated growth in the business above current levels of operating profit (ie. the roll-forward of the discounted cash flow).

Contribution to Group net profit by major geographic area

	2004 $m	2003 $m	2002 $m	2001 $m	2000 $m
Australia					
Australia (excluding Wealth Management) *(1)*	**1,714**	2,099	1,798	3,264	1,406
Wealth Management	**365**	127	73	666	241
Deduct: Amortisation of goodwill	**(1)**	(3)	(8)	(1)	(1)
	2,078	2,223	1,863	3,929	1,646
Europe					
Clydesdale and Yorkshire Banks	**442**	745	733	819	708
Northern and National Irish Banks	**129**	224	191	200	174
Other *(2)*	**15**	105	89	4	(16)
Deduct: Amortisation of goodwill	**(62)**	(62)	(62)	(62)	(62)
	524	1,012	951	961	804
New Zealand					
Bank of New Zealand	**415**	494	433	348	311
Other *(3)*	**(25)**	(36)	(29)	(35)	(30)
Deduct: Amortisation of goodwill	**(40)**	(33)	(31)	(31)	(31)
	350	425	373	282	250
United States					
Michigan National Corporation				156	291
SR Investment, Inc.			98	(3,438)	141
Other *(4)*	**157**	213	31	191	161
Deduct: Amortisation of goodwill				(73)	(103)
	157	213	129	(3,164)	490
Asia					
Asian branches	**21**	36	44	71	39
Other *(5)*	**47**	46	13	4	10
	68	82	57	75	49
Net profit attributable to members of the Company	**3,177**	3,955	3,373	2,083	3,239

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(1) Australia (excluding Wealth Management) included the net profit on sale of Michigan National Corporation and its controlled entities of $1,681 million in 2001.

(2) Europe Other includes National Wealth Management Europe Holdings Limited, National Australia Group Europe Limited, the London branch of the Company, NAB Investment Limited and NAB Finance (Ireland) Limited.

(3) New Zealand Other includes National Australia Group (NZ) Limited and National Wealth Management New Zealand Holdings Limited.

(4) United States Other includes the New York branch of the Company, National Australia Funding (Delaware), Inc. and National America Investment, Inc.

(5) Asia Other includes Nautilus Insurance Pte Limited, National Australia Capital Markets (Japan) Co., Limited, National Australia Finance (Asia) Limited, Hong Kong MLC Holdings Limited, PT MLC Life Indonesia and Advance MLC Assurance Co. Limited.

Australia

Australia s net profit attributable to members of the Company decreased by 6.5% to $2,078 million from $2,223 million in 2003 and $1,863 million in 2002. Excluding net significant expenses (after tax) of $194 million in relation to the foreign currency option trading losses, the write-down of application software, the charge to provide for doubtful debts, the profit on the sale of strategic shareholdings, and the profit on the selling-related costs provision in relation to HomeSide US, net profit increased by 2.2%, primarily due to the improvement in the net movement in the excess of net market value over net assets of life insurance controlled entities (after tax) relating to Wealth Management. Details of this result (excluding significant items) are as follows.

Australia (excluding Wealth Management)

The net profit of Australia (excluding Wealth Management and before goodwill amortisation) decreased 18.3% to $1,714 million from $2,099 million in 2003 and $1,798 million in 2002. Excluding current year net significant expenses (as discussed above) of $180 million (after tax), net profit of $1,894 million decreased 9.8% from the prior year.

Net interest income increased by 0.8% to $3,822 million, reflecting an increase in income from lending (primarily driven by housing growth) and retail deposits, which has almost entirely been offset by net interest margin contraction. It has also been impacted by the need to reverse prior year capitalised interest of $28 million on a large project finance exposure, which has been reclassified as a non-accrual loan.

Total expenses (before the charge to provide for doubtful debts) increased as a result of higher advertising and marketing expenses associated with the 2006 Melbourne Commonwealth Games sponsorship, increase in technology costs, increase in regulatory expenses in relation to Basel II and International Financial Reporting Standards, and increased investment in the control environment following the foreign currency option trading losses incident. This has been partly offset by the favourable impacts of a superannuation contribution holiday reducing the Australian defined contribution superannuation expense during the year and a reduction in performance-related remuneration.

The charge to provide for doubtful debts (excluding significant charge) decreased by $77 million or 24.0%. The 2003 charge was unfavourably impacted by a small number of large corporate exposures in Financial Services Australia and Corporate & Institutional Banking, which were not experienced in 2004. However, the charge during the 2004 year was unfavourably impacted by volume-related increases.

Wealth Management

Net profit attributable to members of the Company for Wealth Management Australia increased $238 million to $365 million in 2004, from $127 million in 2003. Excluding the impact of significant expenses incurred during the 2004 year of $14 million (after tax) in relation to the write-down of application software, the result comprised $363 million of profit generated through operations (2003: $327 million), and a $16 million net movement in the excess of net market value over the net assets of life insurance controlled entities, after tax (2003: negative $200 million).

Factors supporting the profit generated through operations result include:

- the improved global equity market conditions increasing earnings generated on shareholders invested capital and retained profits;
- higher fee income resulting from higher funds under management;
- growth in group and personal insurance;
- growth in the Private Bank due to an increase in investment and housing lending; and

offset by the recognition of unfavourable adjustments from prior years.

For a discussion of the $16 million (after tax) increase in the excess of net market value over net assets of life insurance controlled entities, refer to page 28.

Europe

Europe s net profit decreased by $488 million or 48.2% in the year to $524 million from $1,012 million in 2003 and $951 million in 2002. Excluding the impact of significant expenses incurred during the year of $137 million (after tax) in relation to the write-down of application software and the charge to provide for doubtful debts, net profit decreased 34.7%. Details of this result (excluding significant items) are as follows.

Clydesdale and Yorkshire Banks

Clydesdale and Yorkshire Banks contributed a net profit (before goodwill amortisation) of $442 million, a decrease of 40.7% from the prior year.

Net interest income declined by $194 million or 10.4%. The decline reflects margin contraction over the year primarily due to the impact of a change in product mix towards lower margin lending products. Lower margins were partly offset by volume growth, mainly driven from increased business lending and an increased focus on mortgage lending leading to strong growth in the mortgage portfolio. Non-interest income decreased by 10.1% due to the outsourcing of the Merchant Acquiring business and lower levels of account maintenance fees, unauthorised overdraft charges, insurance commission and cards income.

Total expenses (excluding the charge to provide for doubtful debts) increased $156 million or 12.3%. The increase was mainly the result of higher defined benefit pension expenses, increased project spend on regulatory and investment programs and an increase in costs associated with the integrated financial solution centres. Additional provisions were also raised over the year and impacted expense growth. The charge to provide for doubtful debts (excluding significant charge) decreased $43 million or 17.2%, mainly driven by reductions in Business provisions.

Northern and National Irish Banks

Northern and National Irish Banks contributed a net profit of $129 million, a decrease of $95 million or 42.4% from the prior year.

Net interest income declined by $25 million. Despite increased volume growth from mortgages and business lending, a change in mix towards lower margin products resulted in reduced income over the year. Non-interest income decreased by 11.1% primarily reflecting lower account maintenance fees and unauthorised fees.

Total expenses (excluding the charge to provide for doubtful debts) increased $60 million or 14.0%. The increase mainly reflects higher defined benefit pension expenses, increased spend on regulatory and investment programs and additional provisions raised over the year. The charge to provide for doubtful debts (excluding significant charge) increased by $18 million, as the prior year charge included the favourable impact of a review of the portfolio.

On December 14, 2004, the Group entered into an agreement to sell its Irish businesses, Northern Bank Limited and National Irish Bank Limited to Danske Bank A/S. *Refer to page 87 of the report on the directors and officers events subsequent to balance date for further information.*

New Zealand

New Zealand s net profit decreased 17.6% in the year to $350 million from $425 million in 2003 and $373 million in 2002. Excluding the impact of significant expenses incurred during the 2004 year of $46 million (after tax) in relation to the write-down of application software and the charge to provide for doubtful debts, net profit decreased 6.8%.

The New Zealand operations of Bank of New Zealand contributed net profit (before goodwill amortisation) of $415 million, a decrease of 16.0% from the prior year. Excluding the impact of significant expenses (as discussed above), net profit decreased 6.7%.

Net interest income grew $24.5 million or 3.0% as a result of sound growth in lending (particularly housing) and retail deposit volumes, partly offset by a decline in the net interest margin, reflecting a move towards fixed rate products in a low, but rising interest rate environment.

Total expenses (excluding significant expenses) increased 8.2%, primarily reflecting the impact of the higher personnel expenses as a result of annual salary increases, higher pension expenses and an increase in project expenditure on regulatory projects. The charge to provide for doubtful debts (excluding significant charge) increased by $9 million to a charge of $20 million in 2004. The increase has primarily resulted from a charge in relation to a large Agribusiness exposure in the 2004 year.

United States

The United States contributed a net profit of $157 million compared to $213 million in 2003 and $129 million in 2002. Excluding the impact of significant expenses incurred during the 2004 year of $4 million (after tax) in relation to the charge to provide for doubtful debts, net profit decreased by $52 million.

The decrease in net profit is primarily a result of a decreased contribution from Corporate & Institutional Banking. This mainly reflects low US interest rates, as well as the benign trading environment influenced by flatter yield curves and reduced volatility in interest rate and foreign exchange markets. It was also impacted by the unauthorised foreign currency option trading losses incident, which impacted the broader performance of the Markets division. This is partly offset by the decrease in the charge to provide for doubtful debts (excluding significant items) as a result of the inclusion of a major provisioning charge in 2003 for a large corporate exposure.

Asia

Asia s net profit attributable to members of the Company decreased 17.1% in the year to $68 million from $82 million in 2003 and $57 million in 2002. Excluding the impact of significant expenses incurred during the 2004 year of $2 million (after tax) in relation to the charge to provide for doubtful debts, net profit decreased by 14.6%.

The decrease in net profit is primarily a result of a decreased contribution from Corporate & Institutional Banking. This mainly reflects the charge to provide for doubtful debts, which increased by $11 million to $1 million in 2004 compared with a credit of $10 million in 2003. The low charge in 2003 reflected the favourable impact of a review of the portfolio. The decrease also reflects a reduction in income from the Markets division of Corporate & Institutional Banking.

Employees

The following tables summarise the Group s staffing position as at September 30:

	2004 Number	2003 Number	2002 (1) Number
By region			
Australia	**24,567**	23,880	24,294
Europe	**13,324**	13,104	13,542
New Zealand	**4,766**	4,688	4,560
United States	**141**	136	165
Asia	**719**	732	641
Total full-time equivalents *(3)*	**43,517**	42,540	43,202

	2004 Number	2003 (2) Number	2002 (1)(2) Number
By line of business			
Financial Services Australia	**17,514**	17,233	17,928
Financial Services Europe	**11,765**	11,411	11,707
Financial Services New Zealand	**4,324**	4,257	4,277
Corporate & Institutional Banking	**2,832**	2,624	2,576
Wealth Management	**6,048**	6,174	6,105
Other *(4)*	**1,034**	841	609
Total full-time equivalents *(3)*	**43,517**	42,540	43,202

(1) Includes full-time equivalent employees for SR Investment, Inc. (the parent entity of HomeSide US) of 38 at September 30, 2002.

(2) Divisional full-time equivalent employees (FTEs) in relation to 2003 and 2002 have been restated as described in note 3 in the financial report.

(3) FTEs includes part-time (pro-rated) and non-payroll FTEs (ie. contractors).

(4) Includes Corporate Centre functions.

The Group s full-time equivalent (FTE) employee numbers increased by 977 or 2.3% from 42,540 at September 30, 2003 to 43,517 at September 30, 2004. This compares to a 1.5% decrease from 2002 to 2003. The 2004 increase is largely due to an increase in employees on major projects, including Basel II Capital Accord, International Financial Reporting Standards, compliance and technology projects, growth in customer-facing staff in Australia and the impact of the Group s growth strategy in Europe, partly offset by a reduction in staff as a result of redundancies *(refer to note 5(a) in the financial report).*

In Australia, there was a net increase in employee numbers of 687 in 2004, following a decrease of 414 in the previous year. The 2004 increase reflects growth in customer-facing staff (following reductions in the prior year), more staff to support the roll out of Wealth Management s integrated advice platform to advisers, increases to support large compliance projects such as Basel II Capital Accord and International Financial Reporting Standards, and more staff to address APRA s remedial actions following the foreign currency options trading losses.

In Europe, employees increased by 220 in 2004, having decreased by 438 in the previous year. The net increase in employees in 2004 primarily resulted from the European growth strategy, in particular the establishment of a network of Financial Solutions Centres, and additional staff required in relation to regulatory and compliance projects.

In New Zealand, employees increased by 78 in 2004, having increased by 128 in the previous year. This is due to more technology staff driven by project work and an increase in staff in the customer contact centre. In the United States, employees increased by 5 in 2004, having decreased by 29 in the previous year. In Asia, employees decreased by 13 in 2004, having increased by 91 in the previous year.

In August 2004, a statement of Corporate Principles was sent to all employees globally. The principles will become the over-arching way we do things and defines the behaviours expected of all employees. One of the behaviours states that we actively promote the health and wellbeing of our employees with a balance between personal and work life . During the year, a new global occupational, health and safety strategy was developed. The strategy is aimed to renew the focus on a risk management approach to prevent injury and illness in the workplace.

In Australia, approximately 43% of employees are members of the Finance Sector Union. In New Zealand, approximately 30% of employees are members of FinSec. In Europe, 50% to 60% are members of Irish Bank Official s Association and UNIFI. The Group has continued to work constructively with the global unions, recognising both the unions and their members as key stakeholders in the organisation. During 2004, the Group hosted a Global Unions conference during which a set of principles were agreed to highlight the strength of engagement with unions and the dedication of both parties to constructive and consultative processes.

The Group has a number of industrial instruments including collective agreements that are negotiated or renewed regularly with the relevant trade unions globally. In Australia, two agreements are due to expire in the 2005 calendar year. The Enterprise Bargaining Agreement expires in October 2005 and the Wealth Management Enterprise Development Agreement expires in December 2005. Additionally, the Bank of New Zealand has two collective agreements covering the branch network and contact centres which will expire on October 31 each year, with negotiations commencing during the months of September and October. Three separate pay negotiations occur annually during October and November in the UK. No pay negotiations occur for National Irish Bank, as the National Wage Agreement determines pay.

Assets and equity

Year-end total assets increased to $411.3 billion from $397.5 billion at September 30, 2003 and $377.4 billion at September 30, 2002. Excluding the impact of exchange rate movements, total assets (in Australian dollar terms) grew $9.6 billion or 2.4% during 2004 (2003: $48.3 billion or 13.8%, excluding the impact of the sale of SR Investment, Inc.), primarily reflecting continued growth in lending. This reflects the following:

in Australia, total assets grew by $12.7 billion to $256.5 billion (2003: $30.3 billion to $243.7 billion) with gross loans and advances increasing by 9.0% to $148.4 billion (2003: 16.5% to $136.1 billion). As for the 2003 year, the major contributor to this increase was housing loans, which grew by 9.9% to $91.3 billion (2003: 21.3% to $83.0 billion), buoyed by a continuing low interest rate environment. Investments relating to life insurance business increased by $5.2 billion (2003: $4.9 billion); however, this is largely offset by an increase in life insurance policy liabilities;

in Australian dollar terms, total assets in Europe increased by 0.2% to $104.1 billion during 2004 (2003: decrease of 3.1% to $103.9 billion). Excluding the effect of exchange rate movements, total assets in Europe decreased by 2.1% (2003: increase of 12.1%). This was impacted by a $6.7 billion decline in due from other financial institutions reflecting a reduction in reverse repurchase agreements, and a $3.6 billion reduction in the fair value of trading derivatives (although the net position in Europe is largely unchanged). These reductions were partly offset by an 8.9% or $5.3 billion increase in net loans and advances, driven by continued growth in housing lending and an increase in business lending. The increase in 2003 was driven by growth in Corporate & Institutional Banking lending as well as solid housing lending growth;

in Australian dollar terms, total assets in New Zealand increased by 13.0% to $36.8 billion in 2004 (2003: 7.4% to $32.6 billion). Excluding the effect of exchange rate movements, total assets in New Zealand increased by 5.5% (2003: 6.2%), buoyed by continued strong retail lending growth, particularly in relation to housing lending, up 17.9% (2003: 17.9%) and growth in other term lending;

in Australian dollar terms, total assets in the United States decreased by 18.0% to $6.8 billion in 2004 (2003: 37.8% to $8.3 billion, excluding the impact of the sale of SR Investment, Inc.). Excluding the effect of exchange rate movements, total assets in the United States fell by 13.9% (2003: 22.2%, excluding the impact of the sale of SR Investment, Inc.), reflecting reduced activity in Corporate & Institutional Banking; and

in Australian dollar terms, total assets in Asia decreased by 21.1% to $7.1 billion in 2004 (2003: flat at $9.0 billion). Excluding the effect of exchange rate movements, total assets in Asia decreased 17.6% (2003: increase of 17.5%), reflecting a reduction in activity in Corporate & Institutional Banking, following an increase in activity in 2003.

Year-end total equity increased to $29.8 billion from $27.2 billion at September 30, 2003 and $23.3 billion at September 30, 2002. Total parent entity interest in equity increased $1.5 billion to $25.9 billion during 2004 (2003: $1.2 billion to $24.4 billion). This reflects an increase in contributed equity of $0.5 billion to $10.2 billion (2003: decrease of $0.2 billion to $9.7 billion), reflecting ordinary share issues and dividend reinvestment of $1.4 billion (2003: $0.4 billion), including the underwriting of the dividend reinvestment plan, partially offset by $0.7 billion on the buy-back of preference shares and the impact of the $0.2 billion on-market ordinary share buy-back (2003: $1.6 billion). In addition, reserves increased by $0.3 billion to $1.2 billion (2003: decrease of $1.2 billion to $0.9 billion), primarily reflecting positive movements in the foreign currency translation reserve, following negative movements in 2003. Retained profits have increased $0.7 billion to $14.5 billion (2003: $2.6 billion to $13.8 billion). Further, outside equity interest has increased $1.1 billion (2003: $2.7 billion) following consolidation of the registered schemes of the Group s life insurance statutory funds.

Assets and equity adjusted to accord with US GAAP

Year-end total assets calculated in accordance with US GAAP increased to $418.1 billion in 2004 after an increase to $398.9 billion at September 30, 2003. In US dollar terms, year-end total assets increased by US$31.7 billion, or 11.7%, from US$271.1 billion in 2003 to US$302.8 billion in 2004 (2003: increase of US$64.6 billion, or 31.3%, from US$206.5 billion in 2002). The increase in total assets in 2004 and 2003 is mainly attributable to the factors outlined above. In 2004, total equity under US GAAP reported in Australian dollars increased 3.8% to $24.8 billion (2003: flat at $23.9 billion), primarily reflecting the factors outlined above. *(Refer to note 56 in the financial report for a detailed reconciliation of total assets and total equity according to US GAAP.)*

Return on average equity

	2004	**2003**	**2002**	**2001**	**2000**
	$m	**$m**	**$m**	**$m**	**$m**
Weighted average equity *(1)*	**21,341**	20,579	21,104	20,685	17,540
Return on average equity (%) *(1)(2)*	**14.0**	18.3	15.1	9.0	17.3
Return (before significant items) on average equity (%) *(1)(2)*	**15.8**	18.3	17.0	18.6	18.1

(1) *Based on average ordinary shareholder funds.*

(2) *Based on amounts attributable to ordinary shareholders.*

Profitability is measured by return on average equity, which decreased to 14.0% in 2004 from 18.3% in 2003 and 15.1% in 2002. Excluding the impact of significant items, return on average equity decreased to 15.8% in 2004 from 18.3% in 2003 and 17.0% in 2002. This has been impacted by a deterioration in underlying operating performance in major areas of the business, including Australia, Europe and Corporate & Institutional Banking. Weighted average equity increased by 3.7%, primarily due to the increase in average retained profits.

Earnings and dividends per share

	2004 Cents	**2003 Cents**	**2002 Cents**	**2001 Cents**	**2000 Cents**
Earnings per share					
Basic	**197.3**	248.8	205.7	121.5	202.3
Diluted *(1)*	**196.1**	243.6	202.5	122.8	199.1
Earnings per share before significant items					
Basic	**222.7**	248.8	231.9	247.4	211.3
Diluted *(1)*	**220.4**	243.6	227.4	243.2	207.7
Cash earnings per share					
Basic	**203.1**	268.5	222.0	110.7	205.7
Diluted *(1)*	**201.7**	262.3	218.2	112.4	202.0
Cash earnings per share before significant items					
Basic	**228.5**	268.5	248.2	236.6	214.8
Diluted *(1)*	**226.0**	262.3	243.0	233.0	211.0
Dividends per share	**166.0**	163.0	147.0	135.0	123.0

(1) Calculated based on the weighted average diluted number of ordinary shares, which includes the impact of performance options, potential conversion of exchangeable capital units, performance rights and partly paid ordinary shares, as set out in note 8 in the financial report.

Management use growth in diluted cash earnings per share as a key indicator of performance. Cash earnings is a key performance measure and financial target used by the Group. *Refer to non-GAAP financial measures for a more detailed discussion on page 69*. Diluted cash earnings per share takes full account of the impact of the exchangeable capital units and provides a consistent basis for year on year comparison moving forward. The potential conversion of exchangeable capital units has a dilutive impact on earnings per share, which varies from year to year depending on conversion.

Diluted earnings per share decreased 19.5% in 2004 to 196.1 cents, from 243.6 cents in 2003 and 202.5 cents in 2002. Excluding the impact of significant items, diluted earnings per share decreased 9.5% for 2004 to 220.4 cents, from 243.6 cents in 2003 and 227.4 cents in 2002.

Diluted cash earnings per share decreased 23.1% in 2004 to 201.7 cents, from 262.3 cents in 2003 and 218.2 cents in 2002. Excluding the impact of significant items, diluted cash earnings per share decreased 13.8% in 2004 to 226.0 cents, from 262.3 cents in 2003 and 243.0 cents in 2002. The decrease in diluted cash earnings per share before significant items reflects a deterioration in underlying operating performance in major areas of the business, including Australia, Europe and Corporate & Institutional Banking.

An interim dividend of 83 cents per fully paid ordinary share was paid during the year ended September 30, 2004, compared to an interim dividend of 80 and 72 cents per share in 2003 and 2002 respectively. The final dividend declared from the 2004 profit was 83 cents per share, which remained consistent with the 2003 final dividend. The 2004 final dividend was paid on December 8, 2004.

The Company expects to continue its policy of paying regular cash dividends; however, there is no assurance as to future dividends. Future dividends will be determined by the Board with regard to the Company s earnings, capital requirements, financial conditions and applicable government regulations and policies. The dividend payout ratio for 2004 was equivalent to 72.1% of after-tax cash earnings (before significant items). In addition, the payment of dividends is subject to the restrictions described in note 7 in the financial report.

The interim dividend paid was fully franked and the final dividend was also fully franked. These dividends carry imputation tax credits at a tax rate of 30%, reflecting the current Australian company tax rate of 30%. For non-resident shareholders of the Company for Australian tax purposes, the dividends will not be subject to Australian withholding tax.

The extent to which future dividends will be franked will depend on a number of factors, including the level of the Group s profits that will be subject to Australian income tax and any future changes to the Australian business tax systems as a result of the Australian Commonwealth Government s tax reform initiatives.

The Company has a bonus share plan enabling shareholders (principally those who do not benefit from dividend imputation) to elect to take all or part of their dividend in the form of unfranked bonus ordinary shares. The Company s dividend reinvestment plan permits reinvestment of cash dividends in new ordinary shares. In addition, the UK dividend plan permits ordinary shareholders to receive dividends paid out of the profits of a UK controlled entity.

Shareholder value

EVA® is a measure designed to recognise the shareholder requirement to generate a satisfactory return on the economic capital invested in the business. If the business produces profit in excess of its cost of capital, then value is being created for shareholders. The first three year EVA® cycle concluded on September 30, 2003. Subsequently, with effect from October 1, 2003, the Group simplified the EVA® calculation methodology, such that it is now comparable to the Group s banking peers and aligned more closely with cash earnings and ordinary shareholders funds. The new methodology has been applied to the 2003 results for comparative purposes. *Refer to non-GAAP financial measures on page 69 for a further discussion on EVA® and the new methodology.*

EVA® s net operating profit after tax (NOPAT) is based on cash earnings before significant items, and includes the calculated benefit of imputation credits earned by paying Australian tax. EVA® s capital charge is currently based on an 11.0% per annum cost of capital, applied to average economic capital that is based on ordinary shareholders funds. In 2004, EVA® NOPAT declined by 12.3% and the capital charge increased 2.1% compared to the 2003 year. The decline in EVA® over the prior year was $642 million or 28.4%.

EVA® is a registered trademark of Stern Stewart & Co.

Current methodology

	2004 **$m**	**2003** **$m**
EVA® net operating profit after tax *(1)*	**4,200**	4,790
Deduct: Capital charge	**(2,583)**	(2,531)
EVA®	**1,617**	2,259
Cost of capital (%) *(2)*	**11.0**	11.5

Previous methodology

	2003 **$m**	**2002** **$m**	**2001** **$m**	**2000** **$m**
EVA® net operating profit after tax *(1)*	4,524	4,157	3,881	3,680
Deduct: Capital charge *(2)*	(2,856)	(2,873)	(2,752)	(2,301)
EVA®	1,668	1,284	1,129	1,379
Cost of capital (%) *(2)*	11.5	11.5	11.5	11.4

(1) *Refer to reconciliations of non-GAAP measures on page 6, for reconciliation.*

(2) The change in cost of capital from 11.5% per annum to 11.0% per annum took effect from April 1, 2004.

Liquidity and funding

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on-demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of insurance policy benefits, claims and surrenders, the payment of operating expenses and tax, the payment of dividends to shareholders, and the ability to fund new and existing loan commitments.

The Group s banking entities comply with the regulatory liquidity requirements of the banking regulators in Australia, the UK, the Republic of Ireland, New Zealand, the United States, Singapore, Hong Kong, Korea and Japan as required. Wealth Management also complies with the regulatory liquidity requirements of its Australian Financial Services Licences. Liquidity within the Group is also managed in accordance with policies approved by the Board, with oversight from regional and Group Asset and Liability Management Committees *(refer to liquidity and funding under risk management on page 61 for a detailed discussion).*

The principal sources of liquidity for the Group are:

- trading and available for sale securities;
- interest received from customer loans;
- customer deposits;
- life insurance premiums;
- proceeds from commercial paper, certificates of deposit, bonds, notes and subordinated debt issues;
- fee income; and
- interest and dividends from investments.

The Group s primary source of funding is from customer deposits either on-demand and short-term deposits, and term deposits and bank issued certificates of deposit. Of total liabilities at September 30, 2004 of $381.5 billion, funding from customer deposits and certificates of deposit amounted to $199.4 billion (52.3%). Although a substantial portion of customer accounts are contractually repayable within one year, on-demand, or at short-notice, customer deposit balances have traditionally provided a stable source of core long-term funding for the Group.

Deposits taken from the inter-bank market of $42.0 billion as at September 30, 2004 supplement the Group s customer deposits. The Group also accesses the domestic and international debt capital markets under its various funding programs. As at September 30, 2004, the Group had on issue $32.6 billion of term debt securities (bonds, notes and subordinated debt) and the following funding programs available to fund the Group s general banking businesses:

Short-term funding programs:

- US commercial paper program;
- Global commercial paper and certificate of deposit program; and
- Bank of New Zealand (BNZ) global commercial paper and certificate of deposit program; and

Long-term funding programs:

- Euro medium-term note (MTN) program;
- BNZ domestic bond program;
- Yen shelf;
- Australian debt issuance program;
- US MTN program; and

US medium-term deposit notes program (New York branch).

At September 30, 2004, the Company s credit ratings were as follows:

	Short-term debt	Senior long-term debt
Standard & Poor s Corporation	A-1+	AA-
Fitch, Inc.	F1+	AA
Moody s Investors Service, Inc.	P-1	Aa3

On March 12, 2004, Standards & Poor s Ratings Service lowered its long-term counterparty credit rating on the Company and related entities from AA to AA-. Moody s Investors Services and Fitch Ratings both have reaffirmed their ratings at Aa3 and AA respectively. Ratings are not a recommendation to purchase, hold or sell securities, and may be changed, superseded or withdrawn at any time.

The ability to sell assets quickly is an important source of liquidity for the Group. The Group holds sizeable balances of marketable treasury and other eligible bills and debt securities which could be disposed of to provide additional funding should the need arise. As at September 30, 2004, the Group held $24.2 billion of trading securities and $4.6 billion of available for sale securities. In addition, the Group held $247.8 billion of net loans and advances to customers, of which $83.0 billion is due to mature within one year although a proportion of these maturing customer loans will be extended in the normal course of business.

Within the Group s Wealth Management business, the principal sources of liquidity are premiums received from policyholders, charges levied upon policyholders, investment income and proceeds from the sale and maturity of investments. The investment policies adhered to by the Group s life insurance companies consider the anticipated cash flow requirements by matching cash inflows with projected liabilities.

Based on the level of resources within the Group s businesses, and the ability of the Group to access wholesale money markets and issue debt securities should the need arise, overall liquidity is considered more than sufficient to meet current obligations to customers, policyholders and debtholders.

The following table sets out the amounts and maturities of the Group s long-term contractual cash obligations at September 30, 2004:

	Payments due by period				
	Less than 1 year $m	1 to 3 year(s) $m	3 to 5 years $m	After 5 years $m	Total $m
Long-term debt dated	4,673	8,734	10,844	8,329	32,580
Other debt issues undated				1,612	1,612
Operating leases	370	535	313	1,014	2,232
Total contractual cash obligations	5,043	9,269	11,157	10,955	36,424

The above table excludes deposits and other liabilities taken in the normal course of banking business and short-term and undated liabilities, including life insurance policy liabilities.

The following table sets out the amounts and maturities of the Group s contingent liabilities and other commercial commitments at September 30, 2004:

	Amount of commitment expiration per period				
	Less than 1 year $m	**1 to 3 year(s) $m**	**3 to 5 years $m**	**After 5 years $m**	**Total $m**
Contingent liabilities					
Guarantees	4,063	143	34	1	4,241
Letters of credit	5,187	1,025	1,173	20	7,405
Performance-related contingencies	2,508	94	34	1	2,637
Other contingent liabilities	114				114
Other commercial commitments					
Other binding credit commitments *(1)*	56,836	13,227	2,284	4,437	76,784
Investment commitments *(2)*	554				554
Total commercial commitments	69,262	14,489	3,525	4,459	91,735

(1) Credit-related commitments arise from contracts entered into in the normal course of business generally relating to financing needs of customers (refer to note 44 in the financial report).

(2) In the normal course of business of the Group s life insurance business statutory funds, various types of investment contracts are entered into that give rise to contingent or future obligations.

Refer to note 44 in the financial report for further discussion of contingent liabilities and credit commitments .

Special purpose entities

Special purpose entities (SPEs) are entities that are typically set up for a specific, limited purpose and generally would not enter into an operating activity or have any employees.

The primary purposes of SPEs relating to the Group are to:

obtain an alternative form of funding by the securitisation of certain Group assets;

assist customers to securitise their assets;

provide diversified funding sources to customers; and

tailor new products to satisfy customers funding requirements.

The most common form of SPE involves the acquisition of financial assets that are funded by the issuance of securities to external investors. The repayment of these securities is determined by the performance of the assets acquired by the SPE. These entities form an integral part of many financial markets.

The Group generally does not hold any material interest in the SPEs that it sponsors or sets up, but may provide arm s length services to the SPEs. The Group may provide standby liquidity facilities to SPEs. Exposures that relate to such facilities are included within contingent liabilities and credit-related commitments *(refer to note 44 in the financial report).* Generally, an SPE may only make a drawing under a standby liquidity facility in certain limited circumstances such as market circumstances (where commercial paper is unable to be issued at an economic rate on a maturity date). Standby liquidity facilities are not available to be drawn where an obligor defaults in respect of assets held by an SPE. If such an event occurs, the commitment in respect of the liquidity facility is reduced to the extent of the amount in default.

An important feature of financial accounts prepared under Australian GAAP is that they are required to present a true and fair view, which includes reflecting the economic substance of transactions and arrangements and not just their legal form or structure.

Australian Accounting Standard AASB 1024 Consolidated Accounts (AASB 1024) requires a company to consolidate entities it controls and not just entities in which it has majority ownership. Therefore, an SPE would be required to be consolidated if the Group had the capacity to dominate decision making, directly or indirectly, in relation to the financial and operating policies of the SPE, so as to enable the SPE to operate with it in pursuing the objectives of the Group.

Further, Urgent Issues Group Abstract 28 Consolidation Special Purpose Entities provides additional guidance as to some of the factors that would indicate control relating to the activities, decision making powers, risks and benefits of an SPE that would generally require the SPE to be consolidated.

An SPE is consolidated in the Group if it either meets the requirements of AASB 1024 or if the risks and rewards associated with the SPE lie with the Group such that the substance of the relationship is that of a controlled entity. Substance over form means examining all the agreements in relation to the transaction, including side letters or agreements relating to either the provision of guarantees or collateral on loans, or equity funding based on the value of the entity.

The Group, in the ordinary course of business, has established or sponsored the establishment of SPEs for various types of transactions, which are described below along with their Australian GAAP treatment.

Asset securitisation

The Group makes limited use of asset securitisation arrangements. SPEs for securitisation are created when the Group has a financial asset (eg. a residential mortgage loan portfolio), which it sells to an SPE. The SPE in turn sells interests in the asset as securities to investors. This type of securitisation program benefits the Group by providing an alternative source of funding and enables the Group to monetise long-term assets which positively impacts the Group s regulatory capital requirements and reduces the Group s credit exposure.

The Group does not recognise the assets and liabilities of these SPEs and they are not reported on the Group s statement of financial position at September 30, 2004. This is because the risks and rewards of the assets in the SPEs no longer lie with the Group (ie. the Group no longer retains any significant exposure to the returns on these assets). Further, the Group does not retain control over the financial or operational decision making of these SPEs.

During the year ended September 30, 2004, the Company securitised Australian residential mortgage loans amounting to $2,483 million. The Company previously securitised Australian residential mortgage loans amounting to $1,924 million during the year ended September 30, 2001. Outstanding securitised loans of these programs totalled $2,788 million as at September 30, 2004 (2003: $585 million). The securities issued pursuant to the securitisation programs do not represent liabilities of the Company or the Group. Neither the Company nor the Group stands behind the capital value or performance of securities or assets of the programs except to the limited extent provided in the transaction documents for the programs through the provision of arm s length services and facilities. The Company and the Group do not guarantee the payment of interest or repayment of principal due on the securities. The Company and the Group are not obliged to support any losses that may be suffered by the investors and do not intend to provide such support. The Company and the Group have no obligation to repurchase any of the securitised loans other than in limited circumstances. The Company has transacted with the SPEs on an arm s length basis to act as servicer in relation to the loans and to provide the SPEs with fixed and basis swaps and limited redraw and liquidity facilities. *(Refer to notes 1 and 16 in the financial report for additional information).*

Multi-seller securitisation conduits

The Group manages two multi-seller securitisation conduits, Titan Securitisation Limited (Titan) and Quasar Securitisation Limited (Quasar). These conduits provide off-balance sheet funding for the Group s corporate customers. This type of securitisation program has no material impact on the Group s liquidity, capital resources or credit risk because the substance of the economic arrangement is to provide a securitisation service to the Group s customers. These securitisation conduits use SPEs to provide access to funding via the asset-backed commercial paper and medium term note (MTN) investor markets.

These securitisation arrangements generally involve the sale of financial assets by customers to SPEs, which then issue commercial paper or MTNs to fund the purchases. The assets acquired by the conduits, which totalled $2,510 million at September 30, 2004, included debt securities, mortgages, lease receivables, commodity receivables and loans. These financial assets do not represent assets of the Group and are not reported on the Group s statement of financial position at September 30, 2004. Certain administrative activities and the provision of liquidity and credit facilities to the programs are performed by the Group under arm s length contracts that it or the conduits independent board of directors can terminate. Fees received by the Group for performing these services are recorded as fees and commission income when earned.

Repackaging securitisation

The Group sponsors and manages a repackaging securitisation vehicle, Script Securitisation Pty Ltd (Script). Script acquires debt instruments and, through the application of derivatives, generates master-funded repackaged debt instruments for sale to customers of the Group. This type of securitisation arrangement has no material impact on the Group s liquidity, capital resources or credit risk because the substance of the economic arrangement is to provide a securitisation service to the Group s customers. The Group has no interest in the debt instruments acquired and these instruments are not reported on the Group s statement of financial position at September 30, 2004.

Structured finance transactions

The use of an SPE to isolate cash flows and assets is common in the banking industry to enable a customer to minimise their funding cost or maximise their investment returns, and the bank to have access to specific collateral. The Group has relationships with numerous SPEs to provide financing to customers. Any financing relationships are entered into under normal lending criteria and are subject to the Group s credit approval process. The assets arising from these financing activities are generally included in loans and advances to customers, investment securities, or shares in entities and other securities depending on the economic substance of the transaction. The Group also has relationships with SPEs to enable the placement of customers surplus funds with the Group. These surplus funds are in all cases included in the Group s statement of financial position as deposits and other borrowings.

Capital resources

The Group assesses its capitalisation against market, regulatory and ratings agency expectations, having regard to Australian and international peers and the Group s own asset base, risk profile and capital structure. The Group believes it has sufficient capital to meet current and future commitments.

The Group s capital position increased during the year, primarily due to the full underwriting of the Group s dividend reinvestment plan (DRP) and bonus share plan (BSP) in respect of the 2004 interim dividend amounting to $1,253 million and the issue of $4,181 million of subordinated debt during the year. It has also been impacted by the buy-back of 36,008,000 fully paid non-converting non-cumulative preference shares of the Company that were issued in connection with the issue of 18,004,000 Trust Units Exchangeable for Preference Shares™ (TrUEPrS℠) in 1998; the sale of strategic shareholdings in St George Bank Limited, AMP Limited and HHG PLC; and the impact of the APRA requirement to deduct capitalised expenses, which amounted to $200 million from Tier 1 capital. The capital position also increased due to the reinvestment of dividends under the Company s DRP, BSP, issue of shares under the share purchase plan (SPP) and employee share and option plans.

During the years ended September 30, 2004, 2003 and 2002, 47.5 million, 10.8 million and 13.8 million fully paid ordinary shares respectively, were issued under the DRP, BSP and SPP to shareholders at varying prices. In 2004, this included 23.0 million relating to the underwriting of the DRP in respect of the 2004 interim dividend.

On October 1, 2003, the Company announced its intention to buy back ordinary shares on-market approximately equal to the number of shares issued under the Company s dividend package plans and staff share and option plans. On March 24, 2004, the Company announced that it was terminating this share buy-back program. During the year, the Company bought back approximately 5.5 million ordinary shares. The shares were bought back at an average price, including incidental costs, of $29.58 per share, thereby reducing ordinary equity by $162 million. The highest price paid was $30.22 per share and the lowest price paid was $28.70 per share. All buy-backs are subject to appropriate pricing parameters and an assessment of the circumstances facing the Group at the relevant time.

Capital adequacy

The Group s primary prudential supervisor is APRA. APRA imposes capital adequacy requirements on banks, the prime objective of which is to ensure that an adequate level of capital is maintained, thereby providing a buffer to absorb unanticipated losses from activities. Consistent with the international standards of the Basel Committee on Banking Supervision, APRA s approach to assessing capital adequacy of banks focuses on three main elements: the credit risk associated with a bank s exposures, the market risk associated with a bank s trading activities, and the form and quantity of a bank s capital.

In order to provide a broad indication of relevant credit risk, all assets are risk weighted according to four categories (0%, 20%, 50% and 100%). The assets to which those weightings apply are described more fully below *(refer to risk-adjusted assets and off-balance sheet exposures)*. Off-balance sheet transactions are converted to balance sheet equivalents, using a credit conversion factor, before being allocated to a risk-weighted category.

Off-balance sheet activities giving rise to credit risk are categorised as follows: direct credit substitutes such as financial guarantees and standby letters of credit; trade and performance-related contingent items such as performance bonds, warranties, and documentary letters of credit; long-term commitments such as formal credit lines with a residual maturity exceeding one year; and market-related transactions such as foreign exchange contracts, currency and interest rate swaps and forward rate agreements.

Market risk is defined as the risk of losses in on- and off-balance sheet positions arising from movements in market prices pertaining to interest rate-related instruments and equities in the trading book, and foreign exchange risk and commodity risk throughout the Group. APRA s current capital requirements for market risk, which involve creating equivalent risk-weighted exposures *(refer to risk-adjusted assets and off-balance sheet exposures)* are broadly consistent with the Basel Committee on Banking Supervision s recommendations.

For regulatory purposes, capital comprises two elements, eligible Tier 1 and Tier 2 capital, from which certain deductions are made to arrive at Tier 1 and Tier 2 capital. Tier 1 capital includes paid-up ordinary shares, hybrid instruments (such as National Income Securities), non-cumulative irredeemable preference shares, reserves (other than asset revaluation reserves), retained profits less goodwill and other intangible assets. In addition, where recognised future income tax benefits are greater than deferred income tax liabilities, the net future income tax benefit is deducted from Tier 1 capital. Tier 2 capital includes asset revaluation reserves, general provision for doubtful debts (net of associated future income tax benefits), certain hybrid debt/equity instruments, and subordinated long-term debt.

The total amount of the resultant capital is subject to further deductions to form the capital base. Such deductions include net assets in controlled entities that are deconsolidated for regulatory capital purposes and holdings of capital instruments in other non-subsidiary banks. Tier 1 capital must constitute at least 50% of the capital base.

Under guidelines issued by APRA, investments in life insurance and funds management entities are deconsolidated for the purposes of calculating capital adequacy and those activities are excluded from the calculation of risk-weighted assets. The tangible component of the investments comprised of the embedded value and value of future business are deducted at the capital base level. The intangible component (the difference between acquisition costs and tangible assets) is deducted from Tier 1 capital. Additionally, any profits from these entities included in the Group s results, to the extent that they have not been remitted to the Company in the form of dividends are excluded from the determination of Tier 1 capital.

As the measure of capital adequacy, Australian banks are required to maintain a minimum ratio of capital base to total risk-weighted assets of 8.0%, of which a minimum of 4.0% must be held in Tier 1 capital. The numerator of the ratio is the capital base. The denominator of the ratio is the total risk-weighted asset exposure (ie. sum of credit risk-weighted exposures and the equivalent market risk-weighted exposure).

The Basel Committee on Banking Supervision has released wide-ranging and detailed proposals for the reform of capital adequacy guidelines for banks known as the Basel II Capital Accord. The Basel Committee on Banking Supervision s reform objective is to develop more risk-sensitive, internationally-accepted, capital adequacy guidelines that are aligned more accurately with the individual risk profiles of banks.

Refer to Basel II Capital Accord on page 17 for further information.

Capital ratios

	2004 %	**2003** %	**2002** %
Tier 1	**7.3**	7.7	7.6
Tier 2	**4.3**	3.3	3.7
Deductions	**(1.0)**	(1.4)	(1.3)
Total capital	**10.6**	9.6	10.0

The capital ratios at September 30, 2004, include the effect of the Group entering into agreements for the full underwriting of its dividend reinvestment plan and bonus share plan in respect of the 2004 interim dividend; the issue of Tier 2 subordinated debt; the effect of the on-market share buy-back program which was suspended in January 2004 and terminated in March 2004; the buy-back of 36,008,000 fully paid non-converting non-cumulative preference shares of the Company in connection with the TrUEPrS[SM] buy-back; the sales of strategic shareholdings in St George Bank Limited, AMP Limited and HHG PLC; and the impact of the APRA requirement to deduct capitalised expenses, which amounted to $200 million from Tier 1 capital.

The ratios have also been impacted by the change in methodology of the calculation of the market risk component of risk-weighted assets from the Internal Model Method to the Standard Method as directed by APRA. The Standard Method as prescribed by APRA in prudential standard APS 113 limits recognition of portfolio effects on outstanding positions and is substantially more restrictive on the rules regarding the matching of positions.

The total capital ratio also reflects the APRA imposed requirement for the Group s internal target for capital to rise to 10.0% of risk weighted assets. Previously, the Group s internal target capital ratio was 9.0% to 9.5%.

Capital ratios are monitored against internal targets designed to maintain ratios above minimum regulatory capital requirements set out in APRA s prudential standards to alert management of, and avert potential breaches of, required ratios. Ultimately, a breach of the required ratios under the prudential standards may trigger legally enforceable directions by APRA, which can include a direction to raise additional capital or cease business.

Regulatory capital

	2004 $m	2003 $m	2002 $m
Tier 1			
Contributed equity	**10,191**	9,728	9,931
Reserves	**1,194**	893	2,105
Retained profits	**14,515**	13,786	11,148
Outside equity interest	**3,866**	2,804	67
Estimated reinvestment under the dividend reinvestment plan *(1)*	**150**	140	127
Deduct:			
Asset revaluation reserve	**(86)**	(16)	(7)
Goodwill	**(632)**	(740)	(775)
Intangible component of investment in non-consolidated controlled entities *(2)*	**(2,448)**	(2,448)	(2,448)
Estimated final dividend *(3)*	**(1,287)**	(1,248)	
Fair value adjustment of mortgage servicing rights (10%)			(131)
Deconsolidation of Wealth Management profits net of dividends	**(349)**	(290)	(719)
Future income tax benefit (FITB) (excluding FITB on the general provision for doubtful debts) *(4)*		(66)	
Non-qualifying outside equity interest *(2)*	**(3,866)**	(2,804)	(67)
Capitalised expenses	**(200)**		
Total Tier 1 capital	**21,048**	19,739	19,231

Tier 2			
Asset revaluation reserve	**86**	16	7
General provision for doubtful debts	**1,480**	1,248	1,414
Perpetual floating rate notes	**350**	367	460
Exchangeable capital units	**1,262**	1,262	1,262
Dated subordinated debt	**9,044**	5,390	6,174
Notional revaluation of investment securities to market	**(3)**	37	12
Total Tier 2 capital	**12,219**	8,320	9,329
Total Tier 1 and 2 capital	**33,267**	28,059	28,560
Deductions (5)	**(2,922)**	(3,591)	(3,253)
Total regulatory capital	**30,345**	24,468	25,307

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(1) *The amount is derived from reinvestment experience on the Company s dividend reinvestment and bonus share plans.*

(2) *Refers to controlled entities that are required to be deconsolidated for regulatory capital adequacy purposes.*

(3) *From October 1, 2002, the Group has adopted the Australian Accounting Standard AASB 1044 Provisions, Contingent Liabilities and Contingent Assets , which has resulted in a change in the accounting for dividend provisions. Under APRA guidelines, the estimated dividend must be deducted from Tier 1 capital.*

(4) *APRA requires any excess FITB (excluding FITB impact on the general provision for doubtful debts) over the provision for deferred income tax liabilities be deducted from Tier 1 capital.*

(5) *Includes $2,922 million (2003: $2,959 million) investment in non-consolidated controlled entities (net of intangible component deducted from Tier 1 capital).*

Risk-adjusted assets and off-balance sheet exposures

		Balance		Risk		Risk-adjusted balance (1)	
	2004 $m	2003 $m	2002 $m	weights %	2004 $m	2003 $m	2002 $m
Assets							
Cash, claims on Reserve Bank of Australia, Australian Commonwealth and State Governments, OECD central governments and central banks (2)	**23,383**	29,867	25,191	0			
Claims on Australian banks, local governments and banks incorporated in OECD countries	**31,214**	32,361	45,053	20	**6,243**	6,472	9,011

Housing loans *(3)*	**117,306**	103,926	87,692	50	**58,653**	51,963	43,846
All other assets	**171,200**	158,135	165,068	100	**171,200**	158,135	165,068
Total assets *(4)*	**343,103**	324,289	323,004		**236,096**	216,570	217,925

	Contract or notional amount 2004 $m	Credit equivalent amount 2004 $m	Risk weights %	2004 $m	Risk-adjusted balance (1) 2003 $m	2002 $m
Off-balance sheet exposures						
Financial guarantees, standby letters of credit and other letters of credit	**13,352**	**12,500**	0 100	**11,258**	9,872	7,788
Performance-related guarantees, warranties and indemnities	**3,199**	**1,600**	0 100	**1,584**	1,319	1,452
Commitments to provide finance facilities with residual term to maturity of over 12 months and other commitments *(6)*	**100,579**	**21,598**	0 100	**15,364**	12,750	12,547
Foreign exchange, interest rate and other market-related transactions *(5)* *(6)*	**1,704,647**	**30,680**	0 50	**8,887**	9,698	9,948
Total off-balance sheet exposures *(6)*	**1,821,777**	**66,378**		**37,093**	33,639	31,735
Total risk-adjusted assets *(6)*				**236,096**	216,570	217,925
Total risk-adjusted assets and off-balance sheet exposures credit risk *(6)*				**273,189**	250,209	249,660
Add: Risk-adjusted assets market risk *(7)* *(8)*				**13,616**	4,057	3,475
Total assessed risk exposure				**286,805**	254,266	253,135

(1) Claims secured by cash, government securities or guarantees from banks and governments reflect the risk weight attaching to the collateral security or a direct claim on the guarantor.

(2) Short-term claims on the Australian Commonwealth Government are those with a residual term to maturity of less than 12 months; longer-term claims are those with residual term to maturity of greater than 12 months. Both categories held in the banking book attract a 0% risk weighting.

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(3) Housing loans approved after September 5, 1994 having a loan to market valuation ratio in excess of 80% must be risk weighted at 100%. However, these loans may qualify for the 50% risk weighting if they are covered by an adequate level of mortgage insurance provided by an acceptable lenders mortgage insurer. These loans are reported under all other assets.

(4) Total assets differ from those in the Group s statement of financial position due to the adoption of APRA s classification of certain items for capital adequacy purposes, particularly goodwill and general provision for doubtful debts. In addition, fair values of trading derivative financial instruments have been excluded as they have been incorporated into the calculation of the credit equivalent amount of off-balance sheet exposures.

(5) Refer to note 45 for additional information on derivative financial instruments.

(6) Comparative information has been restated. The revision primarily relates to New Zealand in relation to the reporting of unutilised limits in Corporate & Institutional Banking and the capture of additional retail lending products. Certain categories of residential mortgages across risk-weightings were also reclassified. In addition, September 30, 2002 information has been restated to reflect the reclassification of certain off-balance sheet items.

(7) Under APRA Prudential Standard APS 113 Capital Adequacy: Market Risk , Australian banks are required to hold sufficient levels of capital to cover market risk.

(8) The calculation to determine the market risk capital component of risk-weighted assets at September 30, 2004 was carried out under the Standard Method as directed by APRA. In previous years, the market risk capital component of risk-weighted assets was calculated using the Internal Model Method. The Standard Method as prescribed by the APRA prudential standard (APS 113), limits recognition of portfolio effects on outstanding positions and is substantially more restrictive on the rules regarding the matching of positions.

Gross loans and advances

Average balances

	2004 $bn	2003 $bn	2002 $bn
Average gross loans and advances			
Australia	**143.1**	125.6	108.1
Overseas	**97.4**	96.9	94.7

Total average gross loans and advances	**240.5**	222.5	202.8

The diversification and size of the Group is such that its lending is widely spread both in terms of geography and types of industries served. The loan portfolio continues to consist of short-term outstandings with 33.5% of the loans at September 30, 2004 maturing within one year and 21.7% maturing between one year and five years. Real estate mortgage lending comprises the bulk of the loan portfolio maturing after five years. The average balance of loans and advances in 2004 equated to 59.2% of the average total assets of the Group. This compares with 56.4% in 2003 and 55.0% in 2002.

The loan portfolio within Australia largely comprises real estate lending ($91.3 billion) which equates to 61.5% of the portfolio at September 30, 2004. The overseas loan portfolio comprises of real estate lending of $34.5 billion, or 33.2%, other commercial and industrial lending of $25.2 billion, or 24.2%,and instalment loans and other personal lending of $12.6 billion, or 12.1%, of the overseas portfolio as at September 30, 2004. The nature of the Group s lending reflects the operations of the Group s five discrete business segments, and the regional lending markets in which these segments operate. These segments comprise three Financial Services businesses, or retailing arms, Corporate & Institutional Banking and Wealth Management. The Financial Services businesses operate in Australia, Europe and New Zealand; however, Corporate & Institutional Banking and Wealth Management operate across a number of regions (including Australia). This is reflected in the composition of the Group s lending portfolio.

Average gross loans and advances increased $18.0 billion, or 8.1%, to $240.5 billion in 2004, from $222.5 billion in 2003 and $202.8 billion in 2002, mainly due to continued strong growth in Australia and New Zealand.

Australian average gross loans and advances accounted for 59.5% of the total average gross loans and advances in 2004, compared with 56.5% in 2003 and 53.3% in 2002. Australian average gross loans and advances increased $17.5 billion, or 13.9%, to $143.1 billion in 2004, from $125.6 billion in 2003 and $108.1 billion in 2002. The increase mainly reflects continued strong growth in housing lending.

Overseas average gross loans and advances increased $0.6 billion, or 0.6%, to $97.4 billion in 2004, from $96.9 billion in 2003 and $94.7 billion in 2002. The increase related to continued strong housing growth in Europe and New Zealand, partially offset by a decrease in personal loans and overdrafts in Europe.

Loans by industry for the Group as at September 30, 2004 *(1)*

	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total $m
Government and public authorities	620	463	260	47	31	1,421
Agriculture, forestry, fishing and mining	6,023	2,551	4,022	11	29	12,636
Financial, investment and insurance	6,102	2,982	2,805	881	719	13,489
Real estate construction	1,728	2,304	189	441	138	4,800
Manufacturing	2,492	3,700	1,125	328	815	8,460
Real estate mortgage	91,259	19,576	14,328		610	125,773
Instalment loans to individuals and other personal lending (including credit cards)	13,529	11,070	1,526			26,125
Lease financing	8,164	7,814	24		25	16,027
Other commercial and industrial	18,490	15,550	7,819	814	974	43,647
Total gross loans and advances	148,407	66,010	32,098	2,522	3,341	252,378
Deduct: Unearned income	(1,130)	(891)	(3)			(2,024)
Provisions for doubtful debts	(1,315)	(936)	(179)	(71)	(17)	(2,518)
Total net loans and advances	145,962	64,183	31,916	2,451	3,324	247,836

(1) Refer to note 16 in the financial report for comparative information.

In Australia, net loans and advances grew by $12.1 billion, or 9.0%, to $146.0 billion at September 30, 2004, slowing from growth of $19.3 billion in the year to September 30, 2003, but with continued strong growth in housing lending and other personal lending. Residential mortgage loans increased by $8.2 billion, or 9.9%, to $91.3 billion in the year to September 30, 2004, aided by a continuing low interest rate environment and strong housing sales. Other commercial and industrial lending increased by $2.0 billion, or 11.9% during 2004 to $18.5 billion.

In Europe, net loans and advances grew by $6.6 billion, or 11.5%, to $64.2 billion at September 30, 2004; however, excluding the impact of exchange rate movements, net loans and advances grew by 8.9%. This represented a pick up in the rate of growth from the prior year, when net loans and advances grew by only 3.3%. Growth primarily related to residential mortgages, which were up 15.5% in 2004, reflecting an increased focus on this sector, while commercial and industrial lending increased 13.1% in 2004.

In New Zealand, net loans and advances grew by $4.3 billion, or 15.5%, to $31.9 billion at September 30, 2004; however, excluding the impact of exchange rate movements, net loans and advances grew by 8.1%. In the year to September 30, 2003, net loans and advances grew by 8.3%. In both years growth was principally in relation to residential mortgages, which were up 17.9% in 2004, reflecting the success of new product development and promotional campaigns.

In the United States, net loans and advances decreased by $0.8 billion, or 25.1%, to $2.5 billion at September 30, 2004; however, excluding the impact of exchange rate movements, net loans and advances decreased by 21.3%, resulting primarily from a reduction in lending balances in relation to the Corporate & Institutional Banking operations. This is the continuation of the trend experienced in the year to September 30, 2003, when net loans and advances fell by 5.1%.

In Asia, net loans and advances decreased by $0.1 billion, or 2.7%, to $3.3 billion at September 30, 2004; however excluding the impact of exchange rate movements, net loans and advances were flat. In the year to September 30, 2003, net loans and advances increased 9.5% resulting from movements in end of period loan balances in relation to Corporate & Institutional Banking.

Asset quality disclosures, charge to provide and provisions for doubtful debts

Non-accrual loans

	2004			2003		
	Gross $m	Specific provision $m (1)	Net $m	Gross $m	Specific provision $m (1)	Net $m
Australia	**700**	**164**	**536**	912	238	674
Europe	**333**	**159**	**174**	373	127	246
New Zealand	**86**	**19**	**67**	202	15	187
United States	**109**	**32**	**77**	145	41	104
Asia	**2**	**1**	**1**	1	1	
Total	**1,230**	**375**	**855**	1,633	422	1,211
	%	**%**	**%**	%	%	%
Percentage of risk-weighted assets	**0.4**	**0.1**	**0.3**	0.6	0.2	0.5

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	2004 $m	2003 $m	2002 $m
Net non-accrual loans	**855**	1,211	1,311
Equity (parent entity interest)	**25,900**	24,407	23,184
Percentage of non-accrual loans to equity	**3.3%**	5.0%	5.7%

(1) Includes specific provisions for impaired off-balance sheet credit exposures.

As at September 30, 2001, 2002, and 2003, a certain Australian exposure was classified as performing. However, the classification of this exposure as non-accrual during this period is now considered more appropriate. As such, on this basis, comparative information for those years has been restated to include the balance of this exposure (including accrued interest) of $207 million, $221 million and $254 million respectively. During 2004, $28 million of interest income previously recognised in relation to this exposure was reversed to the profit and loss account to reflect the revised asset quality classification.

Total non-accrual loans less specific provision for doubtful debts at September 30, 2004 were $855 million, a decrease of $356 million, or 29.4%, from the 2003 balance of $1,211 million. This decrease reflects the Group s continued focus on asset quality following a reduction of the Group s risk profile.

Gross non-accrual loans (being non-accrual loans before specific provision for doubtful debts) at September 30, 2004 were $1,230 million, a decrease of $403 million, or 24.7%, from the balance at September 30, 2003.

The Group s gross non-accrual loans to risk-weighted assets were 0.4% at September 30, 2004, a decrease from 0.6% at September 30, 2003, primarily reflecting the continued focus on asset quality in relation to the Group s balance sheet (refer comment noted above). The Australian component of the gross non-accrual loans at September 30, 2004 was $700 million, decreased $212 million, or 23.2%, from 2003. In Europe, gross non-accrual loans decreased by $40 million, or 10.7%, to $333 million; however, excluding the impact of exchange rate movements, gross non-accrual loans decreased by 13.0%. In New Zealand, gross non-accrual loans decreased by $116 million, or 57.4%, to $86 million; however, excluding the impact of exchange rate movements non-accrual loans decreased by 60.2%, reflecting the status of a large corporate exposure in Corporate & Institutional Banking. In the United States, gross non-accrual loans decreased by $36 million to $109 million; however, excluding the impact of exchange rate movements, gross non-accrual loans decreased 20.6%, reflecting the status of a small number of large corporate exposure in Corporate & Institutional Banking.

The Group has specialist credit restructuring units operating in each region, which continue to result in the earlier identification and workout of problem loans.

Provisions for doubtful debts closing balance by region

	2004 $m	2003 $m	2002 $m	2001 $m	2000 $m
Australia					
General	**1,136**	955	972	1,140	1,057

Specific *(1)*	**180**	248	219	266	208
	1,316	1,203	1,191	1,406	1,265
Europe					
General	**765**	641	808	803	641
Specific *(1)*	**170**	141	169	222	178
	935	782	977	1,025	819
New Zealand					
General	**158**	130	135	154	137
Specific *(1)*	**21**	14	10	10	14
	179	144	145	164	151
United States					
General	**41**	56	75	85	383
Specific *(1)*	**30**	39	48	5	51
	71	95	123	90	434
Asia					
General	**16**	11	32	25	20
Specific *(1)*	**1**	5	2	5	3
	17	16	34	30	23
Group					
General	**2,116**	1,793	2,022	2,207	2,238
Specific *(1)*	**402**	447	448	508	454
Total provisions for doubtful debts	**2,518**	2,240	2,470	2,715	2,692
Percentage of risk-weighted assets	**0.9%**	0.9%	1.0%	1.1%	1.1%

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(1) *Excludes specific provisions for impaired off-balance sheet credit exposures.*

Total provisions for doubtful debts, excluding off-balance sheet credit exposures, held at September 30, 2004 were $2,518 million, or 0.9%, of risk-weighted assets, compared with $2,240 million, or 0.9%, of risk-weighted assets at September 30, 2003. Of the total provisions for doubtful debts at September 30, 2004, the general provision represented $2,116 million, or 0.7%, of risk-weighted assets.

For a discussion of certain services provided by the external auditor in connection with problem loan reviews and the Company s related internal review of auditor independence refer to certain services provided by the external auditor matters related to independence on page 19 in the business overview section.

Credit quality data

The Group has adopted a statistically-based provisioning methodology to determine its general provision for doubtful debts *(refer to notes 1(p)(i) and 17 in the financial report).* Under this methodology, the Group estimates the level of losses inherent but not specifically identified in its existing credit portfolios at balance date.

For retail lending (smaller-balance homogeneous loans), the general provision is assessed at a portfolio level and is based on product loss rates, to make a provision for losses inherent in the portfolio but not yet identified at balance date. These rates are determined by reference to observed historical loss experience for the relevant product types.

In respect of non-retail lending, the amount of the general provision is determined by multiplying the customer s probability of default by the loss given default. The probability of default is determined by the Group s internal customer rating system. Internal ratings are assigned at the customer level. This system utilises objective, verifiable external data, such as external credit ratings, and is supplemented with an assessment of economic and industry outlooks, conducted by the Group s discrete specialist economics unit. The loss given default is the amount of an individual loan at risk having regard to the level of collateral held against that facility. The level of collateral held is determined on a loan-by-loan basis, based on the Group s assessment of the loan security s value at the time of loan application and any subsequent valuations.

The operation of the statistically-based provisioning methodology is such that when individual loans are impaired, a specific provision will be raised by making a transfer from the general provision for doubtful debts. The general provision for doubtful debts is then re-established based on the remaining portfolios of credit exposures applying the above methodology.

During the year, the Group reviewed the level of the general provision for doubtful debts and the application of the associated statistically-based provisioning methodology, taking into account recent experience, industry practice and emerging developments. As a result, the discount rate in the statistical model was reduced from the shareholder cost of capital to a rate akin to a risk-free debt rate, resulting in a revision to the accounting estimate of general provision for doubtful debts as at September 30, 2004. This discount rate is used to determine the present value of cumulative probability of default rates used for the purpose of loan provisioning. The impact of this reduction in discount rate and flow on impact was an increase in the charge to provide for doubtful debts of $292 million in 2004.

The specific provision for doubtful debts is established to cover all identified doubtful debts and is recognised when there is reasonable doubt over the collectability of principal and interest in accordance with the loan agreement (an impaired loan). Amounts provided for are determined by specific identification or by management s determination of probable losses for individual loans that are considered impaired in relation to

loan portfolios where specific identification is impracticable. All bad debts are written off against the specific provision for doubtful debts in the reporting period in which they are classified as irrecoverable.

	2004 $m	**2003 $m**	**2002 $m**	**2001 $m**	**2000 $m**
Provisions for doubtful debts					
Specific (excluding off-balance sheet credit exposures)	**402**	447	448	508	454
General	**2,116**	1,793	2,022	2,207	2,238
Gross non-accrual and restructured loans	**1,271**	1,633	1,817	1,943	1,471
Charge to profit and loss account ordinary	**559**	633	697	989	588
Charge to profit and loss account significant	**292**				

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Ratios (1)	2004 %	2003 %	2002 %	2001 %	2000 %
Provisions for doubtful debts at year-end as a percentage of year-end loans (before provisions)					
Specific	**0.16**	0.19	0.21	0.25	0.24
General	**0.84**	0.78	0.93	1.09	1.17
	1.00	0.97	1.14	1.34	1.41
Provisions for doubtful debts at year-end as a percentage of year-end loans and acceptances (before provisions)					
Specific	**0.15**	0.18	0.19	0.23	0.21
General	**0.79**	0.72	0.85	0.99	1.04
	0.94	0.90	1.04	1.22	1.25
Provisions for doubtful debts at year-end as a percentage of year-end risk-weighted assets					
Specific	**0.14**	0.18	0.18	0.20	0.19
General	**0.74**	0.71	0.80	0.86	0.94
	0.88	0.89	0.98	1.06	1.13
Non-accrual and restructured loans as a percentage of year-end loans (before provisions)	**0.50**	0.71	0.84	0.96	0.77
Charge to profit and loss account (ordinary and significant) as a percentage of					
Year-end loans	**0.34**	0.28	0.32	0.49	0.31
Year-end loans and acceptances	**0.32**	0.25	0.29	0.45	0.27
Average loans and acceptances	**0.33**	0.26	0.31	0.46	0.30
Year-end risk-weighted assets	**0.30**	0.25	0.28	0.38	0.25

(1) Ratios exclude specific provisions for impaired off-balance sheet credit exposures.

Provisioning coverage ratio

The provisioning coverage ratio (ie. the level of provisioning for non-accrual loans) is determined having regard to all identifiable losses anticipated to result from non-accrual loans. The identifiable losses anticipated is management s determination of probable losses for individual loans that are considered impaired. This considers all available information, including future cash flows, the effective rate of interest, the secondary market value of the loan and the fair value of collateral. The estimate is not determined over the life of the loan, only at the point at which the loan is considered impaired. Accordingly, the balance of the specific provision is maintained equal to the total of all estimated losses.

To ensure that adequate provisions and write-offs are maintained, rigorous credit monitoring procedures are in place to facilitate the early identification of all doubtful debts and correspondingly, the estimated losses likely to arise. Central to this process, all entities in the Group are required to formally review their loan portfolio at least quarterly to ensure all doubtful debts have been identified and loss estimations made. Provisions must be adjusted upwards or downwards to equate to the current estimates of loss on doubtful loan accounts.

The actual levels of specific provisioning set aside to cover estimated losses on loans which are considered to be sufficiently non-accrual and impaired to warrantraising of a provision are set out below:

	2004 %	2003 %	2002 %
Specific provision coverage *(1)*	**29.4**	25.9	27.5
Total provision coverage *(1)*	**198.1**	138.0	141.5

(1) *Ratios include specific provisions for impaired off-balance sheet credit exposures.*

The general provision provides further coverage against these loans of 168.7% at September 30, 2004, bringing total effective coverage to 198.1%.

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Deposits and other borrowings

Total deposits and other borrowings (net of set-offs) increased by $19.6 billion, or 9.7%, to $220.8 billion at September 30, 2004, compared with $201.2 billion at September 30, 2003. Excluding the effect of exchange rate movements during 2004, deposits and other borrowings increased by 8.6%. The increase was the result of continued growth in Australia, primarily due to more competitive pricing on term deposits and increased funding requirements.

Non-interest-bearing deposits at September 30, 2004 represent 6.1% of total deposits compared to 6.5% at September 30, 2003.

In Australia, deposits and other borrowings increased by $11.9 billion, or 11.3%, to $118.0 billion reflecting strong growth in both certificates of deposit and term deposits. In Europe, deposits and other borrowings increased by $4.5 billion, or 7.8%, to $62.1 billion; however, excluding the impact of exchange rate movements, the increase was 5.3%, primarily in relation to term deposit growth. In New Zealand, deposits and other borrowings increased by $3.9 billion, or 18.2% to $25.6 billion; however, excluding the impact of exchange rate movements, the increase was 10.3%. This reflected strong growth in retail deposits (term, as well as on-demand and short-term deposits), and growth in borrowings. In the United States, deposits and other borrowings decreased by $0.5 billion, or 4.6%, to $11.3 billion; however, excluding the impact of exchange rate movements, were flat, with higher borrowings, offsetting lower deposits. In Asia, deposits and other borrowings remained flat.

Deposits and other borrowings for the Group as at September 30, 2004

	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total $m
Deposits not bearing interest	6,050	6,300	615	550	1	13,516
On-demand and short-term deposits	48,153	28,072	7,287	1,898	122	85,532
Certificates of deposit	19,357	11,083	3,184	506		34,130
Term deposits	32,057	15,201	12,179	3,220	3,555	66,212
Securities sold under agreements to repurchase	1,006	1,095		14		2,115
Borrowings	11,388	382	2,378	5,099		19,247
Total deposits and other borrowings	118,011	62,133	25,643	11,287	3,678	220,752

Assets under management and administration

The assets of the Group as reported on the statement of financial position include certain assets managed on behalf of others, for instance, where statutory funds and registered schemes are required to be consolidated by the Group under Australian Accounting Standards. Assets on trust relate to funds held in trust by the Group s trust services businesses. The Group and its associated entities also manage and perform administration for entities such as superannuation funds and unit trusts, the assets of which do not form part of the total assets recorded on the Group s statement of financial position, as set out below:

	2004 $m	2003 $m	2002 $m

By type			
Assets under management	**65,384**	58,390	51,794
Assets under administration	**10,520**	9,414	7,677
Assets on trust	**5,224**	5,289	5,123
Total assets under management and administration	**81,128**	73,093	64,594
By region			
Australia	**74,032**	66,225	60,138
Europe	**4,214**	4,322	1,835
New Zealand	**2,310**	2,030	2,151
Asia	**572**	516	470
Total assets under management and administration	**81,128**	73,093	64,594
By investor			
Retail	**59,361**	56,554	52,073
Corporate	**21,767**	16,539	12,521
Total assets under management and administration	**81,128**	73,093	64,594

Total assets under management and administration increased by 11.0% to $81,128 million at September 30, 2004, compared with $73,093 million at September 30, 2003. The growth in total assets under management and administration reflects solid net inflows in the wholesale business in Australia and increased investment returns as a result of improved investment markets in the year to September 30, 2004.

Risk management

Management of risk is fundamental to the business of being a financial services provider and is an essential element of the Group s strategy. Financial services organisations face an array of risks.

An enterprise-wide risk management model structure implemented throughout the Group comprises a common policy framework and a set of controls to achieve standardisation of risk/reward practices across the Group. Each business unit is responsible for the identification and quantification of the particular risks it is exposed to and for implementation of appropriate policies, procedures and controls.

Overview and monitoring of this process throughout the Group is undertaken by Risk Management. Risk Management comprises Credit Risk Management, Market Risk, Operational Risk and Insurance, Regulatory Compliance, Legal and Internal Audit.

Risk Management s role is to monitor and systematically assess the Group s risk profile in existing and proposed business operations, and to assist business units in the design and implementation of appropriate risk management policies and strategies. Risk Management also works with the businesses to promote awareness of the need to manage risk.

Developments continue to be made in the quantification of risks, and the allocation of appropriate risk capital. Portfolio management methods are being further developed to manage the Group s risk profile. Modelling to forecast future risk management trends is being used increasingly to assist in decision making. This will continue to increase in importance as the Group prepares to implement Basel II across the various risk streams.

Risk Management prepares and submits the Group risk profile to the Board. This document profiles the major recognised on-balance sheet and off-balance sheet strategy, performance and operational risks, together with procedures for their day-to-day responsibility, control and management.

The Risk Committee of the Board reviews in greater detail the Group s risk and return appetite and oversees the Group s overall control framework. This Risk Committee has cross-membership with the Audit Committee of the Board.

The Risk Committee covers key elements of risk, including regulatory compliance, operational risk, market risk, internal audit, credit risk and balance sheet management.

The framework is consistent with the proposed supervisory review process (Pillar 2) of Basel II.

Refer to page 74 for Risk Committee members, responsibilities and charter.

The majority of risk policy decisions are made within each business unit.

A Group Risk Forum, comprising executive and senior management, is the principal risk policy decision making body within executive management.

This forum reviews and approves the more strategic risk assessments, and is supported by the Central Risk Management Committee, which has an operational focus, and Risk Management Committees in each region and/or line of business.

Major balance sheet risk areas and their management are outlined below, but many other types of risks such as payment systems, computer systems fraud, legislative compliance environmental, business continuity/disaster recovery, and e-commerce risks are managed throughout the Group.

A recent report by APRA in respect of foreign currency options trading has identified deficiencies in some aspects of the Company s risk management systems. *Refer to the report on the directors and officers on page 84 for further details.*

The Group has commenced a review of its Risk Management function both internally and through the engagement of external consultants in order to improve the Risk Management practices of the Group by benchmarking them against best practice. This has resulted in the Group restructuring its finance and risk management functions to provide clear accountabilities at both a regional and group level, and is taking steps to change the culture and behaviours across the organisation globally.

Credit risk

Credit risk is the potential that a borrower or a counterparty will fail to meet its obligations in accordance with agreed terms.

The Group s credit risk management infrastructure is framed to provide sound management principles and practices for the maintenance of appropriate asset quality across the Group.

Credit Risk Management, a division of Risk Management, is structured to develop and maintain credit policies and key credit risk systems, provide monitoring and reporting of asset quality and undertake the independent oversight of credit portfolios across the Group.

The management of credit risk within the Group is achieved through a focus on approval and monitoring of individual transactions together with analysis of the performance of the various credit risk portfolios. Portfolio monitoring techniques cover such areas as industry or geographic concentrations and delinquency trends.

Establishing an appropriate credit risk environment

Significant credit risk strategies and policies are approved, and reviewed annually, by the Board and the Risk Committee. Through such policies as borrower (single large exposure) and industry concentration limit, the Board establishes the Group s tolerance for risk. These policies are delegated to, and disseminated under the guidance and control of, management.

The Group s credit policies, which are subject to ongoing review, are documented and disseminated in a form that provides a consistent view of all major credit policies supporting the credit operations of the Group.

For complex credit products and services, Credit Risk Management provides a policy profile that identifies and quantifies risks and establishes the means of mitigating such risks.

Single large exposure policies and industry concentration limits are in place across the Group. Overall composition and quality of credit portfolio exposures are monitored and periodically reported to the Board, and, where required, to the relevant regional supervisory authorities.

A key factor in the introduction of new products and services is the identification of credit risk inherent in such products and services. This is managed through a process requiring acceptance by all impacted areas of the

business and approval by Risk Management Committees prior to implementation.

Operating under a sound credit granting process

The Group has established processes for the granting of credit. These include:

- establishment of overall credit limits at the level of individual borrowers and counterparties, and groups of connected counterparties for both on-and off-balance sheet exposures;
- satisfaction with repayment capacity and integrity of the counterparty;
- use of financial covenants;
- use of collateral;
- consideration of economic and industry conditions; and
- an objective customer rating assessment system.

Supporting these expectations are defined and documented policies and processes for the granting of credit. The key elements of the process include:

- clearly-defined authorities for the approving of credit; and
- a system of overview of credit approvals by a higher level of authority to ensure adherence to policies and good credit practice.

The delegated authorities are aligned to the counterparty risk by the inclusion of customer ratings in the authority matrix. The Group s credit rating system has been a focus point of credit assessment and related processes for a number of years. The system, based on probability of default of a counterparty, has been implemented globally and provides meaningful differentiation of credit risk and focus in pricing for risk.

For consumer credit, scoring solutions are in place and are supported by the mandatory use of appropriate monitoring tools. These tools provide the essential continual review of data integrity, scorecard performance and decision strategies. Software to validate and verify input data is used globally to support data integrity and reduce fraudulent activity.

Maintaining an appropriate credit administration, measurement and monitoring process

Efficient and effective credit administration operations and adequate control over back office procedures such as monitoring documentation, contractual requirements, legal covenants and collateral, are recognised as being vitally important aspects of the end-to-end credit process.

The Group assigns these responsibilities to various business units (ie. Business, Personal, Agribusiness, Cards, Payments, and Asset Finance and Fleet Management), together with centralised structures supporting the branch network, and business bankers, such as Customer Service and Operations.

Monitoring the condition of individual credits in the business units in the Financial Services businesses and Corporate & Institutional Banking principally rests with the customer-facing relationship managers, with overview by Risk Management.

Ensuring adequate controls over credit risk

There is a formal process, undertaken by specialist units, of independent oversight of credit in each region across the Group. Periodic reporting is submitted to management, the Audit Committee and the Risk Committee.

Additionally, credit processes and policy compliance are subject to internal auditing and targeted credit reviews of specific business units or regions are undertaken as considered appropriate.

On a regular basis, credits that are outside agreed arrangements are reported to the appropriate levels of authority for attention and monitoring of actions taken.

Credits showing adverse trends are passed to specialist units that undertake the collections and recovery processes. The Group utilises skilled internal resources supported by external secondments.

Through the use of due diligence techniques, the Group regularly targets areas of interest/concern within its credit portfolio to review and maintain the quality of the credit portfolio.

The role of supervisors

The Group is subject to supervision by APRA, together with the local supervisors in each of the countries in which the Company or its subsidiary banks, carry on business. In addition to regular dialogue, APRA undertakes periodic visits to the Company to review asset quality and the operation of credit risk management processes.

The Group also provides quarterly information to APRA, detailing large exposures to individual customers or groups of related customers in excess of 10% of total Tier 1 and Tier 2 capital. APRA imposes restrictions on the Group s ability to accept large exposures.

Basel II

As a global financial institution, the Group aspires to the advanced internal-ratings-based approach under Basel II.

The Group has a Basel II program in place entrusted with developing the required capability (processes, policies, systems and data) to achieve an internal-ratings-based approach.

Refer to page 17 for a more detailed discussion of the Basel II Capital Accord .

Market risk

Market risk is the potential for losses to the Group resulting from adverse changes in interest rates, foreign exchange rates, option volatility and commodity prices in the financial markets in which the Group operates.

Trading risk management

The Group continues to strengthen its market risk control framework covering all trading centres for Corporate & Institutional Banking. Market Risk is responsible for the formulation and implementation of appropriate policies and procedures to monitor and control transactional market risk generated by the Markets division of Corporate & Institutional Banking. On a day-to-day basis, Market Risk is responsible for the maintenance and development of the market risk control framework, including custodianship of the Market Risk system. This risk control function is fully segregated to ensure the independence necessary for prudent internal risk management and to meet regulatory requirements.

Trading limits

Trading risk is managed using a number of well-defined and developed limit structures. These include a number of desk level portfolio measures such as:

- interest rate sensitivity limits;
- foreign exchange position limits;
- yield curve limits;
- basis risk limits; and
- option portfolio limits.

In addition to the above desk level portfolio measures, a Value at risk (VaR) methodology is also used. VaR limits are applied to the trading portfolios within the Markets division.

The Board approves both an overall VaR limit for Corporate & Institutional Banking together with a VaR desk level limit allocation.

In addition to the above controls, trading portfolios are also subjected to stress test analysis on a regular basis.

VaR methodology

VaR is an estimate of potential losses resulting from shifts in interest rates, currency exchange rates, option volatility, equity prices and commodity prices. The estimate is calculated on an entire trading portfolio basis, including both physical and derivative positions.

The Group s VaR is predominantly calculated using historical simulation using the 99th percentile outcome based on portfolio revaluations across two years of historical pricing data.

For example, a VaR exposure of $1 million means that on 99 days out of 100, given the historical behaviour of rates, an overnight loss on the trading portfolio should not exceed $1 million.

The use of a VaR methodology has limitations, which include:

- the historical data used to calculate VaR is not always an appropriate proxy for current market conditions. The historical data may cause the underestimation of losses in more volatile market conditions, or the overestimation of losses in placid market conditions;

- market rate movements may exceed the most extreme rate movement in the historical data leading to significant underestimation of losses;

- VaR methodology assumes that positions are held for one day and no attempt is made to manage risk during that day. The positive or negative impact of transactions intended to manage risk on the portfolio are excluded from the loss estimate; and

- VaR is calculated at the close of business and positions may change substantially during the course of the trading day. Intra-day exposures are not subject to intra-day VaR calculations.

Given these limitations of VaR methodology, the Group employs supplementary risk measures in the form of stress testing, to estimate losses resulting from extreme market shifts, and position and sensitivity limits, which provide specific controls on risk at a portfolio level.

The following table shows the Group s VaR for all member banks trading portfolios, including both physical and derivative positions. The figures reflect the potential trading losses across products and regions in which the Group operates.

Unauthorised trading in foreign currency options (*for further detail refer to page 84 in the report on the directors and officers*) has had an effect on the VaR numbers in these tables. However, the nature of the trading activities during the reporting period were such that any effect on the numbers will be immaterial.

Value at risk at 99% confidence interval	**2004** **$m**	**2003** **$m**
Average value during reporting period		

Foreign exchange risk	**7**	7
Interest rate risk	**13**	17
Volatility risk	**5**	4
Commodities risk	**1**	1
Diversification benefit	**(6)**	(7)
Total	**20**	22
Minimum value during reporting period (1)		
Foreign exchange risk	**1**	2
Interest rate risk	**7**	9
Volatility risk	**1**	2
Maximum value during reporting period (1)		
Foreign exchange rate	**39**	20
Interest rate	**21**	25
Volatility risk	**20**	7
Commodities risk	**2**	1

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(1) *The VaR numbers in these tables could be taken from different days; hence, they are not additive.*

Balance sheet (non-trading) risk

The Group Asset and Liability Management Committee (Group ALCO), under delegated Board authority, sets policies in relation to the management of structural balance sheet exposures. These exposures include structural interest rate risk, structural foreign exchange risk and liquidity risk. The Group s global structural balance sheet risk is monitored against approved policies by Corporate Finance and reported on a monthly basis to Group ALCO. An Independent Risk Oversight function was created at the commencement of the year to oversee the balance sheet management process. The Independent Risk Oversight function is mandated to verify the quantum of balance sheet risk in addition to responsibility for the robustness of the balance sheet risk management process. It has dual but separate reporting lines to Group ALCO and to the Risk Committee via the Executive General Manager, Risk Management.

Wealth Management and each regional bank in the Group has an Asset and Liability Management Committee (ALCO) which is delegated the responsibility for managing local structural balance sheet risks in accordance with Group Balance Sheet Management policies. Group ALCO supervises the management of these local structural risks and monitors activity for compliance with Group policies.

Structural interest rate risk

In carrying out its business activities, each regional bank and non-banking entity in the Group strives to meet customer demands for products with various interest rate structures and maturities. Sensitivity to interest rate movements arises from mismatches in the repricing dates, cash flows and other characteristics of assets and liabilities. As interest rates and yield curves change over time, the size and nature of these mismatches may result in a loss or gain in earnings.

Structural interest rate risks arise mainly in the Group s banking operations. The management objective is to maximise net interest income and shareholder value arising from movements in interest rates. Each regional bank s ALCO is responsible for managing the structural interest rate risk within the region, in accordance with approved Group policy.

Structural interest rate risk is calculated using balance sheet simulation processes, which are undertaken across the Group s banking operations. The balance sheet simulation process is based on planned product volumes and margins, which are regularly updated to reflect the Group s latest views on business projections and interest rate environments. The Group applies a wide range of interest rate scenarios in measuring structural interest rate risk. These interest rate scenarios are derived using estimates of volatility to generate a range of potential outcomes around the market implied yield curve. This provides the ability to derive a statistical distribution of potential movements in net interest income. The Group also measures potential movements in the market value of equity of the banking operations that may arise due to changes in market interest rates.

The results of balance sheet simulations in the Group s banking operations, together with other balance sheet risk management information and strategies, are presented and reviewed by each regional ALCO and the Group ALCO on a monthly basis and at scheduled Board meetings. Similarly, Wealth Management s balance sheet risk management information and strategy are presented and reviewed by Wealth Management ALCO and Group ALCO on a monthly basis.

The table below presents a summary of the aggregated structural earnings at risk relating to non-trading assets and liabilities. The table below contains forward-looking statements (*refer to forward-looking statements on page 2)*. Based on the structural interest rate risk position at balance date, the table shows the possible impact on net interest income, for the year ending September 30, 2005 of an immediate 1% parallel movement in interest rates across the whole yield curve.

The non-Australian exposure (expressed in Australian dollars) is the net exposure of offshore banking and non-banking entities. Structural interest rate exposure in some countries may be biased towards rising interest rates, whilst in others may be biased to declining interest rates, depending on different economic conditions or cycles.

	Forecast effect on net interest income 2005 (1)		**Forecast effect on net interest income 2004 (2)**	
	Rates up 1% $m	**Rates down 1% $m**	**Rates up 1% $m**	**Rates down 1% $m**
Australian operations	50	(50)	(45)	45
Non-Australian operations	43	(44)	(45)	31

(1) *Represents the forecast effect on net interest income for the year ending September 30, 2005.*

(2) *Represents the forecast effect on net interest income (as at September 30, 2003) for the year ended September 30, 2004.*

The impact of interest rate movements on the net interest income of life insurance and funds management entities is not incorporated within the table above. However, interest rate movement is one of the factors taken into account in determining the change in net market value of life insurance and funds management entities when applying Australian Accounting Standard AASB 1038 Life Insurance Business .

Structural foreign exchange risk

Structural foreign exchange risk arises from investments in the Group s foreign branches and controlled entities. Both earnings and capital are exposed to movements in foreign exchange rates as a result of these investments.

Reported earnings and equity are exposed to movements in exchange rates as a result of the need to translate earnings and net assets of the foreign operations into the Australian dollar consolidated financial statements.

This exposure of reported earnings and equity to movements in exchange rates is sometimes referred to as an accounting or translation exposure which, in the absence of any long-term realignment in exchange rates, has no lasting impact on underlying economic exposures.

The policy of the Group is that the net asset position of integrated foreign operations is to be fully hedged, whilst the net asset position and earnings of offshore subsidiaries and self-sustaining foreign operations are not to be hedged. The rationale for this approach is that the Group bases its hedging decisions on economic considerations and not on the potential impact which short-term currency fluctuations may have on reported net assets and earnings.

The net assets of the Group s integrated foreign operations are denominated in US dollars. As at September 30, 2004, the net assets of US$134 million were fully hedged.

Real foreign exchange exposures, on the other hand, arise independently of the accounting process. Such transaction exposures arise from the risk that future cash flows will be converted to Australian dollars at less favourable rates than at present. Such cash flows could result from the repatriation of profits or capital back to the Company. The policy of the Group is to fully hedge these exposures at the time of commitment, if they are of a material nature. Hedging of transaction exposures relating to offshore acquisitions and divestments is assessed on a case-by-case basis.

Liquidity and funding

Liquidity risk is the risk that the Group is unable to meet its financial payment obligations as they fall due. Liquidity within the Group is managed in accordance with policies approved by the Board, with oversight from the regional bank s ALCO and Group ALCO.

The Group manages liquidity risk through a combination of positive cash flow management, the maintenance of portfolios containing high quality liquid assets, and diversification of its funding base. The Group undertakes a conservative approach in managing its liquidity as it imposes internal prudential limits that are in addition to the regulatory requirements.

Regulatory supervision of bank liquidity in Australia is undertaken by APRA through its Prudential Statement APS 210 Liquidity (APS 210). This approach became effective on July 1, 2000. In accordance with the requirements of APS 210, liquidity risk is measured and managed in the Group s banking entities on a cash flow basis. Each regional bank is required to monitor liquidity under both going concern and name crisis scenarios, and cash flow mismatch limits have been established to limit the Group s liquidity exposure. An additional prudential requirement of the regional banks is to maintain liquid asset portfolios to meet unexpected cash flow requirements.

Liquidity is managed on a regional basis, with day-to-day responsibility residing with regional banks, offshore branches and regional treasury operating divisions of the Group. Regulatory authorities in some countries in which the Group operates impose their own requirements to ensure that liquidity is managed prudently. These requirements may involve the bank maintaining a reserve deposit account with the central bank, holding a portfolio of highly liquid securities and overseeing the internal prudential supervision of liquidity.

A three-level contingency plan has also been established for management of an escalated liquidity requirement where the Group experiences either restricted access to wholesale funding, or a large increase in the withdrawal of funds. The plan identifies triggers on each level, details the action required, allocates the key tasks to individuals, provides a timeframe and defines a management committee to manage the action plan.

Refer also to liquidity and funding on page 45.

Life insurance and funds management market risk

The life insurance business is exposed to market risk arising from adverse movements in market prices affecting fee income on investment-linked policies and the returns obtained from investing shareholder funds held in each life company. Market risk is also affected by mismatches between assets and the guaranteed returns offered on some classes of policy, which may not have been effectively hedged through the matching of assets.

The Group attempts to, wherever possible, segregate policyholder funds from shareholder funds. Appropriate investment mandates are then developed for each. The Group (for investment mandates set for assets in policyholder funds) attempts to match asset characteristics with the nature of policy obligations; however, certain clauses included in policy and sales documents, regulatory constraints or the lack of suitable investments may affect this.

The majority of the policyholder assets are held for investment-linked policies where the policyholder bears the risk of movements in the market value and determines the allocation of the assets. Should markets fall, fee income will decrease as it is based on the amount of assets invested.

Market risk in the life insurance and funds management businesses also arises from movements in the value of the controlled entities of National Australia Financial Management Limited. The economic value of these assets fluctuates based on a number of factors including interest rates, retention rates and fee income.

Country risk

Sound international credit practices require not only commercial credit analysis of the counterparty, of the type normally associated with domestic credit, but also an assessment of country risk. Country risk arises from economic, financial, political or social factors within a country, which may affect a counterparty s ability and willingness to repay loans made by the Group. This consideration is applied notwithstanding the fact that the counterparty s own credit standing domestically might not have been impaired.

The Group has an established process for measuring country risk, which is used in determining and monitoring its cross border exposures. This includes setting prudential cross border limits based upon the Group s risk appetite for each country. Among other things, these limits are reflective of a country s credit grading, size, level of foreign exchange reserves and ability to meet financial obligations.

Limits are allocated into maturity time bands, which vary according to the risks of the country concerned and the outlook for the economic/political landscape. Exposures are monitored daily. The Board reviews these individual country limits on a periodic basis.

Cross border outstandings by industry category

The following table analyses the aggregate cross border outstandings due from countries other than Australia where such outstandings individually exceed 0.75% of the Group s assets. For the purposes of the annual financial report, cross border outstandings are based on the country of domicile of the counterparty or guarantor of the ultimate risk, and comprise loans, balances due from other financial institutions, acceptances and other monetary assets including trading derivative assets and reverse repurchase agreements. Local currency activities with local residents by foreign branches and subsidiaries are excluded.

The reporting threshold used below is for disclosure guidance only and is not intended as an indicator of a prudent level of lending by the Group to any one country.

	Government and official institutions $m	Banks and other financial institutions $m	Commercial and industrial $m	Other $m	Total $m	% of total assets
As at September 30, 2004						
Germany	2,770	3592	809	98	7,269	1.8
Italy	3,762	600		82	4,444	1.1
Netherlands	3	3,681	954	89	4,727	1.1
Switzerland		2,903	193	18	3,114	0.8
US	38	5,042	5,571	359	11,010	2.7
As at September 30, 2003						
Germany	2,933	4,131	751	103	7,918	2.0
Italy	8,230	669	78	7	8,984	2.3
UK		2,314	849	378	3,541	0.9
US	107	9,025	6,662	455	16,249	4.1
As at September 30, 2002						
Germany	79	5,132	1,996		7,207	1.9
UK		4,358	1,507		5,865	1.6
US		1,596	3,540		5,136	1.4

In addition, as at September 30, 2004, the US had off-balance sheet commitments of $4,095 million (2003: $4,101 million).

During 2004, the Group changed its basis of defining and collating cross border outstandings information for financial reporting disclosure purposes. The most significant change was the inclusion of trading derivatives and reverse repurchase agreement asset positions. The comparative information for 2003 has been restated to reflect these changes. It was impracticable to restate comparative information for 2002 on a consistent basis.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes, people, or systems or from external events. Individual business units own and are responsible for the identification, assessment and mitigation of their risk profile. Various reports are produced at management and Board level for their information and to assist in monitoring and where necessary determining appropriate actions.

The Operational Risk and Insurance function is responsible for:

- operational risk policy development;
- operational risk advice;
- business continuity planning advice;
- support in risk evaluation;
- operational risk reporting; and
- co-ordination of the risk assessment and approval process of new and re-engineered products and processes to ensure change initiatives are robustly assessed from a risk perspective.

To enhance the Group s ability to identify, measure and manage operational risk, a systematic framework and methodology for operational risk management has been developed and implemented. The methodology includes risk modelling and risk evaluation. Risk modelling is the statistical estimation of operational risk exposure based on internal and external historical loss experience. Risk evaluation involves the quality mapping and appraisal of the internal control environment based on end-to-end evaluation criteria.

Regulatory risk

The Group conducts its diverse geographic spread of business activities within applicable local and international laws, codes, regulatory and prudential controls and standards.

Regulatory risk is the risk of a Group company incurring corporate and/or personal penalties to the Group s directors, executive management and staff for non-adherence to legal and regulatory obligations, damaging its reputation, incurring restrictive conditions and undertakings by regulators on how the Group does business, or losing or having its licence suspended to deal or engage in certain activities as a result of non-compliance with legal and regulatory obligations. Regulatory compliance risk can also arise where the Group fails to anticipate and effectively manage the impact of regulatory change on its operations.

The Group aims to pro-actively manage and meet the obligations imposed on it across all business lines, customer segments and products in the jurisdictions in which it operates.

The Group s regulatory compliance policy and integrated business compliance framework set out the underlying compliance management expectations and control standards. The framework has been enhanced with the adoption of a three lines of defence approach to compliance responsibilities and assurance, and delivery of practical compliance processes, systems and tools to assist the business in tailoring and embedding its compliance obligations into core operations.

Each business unit is responsible for the implementation and maintenance of those controls necessary to meet and satisfy its regulatory compliance obligations (the first line of defence). Regulatory compliance teams work in each line of business, assisting management to fulfil these responsibilities, to address the impact of regulatory change on business practices and to test compliance controls and processes (the second line of defence). Regulatory Compliance and Internal Audit provide assurance on the application of the compliance framework (the third line of defence).

Fostering a positive compliance culture throughout all levels of the Group is recognised as an integral part of excellent relationships with customers and regulators as well as good corporate governance.

For a discussion of certain services provided by the external auditor in connection with problem loan reviews and the Company s related internal review of auditor independence refer to certain services provided by the external auditor matters related to independence on page 19 in the business overview section. Also, the regulatory implications of the unauthorised trading in foreign currency options is discussed on page 84 of the report on the directors and officers .

Life insurance risk

Life insurance risk occurs when the experience of mortality and morbidity claims compares adversely to that assumed when pricing life insurance policies. Factors affecting this include the trend of future claims and incidence of actual claims, unforeseen diseases or epidemics, and longer than assumed recovery periods for morbidity claims. Life insurance risk also occurs when the mortality and morbidity experience is higher than the assumptions used to determine the fair value of the life insurance business.

These risks are controlled by ensuring that the Group s underwriting policies and procedures adequately identify any potential risk, while retaining the right to amend premiums on risk policies where appropriate, and through the effective use of reinsurance. The experiences of the Group s life insurance business and that of the industry are reviewed on an annual basis to ensure that the risks continue to be effectively managed.

Disclosure controls and procedures and internal control over financial reporting

Under the requirements of the United States *Sarbanes-Oxley Act of 2002*, the Managing Director and Chief Executive Officer, and the Chief Financial Officer must each review and evaluate the Group s disclosure controls and procedures, including internal control over financial reporting. Under that Act, the Managing Director and Chief Executive Officer, and the Chief Financial Officer must certify, amongst other things, that they have presented in this annual financial report:

(1) their conclusions about the effectiveness of the Company s disclosure controls and procedures as at the end of the year covered by this report; and

(2) any change in the Company s internal control over financial reporting that occurred during the year that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

This evaluation was performed as at September 30, 2004, under the supervision of and with the participation of the Company s management, including the Managing Director and Chief Executive Officer, and the Chief Financial Officer. Based on that evaluation, the Company s Managing Director and Chief Executive Officer and Chief Financial Officer concluded that as of the evaluation date such disclosure controls and procedures were reasonably designed to ensure that information required to be disclosed by the Company in reports it files or submits under the United States *Securities*

Exchange Act of 1934 is recorded, processed, summarised and reported within the time periods specified in the rules and forms of the SEC, subject to the following:

Discovery of unauthorised trading in foreign currency options

In January 2004, the Company announced that it had identified losses relating to unauthorised trading in foreign currency options. A third party investigation into this matter was conducted by PricewaterhouseCoopers. The key points from the PricewaterhouseCoopers Investigation into foreign exchange losses at National Australia Bank report dated March 12, 2004 include:

the total losses arising from foreign currency options trading announced on January 27, 2004, was $360 million;

the losses arising from the foreign currency options trading increased significantly between September 2003 and January 2004;

four traders on the foreign currency options desk exploited loopholes and weaknesses in systems and processes to hide trading losses and protect bonuses;

the traders activities were contrary to the Company s strategy of building customer-focused business;

the foreign currency options trading losses were reported to management by several junior employees;

no customers were directly or indirectly affected by the foreign currency options trading losses;

in the Corporate & Institutional Banking Market s division there was:

inadequate management supervision;

significant gaps in back office monitoring functions;

escalation processes that did not work properly;

weaknesses in control procedures;

failure in risk management systems; and

an absence of appropriate financial controls;

there was not a suitable compliance culture within this area of the Company and a tendency to suppress bad news rather than be open and transparent about problems; and

warning signals, both inside the Company and from the regulators and other market participants, were not properly acted upon.

The complete PricewaterhouseCoopers report is available on the Group s website at www.nabgroup.com

By letter dated March 24, 2004, the Company s auditor, KPMG, reported to the Audit Committee a finding that certain deficiencies in internal control design and failure in the operation of the internal control were such as to be considered a material weakness in internal control requiring a report to the Audit Committee under US Generally Accepted Auditing Standards AU325. The matters cited were similar to those in the PricewaterhouseCoopers report.

APRA also provided to the Company a report on its investigation into this matter. That report identified problems and issues in respect of management supervision, adherence to risk management systems and controls, internal governance procedures and the culture of the Company similar to those described above.

The complete APRA report is available on the Group s website at www.nabgroup.com

The Company has made good progress in its program to implement the remedial actions required to address these issues. As at December 31, 2004, of the 81 remedial actions required by APRA, 25 have been resolved to APRA s satisfaction and a further 44 have been submitted to APRA for assessment for closure. Following APRA s assessment further work may or may not be required to close the issues.

The 69 requirements submitted to APRA to date constitute significant progress in a number of areas, namely:

- clarity of roles and responsibilities ambiguity between the roles of individuals in key functions (Market Risk, Finance, Markets and Operations) has been removed and roles clearly articulated;
- strengthening of the limit management and escalation framework revision of applicable policies to provide a framework to monitor all trading limits and a defined consequence framework;
- strengthening of many critical controls and processes that support the trading operations;
- closure of trading system gaps and weaknesses identified at the time of the foreign currency options trading losses, including the processing window utilised by the traders;
- strengthening of Internal Audit policies and procedures including escalation of overdue issues to the Audit Committee of the Board;
- a revised governance framework for Institutional Markets & Services endorsed by the Risk Committee of the Board; and
- A number of initiatives to drive organisational and cultural change (refer below).

Work is still progressing to address the remedial actions yet to be submitted to APRA. This includes:

- through the newly formed Product Control function within Finance, the Company is still working to address some of the remedial actions raised regarding the level of analysis undertaken by the Finance function;

several cultural initiatives relating to incentive arrangements and codes of conduct;

a framework for setting the Company s risk appetite at the Board level; and

a large program of work to achieve re-accreditation of an internal model to determine market risk capital.

The Company has also given enforceable undertakings to ASIC in relation to the foreign currency options trading losses. The undertakings require the Company to review certain key systems and controls across those businesses operating under the primary Australian Financial Services Licence applicable to the Company s Australian banking business. *Further detail with respect to the enforceable undertakings is provided in the report on the directors and officers on page 86.*

Reporting of non-accrual loans and 90 days past due loans

At September 30, 2001 through to September 30, 2003, a certain Australian exposure was classified as performing. At March 31, 2004, this exposure was classified as 90 days past due. However, the classification of this exposure as non-accrual is now considered more appropriate, and comparative information for these years has been restated to include the balance of this exposure (including accrued interest) of $254 million at September 30, 2003, $221 million at September 30, 2002 and $207 million at September 30, 2001 (*refer to note 18 to the financial report).* Other than this

single exposure, there are no other material loan facilities that are similarly affected.

The Company has implemented procedures to improve its data collection procedures used to establish its 90 days past due exposures, as weaknesses in these procedures had been identified. The disclosures in this annual financial report reflect those improved procedures. The Company is continuing to review whether additional improvements to the controls surrounding this reporting are required. *(Refer also to note 18 to the financial report.)*

Cross border outstandings

The Company disclosed in its annual financial report 2003 filed on Form 20-F that the information used for preparation of disclosures on cross border outstandings by industry category was sourced from risk management systems and not financial reporting systems. Those risk management systems were designed for monitoring risk exposure limits and were not designed specifically for cross border disclosure purposes. The Group has strengthened the internal control over the reporting of cross border outstandings for the purpose of improving reporting in this area. This resulted in changes to the basis of defining and collating cross border outstandings information for financial reporting purposes.

Organisational and cultural change

Since the discovery of the foreign currency options trading losses, as described above, the Company has embarked upon a journey of revitalisation across all levels of the organisation, including the Board and senior management. There is recognition that the Group s results, and its reputation, have been adversely impacted by compliance issues, insufficient accountability, and the lack of a clear cultural framework. As part of this revitalisation program, the Company is restructuring its finance and risk management functions to provide clear accountabilities at both a regional and group level. While the core financial information systems of the Company are considered to be sound and controlled effectively, there remains scope for a range of improvements to the Company s disclosure controls and procedures and internal control over financial reporting, as evidenced by the foreign currency options trading losses and other matters referred to above. This involves projects to address these specific issues, and projects such as the Sarbanes-Oxley internal control over financial reporting project, but also involves significant change in the culture of the organisation and in the visibility and accountability of its leadership group. The Company has already taken steps to address these cultural issues by introducing new Corporate Principles and performance assessments specifically tied to the achievement of the behaviours required by those Principles.

Transactions with related and other non-independent parties

In the year to September 30, 2004, and up to January 20, 2005, the Group had a number of related party transactions *(refer to note 50 in the financial report).* These transactions were made in the ordinary course of business and were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons or charged on the basis of equitable rates agreed between the parties. These transactions did not involve more than the normal risk of collectability or present other unfavourable features.

Other non-independent parties are parties that are able to negotiate terms of transactions that are not on an arm s length basis, but do not meet the definition of a related party. The Group is not aware of any relationships or transactions with such parties that would materially affect its

financial position or results of operations.

Risk factors

Business conditions and general economy

As an international financial services group, the Group s businesses are affected by the external environment in the markets in which it operates. The profitability of the Group s businesses could be adversely affected by a worsening of general economic conditions in Australia, New Zealand, the UK, the US, or elsewhere, as well as by foreign and domestic trading market conditions. Such factors could also adversely affect the credit quality of the Group s on-and off-balance sheet assets. An economic downturn can impact the Group s results and financial position by affecting demand for the Group s products and services. Such a downturn, international disruption, dispute or event, or significantly higher interest rates, could impact the credit quality of the Group s counterparties, increasing the risk that a greater number of the Group s customers would default on their loans or other obligations to the Group, or would refrain from seeking additional credit.

For a discussion of the Group s economic outlook, refer to page 22.

Competitive forces

The Group faces intense competition in all markets in which it operates.

For a discussion of the competitive factors facing the Group, refer to competition on page 15.

Government policies and economic controls

The Group s businesses and earnings are affected by the fiscal or other policies that are adopted by various regulatory authorities of the Australian Commonwealth Government, foreign governments and international agencies.

The nature and impact of future changes in such policies are not predictable and are beyond the Group s control.

Fluctuations in currency exchange rates

As the Group prepares its annual financial report in Australian dollars, changes in currency exchange rates, particularly between the Australian dollar and the British pound or US dollar, may have an adverse effect on the earnings that it reports.

For a discussion of the Group s risk management procedures, including the management of currency risk, refer to risk management on page 61.

Credit risk

The Group s provisions for doubtful debts provide for risks of losses inherent in loans and advances. Estimating losses inherent in the loan portfolio is of its very nature uncertain and the accuracy of those estimates depends on many factors, including general economic conditions, rating migration, structural changes within industries that alter competitive positions, and other external factors such as legal and regulatory requirements.

For a discussion of certain services provided by the external auditor in connection with problem loan reviews and the Company s related internal review of auditor independence refer to certain services provided by the external auditor matters related to independence on page 19 in the business overview section.

For a discussion of the Group s risk management procedures, including the management of credit risk, refer to risk management on page 58.

Market risk

The Group s earnings are also subject to market risk exposures, principally changes in market interest and foreign exchange rates, equity and commodity prices, and associated financial derivatives. The Group has in place controls and processes governing market risk activities.

For a discussion of the Company s losses relating to unauthorised trading in foreign currency options, refer to page 84.

For a discussion of the Group s risk management procedures, including the management of market risk, refer to risk management on page 59.

Operational risk

As a financial services group, the Group is exposed to a number of other risks relating to people, processes, and systems and from external events. These risks are identified, measured and managed by the co-ordinated efforts of the individual business units and the Operational Risk unit, through the rigorous application of the Group s systematic risk framework and methodology.

For a discussion of the Group s risk management procedures, including the management of operational risk, refer to risk management on page 63.

Control systems and programs

The implementation of control systems and programs is dependent upon factors such as the Group s ability to acquire or develop necessary technology or systems, its ability to attract and retain qualified personnel, the competence and performance of employees, the co-operation of customers, or third party vendors.

Critical accounting policies

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The Group s annual financial report has been prepared in accordance with Australian GAAP.

The Group s principal accounting policies are disclosed in note 1 in the financial report and in note 56 with respect to policies that differ from US GAAP.

Certain of these policies are considered to be critical to the representation of the Group s financial performance and position, since they require difficult, subjective, or complex judgements. The following disclosure is intended to provide an enhanced level of understanding of these judgements and their impact on the Group s financial statements. These judgements necessarily involve assumptions or estimates in respect of future events, which can vary from what is forecast. However, the Company believes that its financial statements and its ongoing review of the estimates and assumptions utilised in preparing those financial statements, are appropriate to provide a true and fair view of the Group s financial performance and position over the relevant period.

Management has discussed the development and selection of its critical accounting policies with the Audit Committee and the Committee has reviewed the Group s disclosure relating to them in this financial review.

The following are considered critical accounting policies of the Group.

Provision for doubtful debts

Under Australian GAAP, loans and advances are carried at their recoverable amount, representing the gross value of the outstanding balance adjusted for provisions for doubtful debts and unearned income. To best meet this requirement, the Group has adopted a statistically-based provisioning methodology for its general provision for doubtful debts, which is consistent with other large financial institutions in Australia and the US. Under this methodology, the Group estimates the level of losses inherent, but not specifically identified, in its existing credit portfolios at balance date. The statistical provisioning methodology is applied to existing credit portfolios, including loans and advances drawn down in the current year.

In applying the statistically-based provisioning methodology, two key inputs are used in a statistical model: probability of default and the level of collateral held.

In respect of non-retail lending, the amount of the general provision is determined by multiplying the customer s probability of default by the estimated loss given default. The probability of default is determined by the Group s internal customer rating system. Internal ratings are assigned at the customer level. This system utilises objective, verifiable external data, such as external credit ratings, and is supplemented with an assessment of economic and industry outlooks, conducted by the Group s discrete specialist economics unit. A small degree of subjective data is input into the model in relation to an assessment of the borrower s management and any changes in this assessment would be unlikely to result in a material change to the Group s general provision. In general, the key driver of changes in the general provision for doubtful debts in respect of non-retail lending is usually changes in credit quality.

The estimated loss given default is the amount of an individual loan at risk having regard to the level of collateral held against that facility. The level of collateral held is determined on a loan-by-loan basis, based on the Group s assessment of the loan security s value at the time of loan application and any subsequent valuations. Changes in the level of collateral held will impact the loss given default and, in turn, the determination of the general provision.

For retail lending (smaller-balance homogeneous loans), provisions are assessed at a portfolio level and are based on product loss rates, to make a provision for losses inherent in the portfolio but not yet identified. These rates are determined by reference to observed historical loss experience for the relevant product types and are the key driver of changes in the general provision for retail lending.

For retail lending, historical collateral levels have directly influenced product loss rates. For example, mortgage lending has historically had high levels of collateral. Product loss rates, based on this history, are therefore lower than for unsecured lending, such as credit cards.

In 2004, management revised the discount rate built into the statistically-based provisioning model that impacts cumulative probabilities of default. This was in response to recent experience, industry practice and emerging developments. The change resulted in a revision to the accounting estimate for general provision for doubtful debts, which was recognised as a significant expense in the year ended September 30, 2004.

The Group undertakes periodic sensitivity analysis to assess the impact of deterioration in credit risk on the credit portfolio and on the results of the statistically-based provisioning methodology. Sensitivity analysis includes a one-standard-deviation confidence interval around the statistical estimate of losses inherent in respect of non-retail lending. The statistical estimate may then be adjusted for management s estimate based on probable losses on specific categories of loans, the trends in portfolio composition and concentrations. Such adjustments do not exceed the results of the one-standard-deviation confidence interval sensitivity analysis.

For the purposes of the Group s reconciliation to US GAAP, the net effect of discounting probabilities of default and the full term to maturities of facilities within the statistically-based provisioning model is not recognised.

In addition to the general provision, specific provisions for doubtful debts are recognised once a loan is classified as impaired to cover any potential losses inherent in the loan. A loan is considered impaired when there is reasonable doubt over the collectability of principal and interest in accordance with the relevant loan agreements. Amounts provided for are determined by specific identification or by management s determination of probable losses for individual loans that are considered impaired in relation to loan portfolios where specific identification is impracticable.

Upon identification of a loan requiring a specific provision (that is an impaired loan), the respective loan s general provision balance is transferred to the specific provision. An assessment is then made by management as to whether the transferred balance is adequate to cover the estimated credit loss at balance date on that impaired loan.

For larger-balance, non-homogeneous loans that have been individually determined to be impaired, the level of specific provision required is based on an assessment of the recoverability of each loan. This takes into account available evidence on the collateral and other objective and subjective factors that may impact the collectability of the outstanding loan principal and interest. Management judgement is required in determining the valuation of the loan collateral. Independent valuations are frequently obtained by management to provide expert advice.

Each portfolio of smaller-balance, homogenous loans, including credit cards and personal loans, is collectively evaluated for impairment. The Group uses both dynamic modelling and specific provisioning at the account level. Management considers overall portfolio indicators, including historical credit losses and delinquency rates, in determining the level of specific provision required for each portfolio.

The historical experience of the Group has shown that management s judgement of the provisions for doubtful debts required in the past has been appropriate. The Group considers the assumptions used in the calculation of the provision for doubtful debts to be reasonable and supportable in the existing economic environment.

Valuation of life insurance controlled entities

The Group is required by Australian Accounting Standard AASB 1038 Life Insurance Business to measure all the assets and liabilities of its life insurance controlled entities at net market value. Movement in the excess of net market value over net assets of life insurance controlled entities is recognised in the profit and loss account as an unrealised gain or loss.

Directors bi-annual valuations of the life insurance controlled entities are performed using industry-accepted actuarial valuation methodologies. Value is determined in three distinct areas, being value of:

- each entity s net assets;
- future profits from current business contracts; and
- future profits from future (yet to be written) business contracts.

In determining the value of all future profits to emerge from the life insurance controlled entities, careful consideration is given to both future business and economic assumptions affecting the business. Many of these assumptions require significant judgement because they are dependent on a number of factors that cannot be precisely determined at the time the valuation is made.

The key business assumptions used relate to sales (volume and growth), profit margin squeeze, discontinuances, expenses and claims. These assumptions are determined after an examination of the experience of the Group s life insurance controlled entities, their short-term and long-term business plans, and industry experience and expectations.

The key economic assumptions used relate to investment earnings, risk discount, inflation and tax rates. These assumptions are determined after an examination of current market rates and future market expectations. In addition, the overall assumptions set and their impact on value are reviewed against transactions in the marketplace, current prices of listed entities and other publicly-available information.

Changes in management s assessment of key business factors and economic conditions (global, regional and sector specific) in the future would affect the valuation of life insurance controlled entities. As a result, the carrying value of life insurance controlled entities recorded in the statement of financial position and the movement in the excess of net market value over net assets of life insurance controlled entities recorded in the statement of financial performance could be materially different in the future. The Group considers the assumptions used in the valuations to be reasonable and supportable in the existing economic environment. Further, the valuations are based on discounted cash flow valuations prepared by Tillinghast-Towers Perrin using risk discount rates specified by the directors. Key business and economic assumptions are approved by a committee of senior management and a non-executive director of the Wealth Management holding company (National Wealth Management Holdings Limited). Recommendation of the final valuation is then made to the Wealth Management Audit committee and the board of directors of the Wealth Management holding company.

Key valuation results and assumptions are disclosed in note 24 in the financial report.

Life insurance policy liabilities

Policy liabilities in the Group s statement of financial position and the change in policy liabilities disclosed as an expense have been calculated using the Margin on Services methodology in accordance with guidance

provided by the Life Insurance Actuarial Standard Board s Actuarial Standard AS 1.03 Valuation of Policy Liabilities .

Policy liabilities for investment-linked business are calculated using the accumulation method. The liability is generally the accumulation of amounts invested by policyholders plus investment earnings less fees specified in policy contracts. Deferred acquisition costs are offset against this liability.

Policy liabilities for non-investment-linked business are measured mainly using the projection method, which is based on the net present value of estimated future policy cash flows. Future cash flows incorporate investment income, premiums, expenses, redemptions and benefit payments (including bonuses).

The measurement of policy liabilities is subject to actuarial assumptions, which involve complex judgements. Assumptions made in the calculation of policy liabilities at each balance date are based on best estimates at that date. The assumptions include the benefits payable under the policies on death, disablement or surrender, future premiums, investment earnings and expenses. Best estimate means that assumptions are neither optimistic nor pessimistic but reflect the most likely outcome. The assumptions used in the calculation of the policy liabilities are reviewed at each balance date.

Economic assumptions are based on the prevailing interest rate and economic environment. Other assumptions are based on company experience, or where this is insufficient, industry experience. A summary of the significant actuarial methods and assumptions used is contained in note 54 to the financial report. Many of these assumptions are based on actuarial tables published by the Institute of Actuaries of Australia.

The Group considers the assumptions used in the calculation of life insurance policy liabilities to be reasonable and supportable in the existing economic environment. Changes in actual experience and management s assessment of economic conditions (global, regional and sector specific) in the future could affect the level of life insurance policy liabilities recorded. As a result, the amount of policy liabilities recorded in the Group s statement of financial position and the change in policy liabilities recorded in the statement of financial performance could be different in the future.

Defined benefit superannuation and pension arrangements

The Group maintains several defined benefit superannuation and pension arrangements, details of which are given in note 47 in the financial report. In accordance with applicable accounting rules, the Group does not consolidate the assets and liabilities associated with these defined benefits plans. Instead, the Group recognises a prepaid asset for contributions the Group has made to the pension plan in excess of pension expense. The measurement of the prepaid asset and the annual pension expense involves actuarial and economic assumptions. The four key variables used in pension accounting relate to the size of the employee and pensioner population, actuarial assumptions, the expected long-term rate of return on plan assets, and the discount rate. The annual pension expense and balance sheet position for the Group is currently most sensitive to discount rate and return on asset assumptions.

The discount rate is used to determine the present value of the Group s future benefit obligations. It is an assumption that reflects the rates available on long-term, high quality fixed income debt instruments.

The Group calculates the expected return on plan assets based on the balance in the pension asset portfolio and the expected long-term rate of return on that portfolio. The expected long-term rate of return is designed to approximate the long-term rate of return actually earned on the plan assets over time and is generally held constant so that the pattern of income/expense recognition more closely matches the stable pattern of services provided by the Group s employees over the life of the pension obligation.

There is an acceptable range in which the estimates for assumptions can validly sit. If different estimates within that range had been chosen, the cost recognised in the profit and loss account and balance sheet position could be significantly altered.

In relation to the actuarial assumptions such as mortality rate, turnover rate, retirement rate, disability rate and the rate of compensation increases, because these factors do not tend to change materially over time, the range of actuarial assumptions is generally narrow.

Changes in actuarial assumptions, discount rate and return on asset assumptions would affect the prepaid pension cost asset and pension expense and, in certain circumstances, require the recognition of a pension liability. The Group considers the assumptions used in the calculation of the prepaid pension cost asset and pension expense to be reasonable and supportable in the existing economic environment. Further, the assumptions were considered reasonable by the actuaries of the respective defined benefit pension plans.

Carrying value of plant and equipment, including application software

The asset class plant and equipment reported on the Group s statement of financial position includes leasehold improvements, furniture, fixtures and fittings and other equipment, data processing equipment, and application software.

Plant and equipment is carried at the lower of cost less accumulated depreciation/amortisation and recoverable amount. Recoverable amount is the net amount expected to be recovered through the net cash flows arising from an asset s continued use and subsequent disposal. These cash flows are not discounted. Any write-down to recoverable amount is recognised in the Group s profit and loss account.

The Group assesses the value of plant and equipment each six months. If impairment indicators are identified, management makes an assessment about whether the carrying value of such assets remains fully recoverable. Where a group of assets work together to support the generation of cash inflows, such as corporate infrastructure assets (eg. enterprise application software), recoverable amount is assessed in relation to the cash-generating unit in which those assets operate.

Changes in management s assessment of whether indicators of impairment have occurred and the recoverable amount in relation to impaired plant and equipment would affect the carrying value of plant and equipment. The Group considers the impairment identification process in place to be sound and the assumptions used in the valuation of recoverable amount to be reasonable and supportable in the existing economic environment.

In 2004, the Integrated Systems Implementation application software asset was impaired and the corporate asset grouping approach detailed above did not result in a recoverable amount management considered to be reflective of

the level of future economic benefits to be derived from the use of the asset. Management assessed the recoverable amount in this instance based on a replacement cost valuation method. The resulting impairment charge was recognised as a significant expense in the profit and loss account for the year ended September 30, 2004.

Accounting developments

The following is a summary of the impact of recently issued accounting standards and other developments that are expected to have a material effect on the Group s future financial performance or position:

International Financial Reporting Standards

In July 2002, the Financial Reporting Council in Australia formally announced that Australian reporting entities would be required to comply with Australian accounting standards equivalent to International Financial Reporting Standards (AIFRS) for financial years commencing on or after January 1, 2005. The adoption of AIFRS is expected to have a material effect on the Group s reported financial performance and position.

The Group continues to evaluate the areas most impacted by the standards. Refer to note 2 in the financial report for additional information on the impact of adoption of AIFRS by the Group.

Non-GAAP financial measures

The following is a summary of the key non-GAAP financial measures used throughout the annual financial report:

Cash earnings

Cash earnings is a key performance measure and financial target used by the Group. Dividends paid by the Company are based on after tax cash earnings (adjusted for significant items). Diluted cash earnings per share is a key performance measure used in the investment broking community, as well as by those Australian peers of the Group with a similar business portfolio. Management considers that the exclusion of the intangible and other items detailed below from net profit is a prudent and useful indicator of the Group s underlying operating performance. Cash earnings does not refer to, or in any way purport to represent, the cash flows, funding or liquidity position of the Group. It does not refer to any amount represented on a statement of cash flows.

Adjustments are made between net profit and cash earnings as follows:

Outside equity interest   this reflects the allocation of profit to minority interests in the Group, and is adjusted from net profit to reflect the amount of net profit that is attributable to ordinary shareholders.

Distributions   this reflects payments to holders of National Income Securities, Trust Units Exchangeable for Preferred Shares and Trust Preferred Securities, and is adjusted from net profit to reflect the amount of net profit that is attributable to ordinary shareholders.

Movement in the excess of net market value over net assets of life insurance controlled entities   this relates to the movement in net market value (including the value of intangible assets) of investments in life insurance controlled entities recorded on the statement of financial position in accordance with Australian Accounting Standards. As it relates to an intangible asset, management believes it is prudent to isolate this amount from the underlying operating result. It is separately identified and discussed in detail. Management further separates this, as the method for accounting for the value of life insurance controlled entities is not comparable on an international basis.

Goodwill amortisation   relates to the straight-line method of amortising goodwill (an intangible asset recorded on the statement of financial position) in accordance with Australian Accounting Standards. Management generally does not regard goodwill amortisation expense as being useful information in analysing investments. As it relates to an intangible asset, management believes it is prudent to isolate this amount from the underlying operating result.

Refer to page 6 for the reconciliation of net profit to cash earnings before significant items.

Significant items

Significant items including significant revenue, significant expenses and the associated income tax expense are defined as follows. When the revenue or an expense from ordinary activities is of such a size, nature or incidence that its disclosure is relevant in explaining the financial performance of the entity for the reporting period and its disclosure is not otherwise required under Australian Accounting Standards, its nature and amount must be disclosed separately either on the face of the statement of financial performance or in the notes to the financial report.

Management believes that the inclusion of these items distorts the underlying operating results of the Group and causes difficulty in identifying underlying performance trends and issues. Through the clear separation and identification of these items, the Group ensures that they are identified and discussed in full, as well as ensuring that the underlying performance is highlighted and discussed in full.

Economic Value Added (EVA®)

EVA® is a profitability measure designed to recognise the requirement to generate a positive return on the economic capital invested in the business. If the business produces profit in excess of its cost of capital, then value is created for shareholders.

In order to encourage longer-term management decision making and sustained value creation, the Group sets EVA® growth targets for three year periods. The Group s EVA® target of 5% compound growth per annum basis was set in 2003, for the three years ending September 2006.

EVA ®'s net operating profit after tax is based on cash earnings before significant items (using a 30% projected tax rate) plus the calculated benefit of imputation credits earned by paying Australian tax. The capital charge is based on the Group's cost of capital. This is then applied to a calculated average economic capital, which is based on average shareholder equity less other equity instruments and adjusted for cumulative goodwill amortisation, cumulative movement (after tax) in the excess of net market value over net assets of life insurance controlled entities, and significant items.

EVA ® is a registered trademark of Stern Stewart & Co.

Corporate governance

Importance of corporate governance

The Board of directors of the Company (Board) is responsible for the corporate governance of the Company and its controlled entities (the Group). Corporate governance is a matter of high importance in the Company and is undertaken with due regard to all of the Company s stakeholders and its role in the community. Good corporate governance is a fundamental part of the culture and the business practices of the Group. The main corporate governance practices that were in place during the 2004 year, or otherwise as referred to below, are discussed in this section.

The 2004 year has been one of transformation for the Company with the events of this year being a catalyst for renewal for the Group. Six directors resigned during the year, including the Managing Director and Chief Executive Officer, Mr Frank J Cicutto and the Chairman, Mr D Charles K Allen. A new Managing Director and Chief Executive Officer, Mr John M Stewart, and a new Chairman, Mr Graham J Kraehe, were appointed by the Board. Two new executive directors and five new non-executive directors were appointed by the Board up to the end of September 2004. The board renewal program was completed in December 2004, with the appointment of Mr Michael Chaney as an independent non-executive director. Mr Chaney will take over as Chairman of the Company after he stands down from his current chief executive role of Wesfarmers Limited in September 2005.

An extensive search was undertaken to ensure that the new Board would have an appropriate mix of skills and experience for an international company of the size and complexity of the Group, including depth of knowledge in the banking and financial services industry. In addition, Mr T Kerry McDonald, Chairman of Bank of New Zealand, has been appointed as a consultant to the Board.

Significant changes have also occurred to the executive management of the Company, with seven executive officers resigning during the year. Two new executive directors and two new executive general managers have been appointed from outside the Group. In addition, three new executive general managers have been appointed from within the Group. The new executive team has outstanding credentials to run the Group.

A number of the executive management positions have been restructured with greater clarity of roles and accountability to better drive the strategic direction and the operational goals of the Group. The new Managing Director and Chief Executive Officer has formed a Group Executive Committee comprising himself, the executive directors and the executive general managers. The Group Executive Committee acts as a collegiate body running the total Group and supports the individual divisions.

Integrated governance

During the year under review, considerable attention was given to improving the governance of the Group through improving the quality of reporting to the Board and the development of a more integrated governance system, which aligns the areas of focus for management and the Board. This has involved a review of the management committees, particularly the management risk committees. These developments are ongoing and are designed to identify, examine and escalate problem areas so that appropriate action can be taken in a timely manner.

The Board has approved corporate governance guidelines, which set out the specific roles, duties, responsibilities and rights of the directors of the Company. Each director is expected to have regard to these guidelines in the performance of his or her duties as a director of the Company.

The major processes by which the Board meets its duties are described in this corporate governance statement.

Responsibilities and functions of the Board

The Board has adopted a formal charter that details the functions and responsibilities of the Board, which may be found on the Group s website at www.nabgroup.com The most significant responsibilities of the Board are to:

Stakeholder interests

serve in the interests of all stakeholders, being the shareholders, customers, regulators, staff and the communities in the geographic regions in which the Group operates;

build trust in the Group through consistent behaviour, transparency and accountability; and

build trust in the Group through consistent behaviour, transparency and accountability; and

establish, review and monitor processes for corporate governance throughout the Group;

Future strategy

develop an in-depth understanding of each substantial segment of the Group s business;

review, approve and monitor corporate strategy and plans and review the assumptions and rationale underlying the annual plans;

make decisions concerning the Group s capital structure and dividend policy; and

review, approve and monitor major investment and strategic commitments;

Review of past performance

review business results, monitor budgetary control and review, approve and monitor necessary corrective actions and processes;

Integrity of external reporting

review and monitor the processes, controls and procedures which are in place to maintain the integrity of the Group s accounting and financial records and statements with the guidance of the Audit Committee;

review and monitor the reporting to shareholders and regulators, providing objective, comprehensive, factual and timely information to the various markets in which the Company s shares are listed; and

monitor and receive reports from the Audit Committee in relation to internal controls and internal and external audit reports;

Risk management and compliance

establish, monitor and review the risk management processes with the guidance of the Risk Committee;

review and monitor processes for compliance with prudential regulations and standards and other regulatory requirements;

review and monitor processes for compliance with prudential regulations and standards and other regu

review and monitor processes for the maintenance of adequate credit quality; and

review and monitor processes for the documentation and regular review and updating of the Group s risk profile;

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review and monitor processes for the documentation and regular review and updating of the Group s r

Executive review, succession planning and culture

approve key executive appointments and monitor and review executive succession planning;

review and monitor the performance of the Managing Director and Chief Executive Officer and senior management;

review and monitor the performance of the Managing Director and Chief Executive Officer and senior m

review and approve executive remuneration with the guidance of the Human Resources Committee;

approve all appointments of directors to the boards of controlled entities and appointments made by the Group to non-controlled entities; and

monitor and influence the culture, reputation and ethical standards of the Group; and

Board performance

monitor Board composition, director selection, Board processes and performance with the guidance of the Nomination Committee;

monitor and review the processes to assist directors in having sufficient time to devote to Board matters in order that they discharge their duties effectively; and

review the charter and its continuing adequacy from time to time.

Composition of the Board

The Board requires that each of its directors possess unquestionable integrity and character. The Nomination Committee assists the Board in identifying other appropriate skills and characteristics required for the Board as a whole and the Board s individual members in order for the Group to fulfil its goals and responsibilities to shareholders and other key stakeholders.

The composition of the Board is based on the following factors:

the size of the Board will be of a size to assist in efficient decision making;

the Chairman of the Board should be an independent non-executive director and shall be elected by the directors annually;

the Chairman must not be a former executive officer of the Group;

the Board should comprise a majority of independent non-executive directors; and

the Board should comprise directors with a broad range of expertise, skills and experience from a diverse range of backgrounds.

The Board is comprised of a majority of independent non-executive directors. There are three executive directors and ten independent non-executive directors. The role of Chairman and the role of Managing Director and Chief Executive Officer are held by two separate individuals. The Chairman is a non-executive director and the Managing Director and Chief Executive Officer is an executive director. The other executive directors are the Chief Executive Officer, Australia and the Chief Financial Officer.

The skills, experience and expertise of the directors are set out in the report on the directors and officers.

Independence of directors

In judging whether a director is independent for the purposes of services on the Board and Board committees of the Company, the Board has regard to the standards adopted by the Board from time to time to assist it in its regular independence determinations. These standards reflect the independence requirements of applicable laws, rules and regulations, including the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, the corporate governance standards of the New York Stock Exchange, and the US *Sarbanes-Oxley Act of 2002*.

Directors are required to provide all relevant information to allow a regular assessment of independence. The fundamental premise of the standards is that an independent director must be independent of management and free to exercise his or her unfettered and independent judgement.

The non-executive directors meet informally on a regular basis, without the Managing Director and Chief Executive Officer, other executive directors and other members of management being present.

The directors considered by the Board to constitute independent directors are identified, along with their period in office, in the report on the directors and officers.

Disclosure of related party transactions is set out in note 50 in the financial report.

Appointment and re-election of Board members

The process for appointing a director is that, when a vacancy exists, the Board, assisted by the Nomination Committee, identifies candidates with the appropriate expertise and experience, using external consultants as appropriate. The most suitable candidate is appointed by the Board but must stand for election by the shareholders at the next annual general meeting of the Company.

During the year, the Board undertook a major board renewal program. In February 2004, Mr Graham J Kraehe was appointed as Chairman, and Mr John M Stewart as Managing Director and Chief Executive Officer, following the retirement of Mr D Charles K Allen as Chairman and non-executive director, and Mr Frank J Cicutto as Managing Director and Chief Executive Officer.

On April 6, 2004, the Chairman announced that the Board was conducting a search for additional non-executive members, particularly with banking and finance sector experience. This resulted in the appointments of Mr Robert G Elstone, Mr Daniel T Gilbert, Mr Paul J Rizzo, Ms Jillian S Segal and Mr G Malcolm Williamson as independent non-executive directors. Mr Ahmed Fahour, Chief Executive Officer, Australia and Mr Michael Ullmer, Chief Financial Officer were appointed as executive directors.

The appointment of Mr Michael Chaney as an independent non-executive director in December 2004, and as Chairman in place of Mr Graham J Kraehe on his retirement in September 2005 was also announced.

Also during the year, Dr J Brian Clark, Dr Kenneth J Moss, Dr Edward D Tweddell and Mrs Catherine M Walter resigned as directors.

The Company has formal letters of appointment for each of its directors appointed during the year, setting out the key terms and conditions of the appointments.

The process for re-election of a director is in accordance with the Company s constitution, which requires that, other than the Managing Director and those directors appointed during the year, one-third (or the nearest number to one-third) are required to retire by rotation at each annual general meeting and are eligible to stand for re-election. Those directors appointed during the year to fill any vacancy must retire and stand for election.

Prior to each annual general meeting, the Board will assess the performance of each director due to stand for re-election and determine if the Board will recommend to the shareholders that they vote in favour of the re-election, or otherwise, of each such director. A number of directors have only recently joined the Board and they will stand for election for the first time at the next annual general meeting. Such directors, having only recently been appointed, were not subject to this performance review process in 2004.

The Board has set a limit of 10 years for which an individual may serve as a director, subject to an annual review after this period. The Board regards this as an appropriate period of service. Directors who have served on the Board for an extended period of time have gained valuable experiences, insights and historical perspectives regarding the Group that would not be easily replaced.

The retirement age for directors is fixed by the Company s constitution at 70 years of age.

Induction and continuing education

Management, working with the Board, provides an orientation program for new directors in order to assist them in fulfilling their duties and responsibilities. The program includes discussions with the Managing Director and Chief Executive Officer, the other executive directors and management, the provision of reading material, tutorials and workshops. These include detail on directors rights, duties and responsibilities, the Group s strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Conduct, its management structure and its internal and external audit.

Management conducts additional presentations and tutorial sessions for directors from time to time regarding the Group, the factors impacting, or likely to impact, on its businesses to assist the non-executive directors in gaining a broader understanding and knowledge of the Group. Directors are also encouraged to keep up to date on relevant topical issues.

Board meetings

The frequency of Board meetings and directors   attendance at those meetings is set out in the report on the directors and officers. Directors are expected to prepare adequately for, attend and participate at Board meetings and meetings of committees. Some on-site inspections are conducted in relation to which directors are also expected to attend. The Board meets once each year in Europe, where the Group has a substantial proportion of its assets, and in New Zealand, where there are significant business interests. The amount of work undertaken is considerable. The time requirement varies depending on the number of Board committee meetings and controlled entity board meetings a director attends.

Board performance

The Board s existing governance processes include the regular reviews and evaluation of the performance of the Board with the guidance of the Nomination Committee. An external expert is regularly engaged to review many aspects of the Board s activities and to assist in a continuous improvement process to enhance the effectiveness of the Board. Given the major changes in the composition of the Board during 2004, the external review was deferred until 2005.

The Board also conducts an annual review of individual directors prior to their standing for re-election at the annual general meeting *(refer to appointment and re-election of Board members above).*

Remuneration of directors

The maximum aggregate amount from which non-executive directors may be remunerated is determined by the shareholders. It is possible that this maximum aggregate amount may not be fully utilised in any one year. From this amount, the individual directors are remunerated based on a philosophy of compensating the directors at around the upper quartile of the market, having regard to the size and complexity of the Group.

The remuneration of non-executive directors involves all the non-executive directors receiving part of their remuneration in the form of shares in the Company.

The Human Resources Committee (formerly the Compensation Committee), provides guidance to the Board in respect of these matters.

The remuneration policy for the Board and the remuneration of each director is set out in note 51 of the financial report.

Remuneration of senior executives

The Group s remuneration philosophy for senior executives is to reward high levels of sustained performance and contribution through a pay-for-performance model.

Remuneration comprises fixed and variable remuneration components. Variable remuneration, also known as at risk remuneration, comprises short-term incentives and long-term incentives. In general, the Group aims to target the upper quartile of the market for remuneration to ensure the attraction and retention of talented senior executives.

The Human Resources Committee provides guidance to the Board in respect of these matters.

The remuneration policy for senior executives is set out in note 51 of the financial report.

Conflicts of interest

Directors are expected to avoid any action, position or interest that conflicts with an interest of the Group, or gives the appearance of a conflict. A director who has a material personal interest in a matter that relates to the affairs of the Group must give the other directors notice of such interest. Such notice should be provided in writing to the Company Secretary, who is to ensure that the notice is brought to the attention of the other directors.

The *Corporations Act* 2001 (Cth) together with the constitution of the Company provide that a director who has a material personal interest in a matter that is being considered at a directors meeting cannot be present while the matter is being considered at the meeting or vote on the matter, except in the following circumstances:

the directors who do not have a material personal interest in the matter have passed a resolution that identifies the director, the nature and extent of the director s interest in the matter and its relation to the affairs of the Company, which states that the remaining directors are satisfied that the interest should not disqualify the director from voting or being present;

ASIC has made a declaration or order under the *Corporations Act* 2001 (Cth), which permits the director to be present and vote notwithstanding the director s material personal interest;

there are not enough directors to form a quorum for a directors meeting because of the disqualification of the interested directors, in which event one or more of the directors (including a director with a material personal interest) may call a general meeting to address the matter; and

the matter is of a type which the *Corporations Act* 2001 (Cth) specifically permits the director to vote upon and to be present at a directors meeting during consideration of the matter notwithstanding the director s material personal interest.

However, notwithstanding the exceptions permitted by the *Corporations Act* 2001 (Cth) and the constitution of the Company (as described above), the Group s corporate governance standards provide that generally speaking, when a potential conflict of interest arises, the director concerned does not receive copies of the relevant Board papers and withdraws from the Board meeting while such matters are considered. Accordingly, in such circumstances the director concerned takes no part in discussions nor exercises any influence over other members of the Board. If a significant conflict of interest with a director exists and cannot be resolved, the director is expected to tender his or her resignation after consultation with the Chairman.

Financial services are provided to non-executive directors under terms and conditions that would normally apply to the public. Executive directors are entitled to financial services under terms and conditions that would normally apply to full-time employees. The provision of financial services to directors is subject to any applicable legal or regulatory restrictions, including the *Corporations Act* 2001 (Cth) and the US *Sarbanes-Oxley Act of 2002. Refer to note 50 of the financial report for further information.*

Access to management

Board members have complete and open access to members of management following consultation with the Chairman, and the Managing Director and Chief Executive Officer.

Access to independent professional advice

Written guidelines are in place providing for each director to have the right to seek independent professional advice at the Company s expense, subject to the prior approval of the Chairman.

The Board has the authority to conduct or direct any investigation required to fulfil its responsibilities and has the ability to retain, at the Group s expense, such legal, accounting or other services, consultants or experts as it considers necessary from time to time in the performance of its duties.

Restrictions on share dealings by directors

Directors, officers and employees are subject to the *Corporations Act* 2001 (Cth) restrictions on applying for, acquiring and disposing of securities in, or other relevant financial products of, the Company (or procuring another person to do so), if they are in possession of inside information. Inside information is that information which is not generally available, and which if it were generally available, a reasonable person would expect it to have a material effect on the price or value of the securities in, or other relevant financial products of, the Company.

Further, directors, officers and employees may only trade in the Company s securities (subject to also complying with applicable law) during each of the eight weeks commencing the day following each half yearly results announcement or the date of issue of a prospectus. Directors are further required to discuss their intention to trade in the Company s securities with the Chairman prior to trading.

The directors, officers and employees are also subject to legal restrictions on insider trading in other jurisdictions.

Directors and officers must not trade in the shares of any other entity if inside information on such entity comes to the attention of the director or officer by virtue of holding office as a director or officer of the Company.

Shareholding requirements

Within two months after a director s appointment, the director is required to hold at least 2,000 shares in the Company. Non-executive directors are required to receive at least 10% and up to 40% of their annual remuneration in the form of shares in the Company, under the National Australia Bank Staff Share Ownership Plan, which was most recently approved by shareholders at the Company s annual general meeting in 2003. Such shares are acquired at market prices. Executive directors may receive performance options and performance rights over shares as approved by shareholders and, as a staff member, may also receive shares in the Company.

Details of all shareholdings by directors in the Company are set out in the report on the directors and officers and note 51 of the financial report.

Confidential information

The Group has a written policy and fosters an appropriate culture to prevent the disclosure of confidential customer information outside the Group or the use of that information for the financial gain of any other entity (including any entity with which a director has an association). The directors regard the confidentiality of customer information as highly important. When the directors are serving on the boards of other companies and undertaking private transactions, they have regard to their confidentiality obligations at all times.

Board and committee agendas

Board and committee agendas are structured to assist the Board to meet its significant responsibilities. This includes the Board s consideration of strategy and the achievement of financial and other goals. This also includes the Board receiving a detailed overview of the performance and significant issues confronting each business unit and support unit and to identify major risk elements for review to ensure that assets are properly valued and that protective strategies are in place.

Directors receive and discuss detailed financial, operational and strategy reports from management.

During the year, clear guidelines were established to enable matters raised by regulators to be promptly and effectively addressed and referred to the Board where necessary.

Board committees

The Board may establish committees as it considers necessary or appropriate to assist it in carrying out its responsibilities. The Board has established the following committees and has adopted charters setting out the matters

relevant to the composition, responsibilities and administration of these committees:

- Risk Committee;
- Audit Committee;
- Nomination Committee; and
- Human Resources Committee.

Other matters of special importance in relation to which Board committees are established include consideration of borrowing programs, projects, capital strategies, major investments and commitments, capital expenditure, delegation of authorities to act, and the allocation of resources.

Risk Committee

Membership

The members of the Risk Committee as at December 2, 2004 were:

Mr Peter JB Duncan (Chairman);

Mr Robert G Elstone (joined September 2004);

Mr Paul J Rizzo (joined September 2004); and

Mr John M Stewart (joined February 2004).

It is appropriate that members of the Risk Committee have a range of different backgrounds, skills and experiences having regard to the operations, financial and strategic risk profile of the Group.

Responsibilities and Risk Committee charter

The roles, responsibilities, composition and membership requirements are documented in the Risk Committee charter, which has been approved by the Board and may be found on the Group s website at www.nabgroup.com

The responsibilities of the Risk Committee include:

reviewing the Group s risk profile within the context of the risk/return profile determined by the Board;

implementing and reviewing risk management and internal compliance and control systems throughout the Group;

reviewing the adequacy and effectiveness of the Group s compliance management framework;

reviewing the balance sheet risk management framework and strategies;

overseeing the Group s credit policies;

assessing operational risk limits;

reviewing business risk management;

reviewing country lines of credit; and

reviewing the liquidity policies of the Group.

During the year, considerable attention was given to improving the quality of risk reporting and management in the Group. This involved a review of the management risk committees. New charter and modes of operation were developed for the Group Risk Appetite Committee, the Central Risk Management Committee and the Corporate & Institutional Banking Risk Management Committee. In addition, a new management committee, the Group Operational Risk Committee, was established.

The Risk Committee met on 18 occasions during the year.

The qualifications of the Risk Committee members together with the number of meetings attended by each member during the year are set out in the report on the directors and officers.

More comprehensive details on risk management appear on pages 58 to 63.

Audit Committee

Membership

The members of the Audit Committee as at December 2, 2004 were:

Mr John G Thorn (Chairman) (joined October 2003);

Mr Peter JB Duncan;

Mr Daniel T Gilbert (joined September 2004); and

Mr Paul J Rizzo (joined September 2004).

Subsequent to December 2, 2004, Mr Peter JB Duncan stood down as a member of the Audit Committee.

All members of the Audit Committee must be independent, non-executive directors. Independence for these purposes is determined in accordance with the standard adopted by the Board, which reflects the independence requirements of applicable laws, rules and regulations, including the Australian Stock Exchange Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, the New York Stock Exchange and the United States *Sarbanes-Oxley Act of 2002*.

Members are appointed for an initial term of three years. Membership is reviewed every three years and periodic rotation is encouraged whereby no more than one member each year can resign as a result of periodic rotation.

The Audit Committee must consist of at least three members. For a period of five days during the year, the Audit Committee had only two members due to timing differences relating to the resignation and appointments of directors.

It is considered appropriate that members of the Audit Committee be financially literate and have a range of different backgrounds, skills and experiences having regard to the operations, and financial and strategic risk profile of the Group. The Board recognises the importance of the Audit Committee having at least one member with appropriate accounting or financial expertise, as required by applicable laws, best practice guidelines and listing standards. All members of the Audit Committee are financially literate.

The Chairman of the Board cannot be a member of the Audit Committee.

The qualifications of the Audit Committee members together with the number of meetings attended by each member during the year are set out in the report on the directors and officers.

Audit Committee financial expert

The Board has determined that Mr John G Thorn is an audit committee financial expert and is independent as defined in the listing standards of the New York Stock Exchange. Although the Board has determined that Mr John G Thorn has the requisite attributes defined under the rules of the SEC, his responsibilities are the same as those of the other Audit Committee members. He is not an auditor or accountant, does not perform field work and is not an employee of the Company. The SEC has determined that an audit committee member who is designated as an audit committee financial expert will not be deemed as an expert for any purpose as a result of being identified as an audit committee financial

expert. The Audit Committee is responsible for the oversight of management in the preparation of the Group s financial statements and financial disclosures. The Audit Committee relies on the information provided by management and the external auditor. The Audit Committee does not have the duty to plan or conduct audits or to determine that the Group s financial statements and disclosures are complete and accurate. These are the responsibility of management and the external auditor.

Responsibilities and Audit Committee charter

The Audit Committee s role, responsibilities, composition and membership requirements are documented in the Audit Committee charter, which has been approved by the Board and may be found on the Group s website at www.nabgroup.com The charter is reviewed at least annually.

The Audit Committee is responsible for review and oversight of:

the integrity of the accounting and financial reporting processes of the Group;

the Group s external audit;

the Group s internal audit; and

compliance with applicable accounting standards to give a true and fair view of the financial position and performance of the Group.

The Audit Committee met on 15 occasions during the year.

The Audit Committee has the authority to conduct or direct any investigation required to fulfil its responsibilities and has the ability to retain, at the Company s expense, such legal, accounting or other advisers, consultants or experts as it considers necessary from time to time in the performance of its duties.

External auditor

The Audit Committee is responsible for the selection, evaluation, compensation and, where appropriate, replacement of the external auditor, subject to shareholder approval where required. Responsibilities of this nature are a departure from the Australian Stock Exchange Corporate Council Principles of Good Corporate Governance and Best Practice Recommendations which provide that the Audit Committee should recommend to the Board the appointment and removal of the external auditor. The reason for the departure is that US laws and regulations require that these responsibilities rest with the Audit Committee.

During the year, the Company announced that it intended to change its external auditor, subsequent to the year ended September 30, 2004. The Audit Committee then undertook a thorough process to select a new auditor to commence from the 2005 year. In July 2004, the Chairman of the

Audit Committee announced that Ernst & Young had been selected to become the new external auditor of the Group. Shareholders will be asked to approve the appointment of the new external auditor at the Company s annual general meeting on January 31, 2005.

The Audit Committee is to ensure that the external lead audit partner and concurring review partner are rotated off the Group s audit after no more than five years and are not reassigned to the Group s audit for at least five years.

The Audit Committee meets with the external auditor throughout the year to review the adequacy of the existing external audit arrangements with particular emphasis on the scope, quality and independence of the audit. The Audit Committee meets with internal audit representatives, the external auditor and the consulting actuary separately, without the presence of management, at least annually.

The Audit Committee receives assurances from the external auditor and the consulting actuary that they meet all applicable independence requirements.

For a discussion of certain services provided by the external auditor in connection with problem loan reviews and the Company s related internal review of auditor independence refer to certain services provided by the external auditor matters related to independence on page 19 in the business overview section.

Audit Committee pre-approval policies and procedures

The Audit Committee is responsible for the oversight of the work of the external auditor. To assist it in discharging its oversight responsibility, the Audit Committee has adopted an External Auditor Independence Policy which requires it, among other things, to pre-approve all audit and non-audit services to be provided by the external auditor. The External Auditor Independence Policy incorporates auditor independence requirements of applicable laws, rules and regulations and has been promulgated throughout the Group.

In accordance with the External Auditor Independence Policy, the external auditor may only provide a service to the Group if:

(i) the external auditor is not prohibited from providing that service by applicable auditor independence laws, rules and regulations;

(ii) in the opinion of the Audit Committee, the service does not otherwise impair the independence of the external auditor;

(iii) in the opinion of the Audit Committee, there is a compelling reason for the external auditor to provide the service; and

(iv) the service is specifically pre-approved by the Audit Committee.

The Audit Committee may set an annual fee limit for each type of audit or non-audit service to be provided by the external auditor. Unless the Audit Committee approves otherwise, the fees paid or due and payable to the external auditor for the provision of non-audit services in any financial year must not exceed the fees paid or due and payable to the external auditor for audit services in that year.

The Audit Committee may delegate to the Audit Committee Chairman or any other member of the Audit Committee the authority to pre-approve audit and non-audit services to be provided by the external auditor. The decision of any delegate to specifically pre-approve any audit or non-audit service is presented to the Audit Committee at its next scheduled meeting. The Audit Committee has delegated the authority to pre-approve audit and non-audit services to the Audit Committee Chairman.

Details of the services provided by the external auditor to the Group and the fees paid or due and payable to the external auditor for those services are set out in the report on the directors and officers and note 52 in the financial report.

Confidential financial submissions

The Audit Committee has established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters. It is a responsibility of the Audit Committee to ensure that employees can make confidential, anonymous submissions regarding such matters (*refer to the Whistleblower Protection Program section on page 79 for further information).*

Nomination Committee

Membership

The Nomination Committee s members as at December 2, 2004 were:

Mr Graham J Kraehe (Chairman);

Mr Peter JB Duncan;

Mr Robert G Elstone (joined September 2004);

Mr Ahmed Fahour (joined October 2004);

Mr Daniel T Gilbert (joined September 2004);

Mr Paul J Rizzo (joined September 2004);

Ms Jillian S Segal (joined September 2004);

Mr John M Stewart;

Mr John G Thorn (joined October 2003);

Mr Geoffrey A Tomlinson;

Mr Michael J Ullmer (joined October 2004); and
Mr G Malcolm Williamson (joined May 2004),
acting in committee.

Subsequent to December 2, 2004, Mr Michael Chaney joined the Nomination Committee.

The Nomination Committee has authority from the Board to sub-delegate its authority to a Sub-Committee, comprised of a minimum of three members of the Nomination Committee, to examine, review, consider and recommend such matters, relevant to the Nomination Committee charter, as the Nomination Committee may consider appropriate from time to time. During the year, a Nomination Sub-Committee was established to assist the Nomination Committee and the Board in the selection of directors as part of the board renewal program.

The number of meetings attended by each member during the year is set out in the report on the directors and officers.

Responsibilities and Nomination Committee charter

The Nomination Committee s role, responsibilities, composition and membership requirements are documented in a Nomination Committee charter, which has been approved by the Board, and which is available on the Group s website at www.nabgroup.com

The responsibilities of the Nomination Committee are to:

- monitor, review and make recommendations to the Board regarding its performance;
- monitor, review and make recommendations to the Board as necessary and appropriate regarding the objectives for and assessment of the performance of the Managing Director and Chief Executive Officer, Chief Executive Officer, Australia and Chief Financial Officer;
- review and make recommendations to the Board as appropriate, with regard to:
  - the size and composition of the Board;
  - the criteria for Board membership and desirable qualifications, experience and domicile for individual new appointees to the Board;
  - the induction program for new directors;
  - the continuing education program for directors; and
  - identification of potential candidates for appointment to the Board; and
- review the Nomination Committee s charter, as well as its composition, annually.

Succession planning

The Nomination Committee reviews the succession planning for the Board and senior management and reports to the Board on such issues.

Human Resources Committee

Membership

The Human Resources Committee s (formerly the Compensation Committee) members as at December 2, 2004 were:

Mr Geoffrey A Tomlinson (Chairman) (joined August 2004);

Ms Jillian S Segal (joined September 2004); and

Mr John G Thorn (joined November 2003).

The number of meetings attended by each member during the year is set out in the report on the directors and officers.

Responsibilities and Human Resources Committee charter

The Human Resources Committee s role, responsibilities, composition and membership requirements are documented in a Human Resources Committee charter, which has been approved by the Board and may be found on the Group s website at www.nabgroup.com

The responsibilities of the Human Resources Committee are to:

monitor, review and recommend to the Board, as necessary and appropriate:

the remuneration, superannuation and incentive policies and arrangements for the Managing Director and Chief Executive Officer and for senior executives who report directly to the Managing Director and Chief Executive Officer;

the remuneration arrangements for non-executive directors on the Board;

the recruitment, retention and termination policies and procedures for senior executives;

key executive appointments and executive succession planning (including one or more reports and presentations to the Board each year); and

oversee the general remuneration strategy of the Group; and

monitor the culture and reputation and review the behavioural standards of the Group on a regular basis, and report and submit recommendations to the Board.

The Human Resources Committee has delegated authority from the Board to approve:

- changes to the factors regarding the measurement of short-term performance, which impacts incentives and the EVA® share plan;
- incentive pool amounts for general incentive programs;
- offers under existing share, option and performance rights plans, including setting the terms of issue and approving the issue of securities in the Company in connection with such offers (within the aggregate number of securities approved by the Board); and
- fees payable to non-executive directors of controlled entity boards of the Company.

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Performance review

The Board reviews performance and sets the remuneration package applicable to the Managing Director and Chief Executive Officer, the Chief Executive Officer, Australia and the Chief Financial Officer, following recommendations from the Human Resources Committee. This performance review involves meeting established performance-based criteria structured on increasing shareholder value.

The remuneration policy for senior executives is set out in note 51 of the financial report.

Controlled entities

The activities of every company in the Group are overseen by their own board of directors.

Directors of each of these controlled entities are provided with Corporate Governance Guidelines, which have been approved by the Board. The Corporate Governance Guidelines set out the specific roles, duties, responsibilities and rights of the directors of controlled entities. Such guidelines set out the key expectations that the Board would have of the boards of controlled entities. The guidelines have been specifically tailored for the different types of entities depending on the nature of their business and their activities.

Mr Geoffrey A Tomlinson is the Chairman of National Wealth Management Holdings Limited, and certain wealth management controlled entities, due to his in-depth background and expertise in wealth management and insurance business. Mr G Malcolm Williamson is the

Chairman of National Australia Group Europe Limited and of Clydesdale Bank PLC and Yorkshire Bank PLC. Directors of controlled entities are normally selected from among the outstanding business people in the local market in which the entities operate. A primary pre-requisite to the Board having confidence in the activities of a controlled entity board is to have a high quality controlled entity board with a commitment to the Group s objectives. There is a standing invitation to all of the Company s directors to attend any board meeting of a controlled entity through consultation with the Chairman. Such visits are undertaken to develop a broader understanding of the Group s total operations.

Communicating with shareholders

Strategy

The Group aims to be open and transparent with all stakeholders, including the owners of the business the shareholders (direct and indirect). Plain English communications and easy access to company information are important objectives of the Company s communications strategy. Information is communicated to shareholders regularly through a range of forums, publications and online. These include:

the Company s annual general meeting, which will be held in Melbourne on January 31, 2005;

notices and explanatory memoranda of annual general meetings;

the concise annual report (unless a shareholder has requested not to receive this);

the annual financial report (for those shareholders who have requested a copy);

disclosures to the stock exchanges in Australia, London, New York, New Zealand and Tokyo, and to ASIC and the US SEC;

letters from the Managing Director and Chief Executive Officer or the Chairman to specifically inform shareholders of key matters of interest;

during the year the Chairman wrote to shareholders to advise them of the unauthorised foreign currency options trading matter and subsequent actions taken by the Board and of the steps being taken to overhaul the membership of the Board. The reports of PricewaterhouseCoopers and APRA into the unauthorised foreign currency options trading and the Company s response to these reports were placed on the Group s website at www.nabgroup.com *For further information refer to the report on the directors and officers on page 84*; and

the Group s website at www.nabgroup.com, where there is a Shareholder Centre which includes access to Company announcements, media releases and investor presentations.

In addition to the registered shareholders, there are many thousands who have invested indirectly through the Group s funds management products, and through the funds management products of a large number of organisations. The Group encourages these beneficial owners to take an active interest in the affairs of the Group by visiting the Group s website at www.nabgroup.com Beneficial owners and others may also access the Shareholder Centre. Shareholders are encouraged to address questions to the Chairman, which will be responded to at the annual general meeting.

Meetings

The notice of annual general meeting provides details of the location, time and date of the meeting, the business to be considered by shareholders and details about each candidate standing for election or re-election as a director of the Company. On average, these meetings attract around 1,000 shareholders and stakeholders. For those shareholders who are unable to attend the meeting, the Company provides a webcast. The Company s external auditor attends this meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor s report.

Continuous disclosure

The Board s policy is that shareholders are informed of all major developments that impact on the Group. There is a detailed continuous disclosure policy in place, which is intended to maintain the market integrity and market efficiency of the Company s shares listed on international stock exchanges. The Company has established written policies and procedures designed to manage the Company s compliance with the continuous disclosure obligations imposed by the various stock exchanges on which the Company s securities are listed (including the ASX) and to attribute accountability at a management level for that compliance.

Australian Stock Exchange Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations

The Company believes that throughout the 2004 year, it has complied with all of the Recommendations contained in the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, with the exception of:

the Code of Conduct was placed on the Company s website on July 27, 2004, and was therefore not publicly available for the full financial year, as recommended;

the Insider Trading Policy was placed on the Company s website on November 11, 2003, and was therefore not publicly available for the full financial year, as recommended;

during the period from August 28, 2004 to September 1, 2004 (inclusive), the Audit Committee was comprised of two members, rather than three members as recommended. No actions were taken by the Audit Committee during that period;

a performance review of the full Board did not take place during the 2004 year due to the major changes in the composition of the Board during the year; and

under Recommendation 7.2 of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, the Managing Director and Chief Executive Officer, and the Chief Financial Officer are required to state to the Board in writing that the certifications they give to the Board under Recommendation 4.1 (as to the integrity of the Company s financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board, and that the Company s risk management and internal compliance and control system is operating efficiently and effectively in all material respects. The certifications given by the Managing Director and Chief Executive Officer, and the Chief Financial Officer refer to the matters arising from their evaluation of the Company s disclosure controls and procedures as set out on page 63 of this annual financial report, being the discovery of unauthorised trading in foreign currency options, reporting of non-accrual loans and 90 days past due loans, cross-border outstandings, and organisational and cultural change.

Comparison of the Company s practices with the New York Stock Exchange Corporate Governance Standards

The New York Stock Exchange recently instituted a broad regime of corporate governance requirements for New York Stock Exchange listed companies. Under section 303A of the New York Stock Exchange Listing Manual (the New York Stock Exchange Corporate Governance Standards), non-US companies are permitted to follow the corporate governance requirements of their home country in lieu of the requirements of the New York Stock Exchange Corporate Governance Standards, except for certain requirements pertaining to audit committees, and certain disclosure obligations. One of those disclosure obligations is to compare the corporate governance practices of the Company with those required of domestic US companies under the New York Stock Exchange Corporate Governance Standards, and to disclose significant differences. The significant differences identified are as follows:

Audit Committee since the Company is not required to prepare annual proxy statements under US law, the Company does not prepare an audit committee report for inclusion in such annual proxy statements. Further, the Risk Committee, rather than the Audit Committee, has responsibility for the discussion of policies with respect to risk assessment and risk management;

Nomination Committee the Nomination Committee is not composed solely of independent directors; and

Equity compensation plans the Company is not required under Australian law to provide shareholders with the opportunity to vote on new equity compensation plans. It is also not required by Australian law to provide shareholders with the opportunity to vote on material revisions to existing equity compensation plans (as listed in note 38 to the financial report) other than in respect of certain changes to the terms of options that require shareholder approval under ASX Listing Rule 6.23. However, the issue of shares to directors (whether pursuant to an equity compensation plan or otherwise) is subject to approval of shareholders.

Additionally, the Company sought and obtained shareholder approval in 2002 for the purposes of ASX Listing Rule 7.2 so that issues of securities under certain equity compensation plans are excluded from the calculation of whether the Company has issued share capital in excess of the 15% limit imposed by ASX Listing Rule 7.1. However, this is not mandatory as a company may choose to not have the plans approved in this way.

Ethical standards

During the year, the Board worked with management to develop a new set of Corporate Principles, which are to be used as the basis for the Group s core beliefs and values. The five principles are:

- we will be open and honest;
- we take ownership and hold ourselves accountable (for all of our actions);
- we expect teamwork and collaboration across our organisation for the benefit of all stakeholders;
- we treat everyone with fairness and respect; and
- we value speed, simplicity and efficient execution of our promises.

A range of activities have and will continue to be introduced throughout the Group to provide a deeper understanding of the new Corporate Principles. Measures will also be introduced to monitor whether employees are living these principles and behaving appropriately and consistently.

A new reward strategy and a new performance management process that are aligned to the Group s principles have been developed and will form the basis of the way employees performance will be measured and rewarded from the 2005 year.

The Corporate Principles are reinforced by the Company s Code of Conduct, which requires the observance of strict ethical guidelines. The Code of Conduct applies to all employees of the Group, as well as to directors, and temporary workers. In addition, the Board charter also governs the conduct of the Board and each director. The Code of Conduct covers:

- personal conduct;
- honesty;
- relations with customers;
- prevention of fraud;

financial advice to customers;

conflict of interest; and

disclosure.

The Group regularly reviews its relationships with the external suppliers of goods and services. Organisations with high ethical standards are favourably considered. Where there is transition of management between the Group and major suppliers or customers, appropriate confidentiality and independence issues are addressed in both principle and process.

The Board supports the code of conduct issued by the Australian Institute of Company Directors.

In addition, the Group has adopted a Code of Conduct for financial professionals which applies to the Managing Director and Chief Executive Officer, Chief Financial Officer and all employees serving in finance, accounting, tax or investor relations roles. This code of conduct is available on the Group s website at www.nabgroup.com

The Company strongly supports the Code of Banking Practice 2003 of the Australian Bankers Association, which includes:

major commitments and obligations to customers;

principles of conduct; and

the roles and responsibilities of an independent external body, the Code of Compliance Monitoring Committee, which investigates complaints about non-compliance.

Whistleblower Protection Program

The Group has a Whistleblower Protection Program established for the confidential reporting of issues of unacceptable or undesirable conduct. The system enables disclosures to be made to a protected disclosure officer by the Group s employees, or, where applicable, if the matter is highly sensitive and the employee believes it more appropriate, direct to the Audit Committee.

The Group does not tolerate known or suspected incidents of fraud, corrupt conduct, adverse behaviour, legal or regulatory non-compliance, or questionable accounting and auditing matters by its employees.

Nor does the Group tolerate taking reprisals against those who come forward to disclose such conduct. The Group will take all reasonable steps to protect employees who make such disclosures from any reprisal or detrimental action following the disclosure.

Report on the directors and officers

Directors

The Board of directors (the Board) has power to appoint persons as directors to fill any vacancies. Other than the Managing Director and those directors appointed during the year, one-third (or the nearest number to) are required to retire by rotation at each annual general meeting and are eligible to stand for re-election together with those directors appointed during the year to fill any vacancy who must retire and stand for election.

Details of directors of the Company in office as at December 2, 2004, and each director s qualifications, experience and special responsibilities are below:

Mr Graham J Kraehe

AO, BEc, FAICD

Mr Kraehe was appointed Chairman in February 2004 and has been a non-executive director since 1997. He is the Chairman of the Nomination Committee.

Experience

38 years in the wine, automotive and diversified manufacturing industries. Managing Director of Pacifica Limited from 1985 until 1994. Managing Director and Chief Executive Officer of Southcorp Limited from 1994 until early 2001.

Directorships of listed entities within the last three years

Chairman of Bluescope Steel Limited director since May 2002 and director of Djerriwarrah Investments Limited since July 2002. He was a director of Brambles Industries from December 2000 to March 2004 and a director of The News Corporation Limited from January 2001 to April 2004.

Mr Peter JB Duncan

BE (Chem) (1st Class Hons), DBS (with Distinction)

Mr Duncan was appointed a non-executive director in 2001. He is Chairman of the Risk Committee and is a member of the Audit Committee and the Nomination Committee.

Experience

36 years with Royal Dutch/Shell Group of companies, including senior finance and general management positions in Australia, New Zealand, South America, Europe and South East Asia. He was Chairman of the Shell Group of Companies in Australia and New Zealand. Former Chairman of the Australian Institute of Petroleum.

Directorships of listed entities within the last three years

Orica Limited since June 2001 and GasNet Australia Limited since October 2001. Director of Woodside Petroleum Limited from May 1999 to February 2002.

Other directorships

Commonwealth Scientific and Industrial Research Organisation (CSIRO). Chairman of Scania Australia Pty Limited. President of the Australian German Association.

Mr Robert G Elstone

BA (Hons), MA (Econ), MCom

Mr Elstone was appointed as a non-executive director in September 2004. He is a member of the Risk Committee and the Nomination Committee.

Experience

24 years in financial and senior management roles and has been Managing Director and Chief Executive Officer of SFE Corporation since 2000. Formerly Finance Director of Pioneer International Limited from 1995 to 2000 and Chief Financial Officer of Air New Zealand Limited from 1991 to 1994. Mr Elstone is an Honorary Fellow of the Finance and Treasury Association and has completed the senior development programmes at the Harvard and Stanford business schools.

Directorships of listed entities within the last three years

SFE Corporation since May 2000.

Other directorships

SFE Corporation related entities, including the Sydney Futures Exchange, SFE Clearing Corporation and Austraclear Limited.

Mr Ahmed Fahour

BEc (Hons), MBA

Mr Fahour was appointed as Chief Executive Officer, Australia in September 2004 and an executive director in October 2004. He is a member of the Nomination Committee.

Experience

17 years in economics and finance, most recently as Chief Executive Officer, Australia and New Zealand, Citigroup in 2004, and he held senior management positions in Citigroup from 2000 to 2003. Previously Managing Director, iFormation Private Equity Group and a director of the Boston Consulting Group from 1995 to 1999.

Other directorships

Rip Curl Group Pty Ltd since July 2004.

Mr Daniel T Gilbert

LLB

Mr Gilbert was appointed a non-executive director in September 2004. He is a member of the Audit Committee and the Nomination Committee.

Experience

30 years in commercial law, specialising in technology and corporate law. Currently Managing Partner of Gilbert + Tobin, which he co-founded in 1988.

Other directorships

Chairman of the Australian Film, Television and Radio School. Director of Bangarra Dance Theatre.

Mr Paul J Rizzo

BCom, MBA

Mr Rizzo was appointed a non-executive director in September 2004. He is a member of the Audit Committee, the Risk Committee and the Nomination Committee.

Experience

36 years in banking and finance. Formerly Dean and Director of Melbourne Business School from 2000 to 2004, Group Managing Director, Finance and Administration, Telstra Corporation Limited from 1993 to 2000, senior roles at Commonwealth Bank of Australia from 1991 to 1993, Chief Executive Officer of State Bank of Victoria in 1990 and 24 years with Australia and New Zealand Banking Group from 1966 to 1990.

Directorships of listed entities within the last three years

Bluescope Steel Limited since May 2002. He was a director of NM Rothschild Australia Holdings Ltd from 2001 to 2003.

Other directorships

Consultant director to Mallesons Stephen Jaques.

Ms Jillian S Segal

BA, LLB, LLM (Harvard)

Ms Segal was appointed a non-executive director in September 2004. She is a member of the Human Resources Committee (formerly the Compensation Committee) and the Nomination Committee.

Experience

24 years as a lawyer and regulator, most recently at the Australian Securities & Investments Commission from 1997 to 2002 as Commissioner and then Deputy Chairman and as Chairman of the Board of the Banking & Financial Services Ombudsman from 2002 to 2004. In 2002 she was a Panel Member of the Dawson Review into Trade Practices Act.

She was an environmental and corporate partner and consultant at Allen Allen & Hemsley and worked for Davis Polk & Wardwell in New York.

Directorships of listed entities within the last three years

Australian Stock Exchange Limited since July 2003.

Other directorships

Member of the Australia Council s Major Performing Arts Board.

Mr John M Stewart

BA, ACII, FCIB

Mr Stewart was appointed Managing Director and Chief Executive Officer in February 2004 and has been an executive director since August 2003. He is a member of the Risk Committee and the Nomination Committee.

Experience

26 years in banking and finance in the United Kingdom including four years as Group Chief Executive of Woolwich PLC until its acquisition by Barclays PLC in 2000 when he was appointed Deputy Group Chief Executive of Barclays PLC.

Mr John G Thorn

FCA

Mr Thorn was appointed a non-executive director in October 2003. He is Chairman of the Audit Committee and a member of the Human Resources Committee and the Nomination Committee.

Experience

37 years in professional services with PricewaterhouseCoopers, over 20 years as a partner responsible for significant international and Australian clients. Australian National Managing Partner and a member of the Global Audit Management Group until 2003.

Directorships of listed entities within the last three years

Caltex Australia Limited since June 2004 and Salmat Limited since September 2003.

Mr Geoffrey A Tomlinson

BEc

Mr Tomlinson was appointed a non-executive director in 2000. He is Chairman of National Wealth Management Holdings Limited. He is Chairman of the Human Resources Committee and a member of the Nomination Committee.

Experience

29 years with the National Mutual Group, six years as Group Managing Director and Chief Executive Officer until 1998.

Directorships of listed entities within the last three years

Chairman of Funtastic Limited director since May 2000 and Programmed Maintenance Services Limited director since August 1999. Deputy Chairman of Hansen Technologies Limited, director since March 2000 and a director of Amcor Limited since March 1999 and Mirrabooka Investments Limited since February 1999. He was a director of Reckon Limited from June 1999 to August 2004, Lako Pacific Limited from March 2000 to June 2002 and Neverfail Springwater Limited from April 1999 to September 2003.

Mr Michael J Ullmer

BSc (Maths) (Hons), FCA, FAIBF, ASA

Mr Ullmer was appointed Chief Financial Officer in September 2004 and an executive director in October 2004. He is a member of the Nomination Committee.

Experience

32 years in banking and finance, including seven years with Commonwealth Bank of Australia as Group Executive, Institutional and Business Services from 2002 to 2004 and Group Executive, Financial and Risk Management from 1997 to 2002. Formerly Partner of Coopers & Lybrand from 1992 to 1997 and 20 years with KPMG including partner from 1982 to 1992.

Other directorships

Director of Sydney Symphony Orchestra.

Mr G Malcolm Williamson

Mr Williamson was appointed a non-executive director in May 2004. He is a member of the Nomination Committee and is a non-executive chairman of National Australia Group Europe Limited and on the boards of the Company s main controlled entity boards in Europe.

Experience

37 years in banking and finance in the United Kingdom and the United States. He served with Barclays Bank PLC from 1957 to 1985, reaching the position of Regional General Manager, London. This was followed by a period as a member of the Post Office board and Managing Director of Girobank PLC. In 1989 he joined Standard Chartered PLC and became Group Chief Executive. In 1998 he moved to the United States and took

up the role of President and Chief Executive Officer of Visa International, which he held until 2004.

Directorships of listed entities within the last three years

Chairman, CDC Group PLC since July 2004, Chairman, Brittanica Group PLC since October 2004 and non-executive director, Securicor PLC since April 2004.

Secretaries of the Company

Details of company secretaries of the Company in as at December 2, 2004, and each company secretary s qualification and experience are below:

Mr Garry F Nolan

MBus, FAICD, FCIS, FAIBF, ASIA, CFTP (Snr)

Joined the Group in 1970 and has held the position of Company Secretary since 1992. He has senior management experience in financial management, capital markets, corporate strategy, new business development, corporate restructuring, board affairs, corporate governance, shareholder services and globalisation of business. The Company Secretary advises and supports the Board and is the Chief Governance Officer.

Mr Brendan T Case

BEc, GDipAppFin, Dip Fin Plan, CPA, ACIS, ASIA

Joined the Group in 1997 and has held the position of Associate Company Secretary since 2003. He is Head of the Risk Committee and the Audit Committee Secretariat.

Ms Susan E Crook

BA, LLB, MBA, FCIS, FSIA, MAICD

Joined the Group in 2000 as Associate Company Secretary and Head of the Australian Secretariat. She is responsible for the Australian head office companies. She is the current National President of Chartered Secretaries Australia.

Board changes

In February 2004, Mr Graham J Kraehe was appointed as Chairman and Mr John M Stewart as Managing Director and Chief Executive Officer. Also in February 2004, Mr D Charles K Allen resigned as Chairman and non-executive director and Mr Frank J Cicutto resigned as Managing Director and Chief Executive Officer.

On April 6, 2004, the Chairman announced that a process of Board renewal would be undertaken. As a result, Mr Robert G Elstone, Mr Daniel T Gilbert, Mr Paul J Rizzo, Ms Jillian S Segal and Mr G Malcolm Williamson were appointed as non-executive directors during the year. Further, in October 2004 Mr Ahmed Fahour and Mr Michael J Ullmer were appointed as executive directors.

Also during the year, Dr J Brian Clark, Dr Kenneth J Moss, Dr Edward D Tweddell and Mrs Catherine M Walter resigned as non-executive directors.

Further, Mr Michael Chaney was appointed to the Board as a non-executive director in December 2004 and will be appointed Chairman in September 2005.

Directors and officers indemnity

The Company s constitution

Article 21 of the Company s constitution provides:

Every person who is or has been an officer is entitled to be indemnified out of the property of the Company to the relevant extent against:

every liability incurred by the person in the capacity as an officer (except a liability for legal costs); and

all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil, criminal or of an administrative or investigatory nature, in which the officer becomes involved in that capacity,

unless:

the Company is forbidden by statute to indemnify the person against the liability or legal costs; or

an indemnity by the Company of the person against the liability or legal costs would, if given, be made void by statute.

The reference to the relevant extent means to the extent and for the amount that the officer is not otherwise entitled to be indemnified and is not actually indemnified.

The Company may also pay, or agree to pay, whether directly or through an interposed entity, a premium for a contract insuring a person who is or has been an officer against liability incurred by the person in their capacity as an officer, including a liability for legal costs, unless:

the Company is forbidden by statute to pay or agree to pay the premium; or

the contract would, if the Company paid the premium, be made void by statute.

The Company may enter into a contract with an officer or former officer to give:

effect to the rights of the officer or former officer conferred by Article 21; and

an officer or former officer access to papers, including those documents provided from or on behalf of the Company or a related body corporate of the Company to the officer during their appointment and those documents which are referred to in such documents or were made available to the officer for the purpose of carrying out their duties as an officer.

Article 21 does not limit any right the officer otherwise has. In the context of Article 21, officer means a director, secretary or executive officer of the Company or of a related body corporate of the Company.

The existing and former directors, secretaries and executive officers of the Company and of its related bodies corporate are indemnified in terms of Article 21.

The Company has executed deeds of indemnity in terms of Article 21 in favour of each non-executive director of the Company and each non-executive director of a related body corporate of the Company.

The Company has, under deeds of settlement and release, indemnified former officers, Mr Cicutto, Mr Laing and Mr R McKinnon in respect of reasonable costs and expenses arising from defending certain claims and proceedings that may arise with respect to their employment with the

Company. *For more detailed summaries of the deeds of settlement and release, refer to pages 245 to 246.*

Directors and officers insurance

During the year, the Company, pursuant to Article 21, paid a premium for a contract insuring all directors, secretaries, executive officers and officers of the Company and of each related body corporate of the Company. The insurance does not provide cover for the independent auditors of the Company or of a related body corporate of the Company.

In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered by the insurance, the limit of indemnity and the amount of the premium paid under the contract.

Principal activities and significant changes in nature of activities

The principal activities of the Group during the year were 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.

Review of operations and group results

Financial performance

Net profit attributable to members of the Company of $3,177 million in 2004, decreased $778 million or 19.7% compared with 2003. Net profit of $3,551 million in 2004, decreased $396 million or 10.0% compared with 2003.

Significant items are those individually significant items included in net profit. The current year result included the following after tax significant items:

- foreign currency options trading losses of $252 million (*refer to significant changes in the state of affairs for further information*);
- write-down of impaired application software of $307 million;
- charge to provide for doubtful debts of $204 million as a result of a revision of an accounting estimate;

net profit of $315 million on sale of strategic shareholdings in St George Bank Limited, AMP Limited and HHG PLC; and

net profit of $64 million on write-back of a provision for costs related to the sale of SR Investment, Inc.

The 2003 result included no significant items.

Net profit attributable to members of the Company before significant items of $3,561 million in 2004, decreased $394 million or 10.0% compared with 2003.

Net interest income of $7,191 million in 2004, was $228 million or 3.1% lower than 2003. This was driven by a decrease in the net interest margin from 2.53% to 2.35%, partly offset by lending growth. The fall in margin largely resulted from the strong growth in lower margin mortgages and fixed rate lending within the retail banking business, as well as a reduction in contribution from the Markets and Specialised Finance divisions of Corporate & Institutional Banking.

Net life insurance income increased by $568 million from $444 million in 2003 to $1,012 million in 2004. This was driven by an increase in investment earnings resulting from improved performance in global equity markets and favourable claims experience, partially offset by an increase in policy liabilities.

Other banking and financial services income of $4,831 million in 2004, was $179 million or 3.6% lower than 2003. This outcome reflects:

lower trading income;

a reduction in money transfer fees;

the negative impact of the Reserve Bank of Australia credit card interchange fee reform in Australia effective October 31, 2003;

lower dividend income following the sale of strategic shareholdings in January 2004;

the inclusion in the prior year of a one-off benefit on the restructure of the hedging swaps on the TrUEPrS[SM] preference shares;

flat loan fees from banking; and

growth in the Fleet Management and custody businesses following recent acquisitions.

The movement in the excess of net market value over net assets of life insurance controlled entities was a loss of $137 million in 2004, an improvement of $23 million from 2003, impacted by the effect of assumption and experience changes underlying the valuation, and the impact of the Group s election to consolidate under the Australian tax consolidations regime.

Personnel, occupancy and general expenses of $6,812 million in 2004, were $458 million or 7.2% higher than 2003. This outcome reflects:

increased costs associated with the European defined pension funds, partly offset by a superannuation contribution holiday in Australia reducing Australian defined contribution superannuation expenses;

higher personnel costs (excluding pensions) reflecting salary increases and growth in staffing levels;

growth in costs associated with major Group-wide projects Basel II and International Financial Reporting Standards;

higher occupancy costs as a result of annual rent increases and relocation costs;

increased advertising and marketing costs, including the sponsorship of the 2006 Melbourne Commonwealth Games;

higher software amortisation across the business reflecting prior year investment in infrastructure; and

$22 million (after tax) write-off of development work associated with the Integrated Systems Implementation program in the first half.

The charge to provide for doubtful debts (before significant items) of $559 million in 2004, was $74 million or 11.7% lower than 2003. The charge was favourably impacted by the continued focus on credit quality across the business.

Income tax expense relating to ordinary activities of $1,190 million in 2004, was $491 million or 29.2% lower than 2003. Income tax expense has been impacted by Wealth Management products and international activities, to which a wide range of tax rates are applied. In addition, the decision to elect to consolidate under the Australian tax consolidation regime resulted in a tax benefit of $150 million recognised in the 2004 year, due to the reset tax values of assets of life insurance subsidiaries within the Wealth Management business. Further, the income tax expense has been impacted by the decision not to book a tax benefit on the interest

expense relating to exchangeable capital units following the receipt of an Australian Taxation Office assessment.

Financial position

Total assets at September 30, 2004 increased to $411,309 million from $397,471 million at September 30, 2003. Excluding the impact of exchange rate movements, total assets (in Australian dollar terms) grew $9,600 million or 2.4% during the year.

The growth in total assets was primarily driven by the growth in net loans and advances, investment securities and investments relating to the life insurance business, which offsets declines in due from other financial institutions, due from customers on acceptances, trading derivatives and available for sale securities. Net loans and advances increased $22,101 million or 9.8% from $225,735 million at September 30, 2003 to $247,836 million at September 30, 2004. Excluding the effect of exchange rate movements, net loans and advances increased by $19,086 million or 8.3% during the year. This increase primarily reflects strong growth in housing lending across all regions and solid other term lending growth.

Total liabilities at September 30, 2004 increased to $381,543 million from $370,260 million at September 30, 2003. Excluding the impact of exchange rate movements, total liabilities (in Australian dollar terms) increased $7,226 million or 1.9% during the year.

The growth in total liabilities was primarily driven by growth in deposits and other borrowings, as well as bonds, notes and subordinated debt and life insurance policy liabilities, which offset declines in due to other financial institutions, liability on acceptances and trading derivatives. Deposits and other borrowings increased by $19,558 million or 9.7% to $220,752 million at September 30, 2004, compared with $201,194 million at September 30, 2003. Excluding the effect of exchange rate movements, deposits and other borrowings increased by $17,390 million or 8.6% during the year. The increase primarily relates to growth in term deposits, as well as an increase in other borrowings relating to commercial paper. Bonds, notes and subordinated debt increased by $8,316 million or 34.3% to $32,573 million at September 30, 2004. This increase reflects an increase in the issue of Euro and subordinated medium-term notes, as a result of the Group s increased capital requirements.

Total equity in the Group increased from $27,211 million at September 30, 2003 to $29,766 million at September 30, 2004. Total parent entity interest in equity increased by $1,493 million from $24,407 million at September 30, 2003 to $25,900 million at September 30, 2004. The movement in total equity was impacted by an increase in contributed equity of $463 million to $10,191 million (2003: $9,728 million), reflecting share issues and dividend reinvestment of $1,355 million, including the underwriting of the dividend reinvestment plan, partially offset by $162 million impact of the on-market share buy-back of ordinary shares and $730 million on the buy-back of preference shares (*refer to significant changes in the state of affairs for further information*). Further, the reserves balance increased by $301 million to $1,194 million (2003: $893 million), primarily reflecting positive movements in the foreign currency translation reserve. In addition, the movement in total equity included an increase in retained profits of $729 million to $14,515 million and an increase in outside equity interest of $1,062 million.

For a more detailed review of the operations of the Group, and the results of those operations, refer to pages 3 to 68 of this annual financial report.

Dividends

The directors declared a final dividend of 83 cents per fully paid ordinary share, 100% franked, which was paid on December 8, 2004. The payment amount was estimated to be $1,287 million as at December 2, 2004.

Dividends paid since the end of the previous financial year:

the final dividend for the year ended September 30, 2003 of 83 cents per fully paid ordinary share, fully franked, paid on December 10, 2003. The payment amount was $1,250 million; and

the interim dividend for the year ended September 30, 2004 of 83 cents per fully paid ordinary share, fully franked, paid on July 14, 2004. The payment amount was $1,253 million.

Information on the dividends paid and declared to date is contained in note 7 in the financial report.

The franked portion of these dividends carry imputation tax credits at a tax rate of 30%, reflecting the current Australian company tax rate of 30%. For non-resident shareholders of the Company for Australian taxation purposes, the unfranked portion of the dividend will be paid from the Company s foreign dividend account. Accordingly, for non-resident shareholders the unfranked portion of the dividend will not be subject to Australian withholding tax.

The extent to which future dividends will be franked, for Australian taxation purposes, will depend on a number of factors including the proportion of the Group s profits that will be subject to Australian income tax and any future changes to Australia s business tax system as a result of the Australian Commonwealth Government s tax reform initiatives.

Significant changes in the state of affairs

Foreign currency options losses

In January 2004, the Company announced that it had identified losses relating to unauthorised trading in foreign currency options and had established a structured process to review and resolve all issues arising from this matter. The Company took steps to manage the options trading position and a third party investigation into this matter was conducted by PricewaterhouseCoopers (refer below). The Company also responded to related requests for information from Australian and UK authorities and regulators and the United States SEC.

Based on its assessment, the Company announced a total loss of $360 million before tax, or $252 million after tax, arising from the unauthorised foreign currency options trading. This total loss consisted of losses arising from the removal of fictitious trades from the foreign currency options portfolio of $185 million and a further loss of $175 million arising from a risk evaluation and complete mark-to-market revaluation of the foreign currency options portfolio in January 2004. The Company recognised the total losses during the 2004 year.

The key points from the PricewaterhouseCoopers Investigation into foreign exchange losses at National Australia Bank report dated March 12, 2004 included:

the total loss arising from foreign currency options trading announced on January 27, 2004 was $360 million;

the losses arising from the foreign currency options trading increased significantly between September 2003 and January 2004;

four traders on the foreign currency options desk exploited loopholes and weaknesses in systems and processes to hide trading losses and protect bonuses;

the traders activities were contrary to the Company s strategy of building customer-focused business;

the foreign currency options trading losses were reported to management by several junior employees;

no customers were directly or indirectly affected by the foreign currency options trading losses;

in the Corporate & Institutional Banking Market s division there was:

inadequate management supervision;

significant gaps in back office monitoring functions;

escalation processes that did not work properly;

weaknesses in control procedures;

failure in risk management systems; and

an absence of appropriate financial controls;

there was not a suitable compliance culture within this area of the Company and a tendency to suppress bad news rather than be open and transparent about problems;

warning signals, both inside the Company and from the regulators and other market participants, were not properly acted upon; and

the Board had overall responsibility for corporate governance, including safeguarding stakeholder interests and reviewing and monitoring risk management and compliance.

The complete PricewaterhouseCoopers report is available on the Group s website at www.nabgroup.com

APRA has also provided to the Company a report on its investigation into irregular currency options trading. That report identified problems and issues in respect of management supervision, adherence to risk management systems and controls, internal governance procedures and the culture of the Company similar to those described above.

APRA has also specified in its report a number of remedial actions required to be implemented. These include the following:

Culture the Board is required to review cultural norms within the Company and clearly articulate the standards of behaviour, professionalism and openness it expects of the organisation; the Board is required to develop policies that promote and support whistle-blowing ; the Board is required to review incentive arrangements to ensure that these

promote behaviours that have appropriate regard to risk;

Governance the Board, its committees and executive risk committees are required to clarify the appropriate escalation channels available to enable the Board and its committees to deliberate on serious risk issues. The Board must establish more transparent risk reporting systems and place greater reliance on independent checks and balances on executive management to enable it to discharge its duties appropriately;

Limit frameworks the Board is required to review, and formally approve, all market risk limits in the Markets division of Corporate & Institutional Banking; limit policies should clearly specify mandatory (or hard) limits; trigger levels (or soft limits) should also be specified; all limit excesses whether hard or soft - must have a defined respons

Markets the respective roles and responsibilities of the Markets division of Corporate & Institutional Banking and the Market Risk division of Risk Management in respect of risk analysis and escalation of risk issues needs to be clearly specified and distinct from each other;

Market risk reporting lines in, and responsibilities of, the Market Risk and Prudential Control (MR&PC) role are required to be streamlined in order to ensure that adequate attention is devoted to market risk issues; roles and responsibilities in MR&PC are required to be clarified and confer an unambiguous mandate; and the process surrounding the approval of product usage authorities is to be reviewed to ensure that all relevant risk management issues are covered;

Operations in relation to its Corporate & Institutional Banking Operations division (part of Corporate & Institutional Banking Services), the Company is required to review: all confirmation and reconciliation procedures; operational procedures followed by Operations division staff especially as regards interaction with the front office; and reporting of transactional and other statistical information;

Finance the Finance division is to be assigned responsibility for data integrity; analysis of the components of reported profit and loss data; and critical questioning of discrepancies. The Finance division is also required to review and formally document the materiality thresholds applicable to each desk; and

Quantitative support a number of reforms are required to formalise and enhance the role played by the Quantitative Support division of Corporate & Institutional Banking in model validation and testing.

The complete APRA report is available on the Group s website at www.nabgroup.com

Following the release of the PricewaterhouseCoopers and APRA reports, the Board announced a four point action plan to fully address all of the issues associated with the foreign currency options trading losses:

Board changes:

the Board accepted that it was ultimately responsible for the culture and reputation of the Company;

the Company s former Chairman, Mr D Charles K Allen, and former Managing Director and Chief Executive Officer, Mr Frank J Cicutto, have both resigned;

the Board has appointed additional directors with banking experience (*refer to Board changes on page 82*);

the Board, through its Risk Committee, has endorsed a revised governance framework for the management risk committees within Corporate & Institutional Banking; this has included common guiding principles, strengthening of the charters, common operating procedures, increased market risk representation, and a defined risk monitoring, approval and oversight process; and

the Board is enhancing existing governance processes including the annual review of Board performance (*refer to corporate governance Board performance section on page 72*) and the review of individual directors prior to their standing for re-election at the annual general meeting (*refer to corporate governance appointment and re-election of Board members on page 71*).

Management changes:

primary responsibility for the unauthorised trading in foreign currency options rests with four members of the foreign currency options desk and they were summarily dismissed from the Company. The former Head of Foreign Exchange in the Markets division, who was the direct supervisor of the four traders, was also dismissed;

a number of other employees within the Company were transferred or counselled as a result of the events surrounding the unauthorised foreign currency options trading; and

the employment of certain individuals was also reviewed. Those who left the Company include: the former Executive General Manager, Corporate & Institutional Banking, Mr Ian F Scholes, the former Head of Markets division, Mr Ron Erdos, and the former Executive General Manager, Risk Management, Mr Christopher D Lewis. These positions have subsequently been filled.

Risk and control frameworks:

the Company will continue to refine its risk management framework to get a more appropriate balance between management and policing functions. Management has already reviewed value at risk limits and reduced the level of risk exposure. Enhanced policies surrounding limit management, compliance and adherence have been introduced;

weaknesses in the control procedures continue to be rectified. This includes analysis of daily trading profits and accounts, reporting of all large and unusual transactions, investigations of all off-market rates on high risk transactions, critical review of revaluation rates sourced from third parties and a stronger back office function that properly checks all transactions;

the management team has reviewed responsibilities between business units to ensure that there are clear reporting lines and accountabilities between Risk Management, Operations and Finance functions; and

further, the progress in addressing the issues is being reported regularly to the Risk Committee and the Board at each meeting.

Culture:

the Company is accelerating its cultural change agenda. The development of a new set of Corporate Principles has been the foundation for driving the desired cultural change. The organisation now has a single, consistent framework with clearly articulated behaviours. *Refer to corporate governance and ethical standards for details of the Corporate Principles on page 78*;

a principles benchmark survey, utilising the organisational cultural Inventory (OCI), is being used as a cultural measure. This survey (in conjunction with the Hewitt Engagement Survey) provides an externally validated and reliable measurement of culture. The Group Executive Committee and Board have supported the ongoing use of the principles benchmark survey/OCI for at least the next five years;

a new Performance Management Framework has been put in place. The introduction of quality gates which demand minimum levels of compliance and behaviours, will drive increased accountability, and behavioural change; and

the Company will continue to encourage and protect whistleblowers. *Refer to Whistleblower Protection Program on page 79 for details of the Company s program.*

APRA has also required that the Company s internal target total capital adequacy ratio is to rise to 10% until such time as APRA is satisfied that all material weaknesses identified in this report have been rectified. APRA has also withdrawn the Company s approval to use an internal model to determine market risk capital.

The Company s currency options desk will also remain closed to corporate business and proprietary trading until substantial progress has been made to redress the issues raised by APRA in its report.

The Company has made good progress in its program to implement these required actions according to timeframes agreed with APRA. As at December 31, 2004, of the 81 remedial actions required, 25 have been closed and a further 44 have been responded to by the Company. The Company will remain under close supervision by APRA until all outstanding actions are implemented.

Enforceable undertaking

On October 20, 2004, the Company announced that it had provided ASIC with an enforceable undertaking relating to the foreign currency options trading losses that occurred in January 2004. Under the enforceable undertaking, the Company is obliged to review key systems and controls across businesses which operate under the primary Australian Financial Services Licence (AFSL) applicable to the Group s Australian banking business.

In summary, the undertaking covers three main areas requiring reports on how the Group:

- identifies, records and informs ASIC of any breaches of the relevant AFSL;
- ensures that there are appropriate procedures relating to the role of responsible officers of the Group; and
- ensures that there are appropriate procedures relating to the role of representatives of the Group.

The enforceable undertaking requires the Group to provide reports to ASIC by specified dates on each of the areas identified, to have the reports reviewed by an auditor, and to complete any work in these areas that is identified as being required.

Redemption of Trust Units Exchangeable for Preference Shares™ (TrUEPrS℠) and buy-back of shares issued in connection with the TrUEPrS℠

On January 22, 2004 the Company bought back 36,008,000 fully paid non-converting non-cumulative preference shares of the Company that were issued in connection with the issue of 18,004,000 Trust Units Exchangeable for Preference Shares™ (TrUEPrS℠) in 1998. The TrUEPrS℠ were redeemed on the same date. The financial effects of the buy-back, redemption and dissolution of the capital raising structure included a reduction in contributed equity of $730 million, a reduction in cash of $582 million and a net increase in retained profits and reserves of $148 million.

TrUEPrS℠ is a service mark of Merrill Lynch & Co., Inc.

Events subsequent to balance date

At the Company s annual general meeting to be held on January 31, 2005, the Company will seek shareholder approval to buy back the total of 20,000,000 unpaid preference shares of the Company issued in connection with the issue of 20,000,000 National Income Securities of the Company. National Income Securities comprise a note and a preference share. Subject to shareholder approval and the consent of APRA, the buy-back of the preference shares will be for nil consideration, but will be conducted simultaneously and in conjunction with the redemption of each note for $100 plus any unpaid accrued interest. As part of the Group s ongoing capital management, such a buy back may enable the Group to replace the National Income Securities with a more efficient and cost effective source of capital. No decision to buy back the National Income Securities has yet

been taken, but this could occur at any time after shareholder approval is obtained, subject to obtaining the consent of APRA.

On December 14, 2004, the Group entered into an agreement to sell Northern Bank Limited and National Irish Bank Limited to Danske Bank A/S for approximately $2.5 billion (GBP967 million) in cash. The transaction will involve the sale of shares in National Europe Holdings (Ireland) Limited (the immediate parent entity of Northern Bank Limited and National Irish Bank Limited). The profit on sale is estimated at approximately $1.1 billion after all disposal costs, including income tax, and is subject to final adjustments. The sale is expected to be completed during the first quarter of the 2005 calendar year. The financial effects of the sale will be recognised during the 2005 financial year.

The transaction is subject to the approval of certain regulatory authorities, including the Financial Services Authority in the UK, the Irish Financial Services Regulatory Authority in Ireland, the Financial Supervision Commission on the Isle of Man and the European Commission.

Warranties consistent with this type of transaction have been given and indemnities are provided for certain risks (including in respect of any liabilities arising in connection with the High Court investigation). The maximum potential loss arising from the contingent liability arising in respect of these warranties and indemnities given to Danske Bank A/S will depend upon the warranty or indemnity claimed by Danske Bank A/S, as the maximum liability under some of the warranties and indemnities is subject to various caps and restrictions. As such, it is not practicable to estimate the maximum potential loss arising from the contingent liability to Danske Bank A/S. It is not envisaged that any material unrecorded loss is likely to arise from the contingent liability.

Employees of Northern Bank Limited and National Irish Bank Limited, including the Irish management team, will transfer with the sale of the businesses.

The Company and National Australia Group Europe Limited have also entered into an agreement with National Europe Holdings (Ireland) Limited and Danske Bank A/S in respect of the provision of transitional services. The Group will provide these transitional services to Danske Bank A/S in respect of the Northern Bank Limited and National Irish Bank Limited operations to assist in the transition of ownership of those businesses. These transitional services will be provided at cost and are expected to be in place for up to 18 months.

On December 20, 2004, approximately $67 million (GBP 26.5 million) was stolen from Northern Bank Limited in Belfast, Northern Ireland. This incident is not expected to have any material impact on the sale of Northern Bank Limited and National Irish Bank Limited.

No further matter, item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report that, in the opinion of the directors, has significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Future developments

In August 2004, the Group announced a number of changes to the structure of its business operating model and executive management team. The new business operating model will be run along regional lines and will be effective during the 2005 year. *Refer to page 9 of the business*

overview section for further information.

The Company announced on July 19, 2004 that it had selected Ernst & Young to become the new external auditor of the Company for the 2005 year. Shareholders will be asked to approve the new auditor at the Company s annual general meeting to be held on January 31, 2005.

Environmental regulation

The operations of the Group are not subject to any particular and significant environmental regulation under a law of the Australian Commonwealth Government or of a state or territory, but the Group can incur environmental liabilities as a lender. The Group has developed credit policies to ensure this is managed appropriately.

Rounding of amounts

Pursuant to Class Order 98/100 made by the Australian Securities and Investments Commission (ASIC) on July 10, 1998, the Company has rounded off amounts in this report and the accompanying financial report to the nearest million dollars, except where indicated.

Proceedings on behalf of the Company

There are no proceedings brought or intervened in, or applications to bring or intervene in proceedings, on behalf of the Company by a member or other person entitled to do so under section 237 of the *Corporations Act* 2001 (Cth).

Remuneration policy and relationship to Company performance

This report outlines the remuneration policy for directors and secretaries of the Company and senior executives of the Group.

Non-executive directors

The fees paid to non-executive directors of the Board are based on advice and data from the Company s remuneration specialists and from external remuneration advisers. This advice takes into consideration the level of fees paid to board members of other major Australian corporations, the size and complexity of the Group s operations, the activities of the Group and the responsibilities and workload requirements of Board members.

Because the focus of the Board is on the long-term strategic direction of the Company, there is no direct link between non-executive director remuneration and the short-term results of the Company. The fee pool is periodically proposed to shareholders at the annual general meeting for approval. Shareholders approved an increase in the fee pool of $1.3 million to a maximum of $3.5 million at the Company s annual general meeting held on December 19, 2003.

Fees are established annually for the Chairman and other non-executive directors. Additional fees are paid, where applicable, for participation in Board committees and for serving on the boards of controlled entities. The total fees paid to members of the Board, including fees paid for their involvement on Board committees and controlled entity boards, are kept within the total approved by shareholders from time to time.

At the Company s annual general meeting held in December 2003, shareholders approved the continuation of the non-executive directors

share arrangement under the Non-Executive Directors Share Plan (which is operated through the National Australia Bank Staff Share Ownership Plan). Under this arrangement, shares are provided to non-executive directors as part of their remuneration, (a minimum 10% of fees) rather than receiving cash. The shares are either issued or acquired on-market on behalf of participants and allocated to non-executive directors on dates determined by the trustee of the National Australia Bank Staff Share Ownership Plan in its sole discretion.

Agreements between the Company and certain of the non-executive directors provided that upon, and in the consequence of, each of these directors ceasing to be a director by reason of retirement or death, the Company should pay a lump sum retirement allowance. This retirement benefit, as approved by shareholders, was based on period of service, as follows:

Less than 15 years

One third of the average yearly emoluments paid by the Company to the director:

(a) during the last three years of service; or

(b) when the period of such service is less than three years, during that period, for each completed year of service and proportionately for part of a year, as a non-executive director; or

15 years or more

Five times the average yearly emoluments paid by the Company to the director during the last three years of service as a non-executive director.

During 2002, the Board decided not to enter into any new contractual obligations to pay retirement allowance benefits to non-executive directors appointed after December 31, 2002. At the Company s annual general meeting held on December 19, 2003, a proposal was approved permitting directors of the Company and its controlled entities who had accrued retirement benefits to apply those benefits frozen as at December 31, 2003 to either cash, (to be paid on retirement), to additional Company superannuation contributions or to the acquisition of shares in the Company (to be held in trust until retirement). Directors fees for these directors have been increased to reflect the cessation of the retirement benefit program.

For those non-executive directors, who would have no entitlement to a retirement allowance benefit, their directors fees were set at this higher level. All directors now have flexibility in relation to their remuneration, including the opportunity to set aside additional Company superannuation contributions.

Non-executive director emoluments (current and former non-executive directors at September 30, 2004)

The following table shows details of the nature and amount of each element of the emoluments of each non-executive director of the Company relating to services provided in the 2004 year. Total retirement benefits paid during the year relating to benefits accrued in current and prior years are set out in footnote (3) below. No options or performance rights have been granted to non-executive directors during or since the end of 2004 as part of their remuneration.

	Primary			Post-employment		Equity		Other		
	Cash salary and fees (1)	Bonus	Non-monetary benefits	Super-annuation (2)	Retirement benefits (3)	Shares (4)	Performance options and rights	Termination benefits	Other	Total
	$	$	$	$	$	$	$	$	$	$
Current										
GJ Kraehe	284,017			25,562	27,369	67,883				404,831
PJB Duncan	154,598			13,913	11,385	27,971				207,867
RG Elstone	12,224					1,246				13,470
DT Gilbert	11,215			1,009		1,246				13,470
PJ Rizzo	13,746					1,401				15,147
JS Segal	8,868			798		985				10,651
JG Thorn	143,843			12,946		26,750				183,539
GA Tomlinson	208,313			18,576	33,074	79,356				339,319
GM Williamson	212,610									212,610
Former										
DCK Allen	110,537			9,948	83,710	35,567				239,762
JB Clark	84,522			7,607	11,132	39,453				142,714
KJ Moss	112,309			10,108	26,836	39,493				188,746
ED Tweddell	138,761			12,489	18,153	11,176				180,579
CM Walter	92,506			8,325	116,650	6,775				224,256

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(1) *Non-executive directors remuneration represents fees in connection with their roles, duties and responsibilities as non-executive director, and includes attendance at meetings of the Board, Board committees and boards of controlled entities and includes payments of $109,219 to Mr Tomlinson and $164,410 to Mr Williamson in respect of services performed as non-executive directors of controlled entity boards and committees.*

(2) *Reflects compulsory Company contributions to superannuation and includes contributions of $9,739 to Mr Tomlinson in respect of services performed as a non-executive director of controlled entity boards and committees.*

(3) *Former directors received retirement benefits upon cessation of their directorship with the Company. No further retirement benefits were accrued by these directors beyond January 1, 2004 in accordance with shareholder approval at the Company s annual general meeting on December 19, 2003 to freeze contractual entitlements. The following accrued entitlements were paid to former directors: Mr Allen, $1,166,928; Dr Clark, $76,447; Dr Moss, $151,014; Dr Tweddell, $270,620; and Mrs Walter, $663,512. The value of accumulated retirement benefits which will be provided to current directors in the form of shares is: Mr Kraehe, $279,680; Mr Duncan, $104,855; and Mr Tomlinson $272,608. From December 31, 2003, neither new nor existing non-executive directors are entitled to additional retirement benefits.*

(4) *Includes shares to the value of $42,388 provided to Mr Tomlinson in respect of services performed as a non-executive director of controlled entity boards and committees.*

Total reward for executives

Total reward for executives (including secretaries) of the Group is closely aligned to that of the Managing Director and Chief Executive Officer in order to promote consistent, clear reward messages and to align remuneration outcomes across the executive team. This alignment is provided under the Group s reward strategy, which provides a common framework for reward, talent and performance management across the Group. Total reward levels are set with advice from independent remuneration consultants to ensure that they are in line with general market practice and appropriately competitive in order to attract top executive talent.

Linking total reward to performance

During 2004 the Human Resources Committee and management extensively reviewed the Group s performance management framework. Three major enhancements to this framework were initiated for the 2005 year onwards:

calibration of key performance indicators at the commencement of the performance period, which define what performance looks like;

the introduction of a peer review process. This process validates performance at the end of the period by calibrating it relative to the performance of other individuals; and

the introduction of quality gates, being threshold compliance and behaviour measures. If an individual fails either gate, then no incentive can be provided.

This is a significant shift in approach as the quality gates are separate from the scorecard and must be achieved before the scorecard is considered. All employees are required to achieve the behavioural and compliance quality gates and this will be progressively implemented over the next two years commencing with management employees and above in 2005.

The peer review process will allow for performance to be differentiated and will bias the outcome to those with the best performance and potential. It also identifies those employees who require development and those who are poor performers.

The structure of total reward

Total reward encompasses three main components as described below. The target reward mix emphasises at-risk rewards (short-term and long-term incentives), increasing with the level of responsibility and/or criticality of the role. From 2005, amounts above target are provided in shares with restrictions on trading (subject to any legal or taxation constraints). The target total reward mix for the Managing Director and Chief Executive Officer is 25 30% fixed remuneration, 30 35% short-term incentive, and 40 50% long-term incentive. The target total reward mix for other specified executives is 40 65% fixed remuneration, 20 30% short-term incentive and 15 35% long-term incentive.

Fixed remuneration reflects the scope of the role and the level of skill and experience of the individual and is generally referenced to the median of the applicable remuneration market, with higher outcomes for the best performing individuals. The Group operates in a number of countries and business segments and fixed remuneration reviews aim to achieve equitable outcomes for employees in comparable roles within the context of the different geographical and specialist remuneration markets in which the Group competes for top executive talent.

Short-term incentives for senior executives during 2004 related solely to the EVA® performance of the Group. The weighting between EVA® performance and individual performance varied depending on the nature of the specific executive role. Under that program, a pre-defined EVA® performance weighting for an individual flowed through automatically with only the non-financial component being variable based on the individual s achievement of objectives.

The incentive program commencing from the 2005 year is structured to reward the achievement against key individual, business and Group annual performance outcomes. Target amounts are set relative to the applicable remuneration market for executive incentive purposes. The performance of the Group will be measured by growth in earnings per share (EPS) and EVA® and determines the pool available for payments (subject to Board approval), while the performance of an individual executive against their scorecard of performance measures, determines their share of the available pool.

For management employees and above, a threshold level of performance and the achievement of behavioral and compliance quality gates will be required before any short-term incentive reward can be earned.

Relative individual performance may give rise to anywhere between zero and two times the target incentive amount being earned, with only the most outstanding performers (less than 5% of employees) receiving amounts at the top end of the scale. Also, subject to any legal or taxation constraints, all above-target rewards are to be provided in shares with restrictions on trading for at least one year, provided threshold performance is being achieved over the subsequent performance year.

Long-term incentives, in the form of Company shares (subject to various restrictions), performance options and performance rights have become a key mechanism for rewarding executive potential and talent over the last two years.

Shares issued as a long-term incentive are held in trust until various time and/or performance criteria are achieved (dividends are normally received by the individual while the shares are in trust). Performance options and performance rights are rights to acquire shares, if and when specified time and performance hurdles are achieved. The performance hurdles ensure that executive rewards are linked directly to the total shareholder return (TSR) of the Company and are therefore aligned to the outcomes experienced by other shareholders over a specified timeframe (from September 30, 2004 this will generally be three to five years). The value of any long-term incentive rewards is also heavily dependent on the market value of the Company s ordinary shares at the time of exercise (if and when any securities vest).

The Human Resources Committee introduced performance rights in 2003. Performance rights allow for continued motivation of employees in times when the Group outperforms its peers but for reasons not related to performance the share price may be low.

The Human Resources Committee has again considered the role of long-term reward in helping to drive appropriate management behaviours and to reinforce cultural change. The Human Resources Committee sought advice from external experts in the field and considered best practice in the Australian and international markets regarding the use of long-term incentives. The changes have been implemented with effect from a grant made on September 30, 2004 and will apply to all future grants until amended by the Human Resources Committee. *Details of the old and new performance hurdle provided in note 38 of the financial report*.

Executive remuneration

The following table shows details of the nature and amount of each element of the emoluments of each executive director of the Company and each of the five most highly remunerated current and former senior executives for the year. All emoluments reflect the remuneration paid and payable with respect to services provided for the entire period of service to the Company or Group. No options or performance rights have been granted to the following executive directors or executives since the end of 2004 up to December 31, 2004 as part of their remuneration.

Executive director emoluments (current and former executive directors at September 30, 2004)

	Primary			Post-employment		Equity		Other		
	Cash salary (1) $	Bonus (2) $	Non-monetary benefits (3) $	Super-annuation $	Retirement benefits $	Shares (4) $	Performance options and rights (5) $	Termination benefits (6) $	Other $	Total $
Current										
JM Stewart	1,670,427	1,445,000	28,261	70,301			2,060,964			5,274,953
Former										
FJ Cicutto *(7)*	677,649		7,340	3,952			229,623	6,618,595		7,537,159

Senior executive emoluments (current and former senior executives at September 30, 2004)

	Primary			Post-employment		Equity		Other		
	Cash salary (1) $	Bonus (2) $	Non-monetary benefits (3) $	Super-annuation $	Retirement benefits $	Shares (4) $	Performance options and rights (5) $	Termination benefits (6) $	Other $	Total $
Current										
A Fahour *(8)* *(9)*	132,848		141	1,023		6,017,937			4,211,881	10,363,830
IG MacDonald	807,564		6,338	12,015			1,421,448			2,247,365
RE Pinney	688,729		287,623	81,282			1,008,360			2,065,994
PB Scott	749,668	385,500	10,335	88,578		28,157	1,588,146			2,850,384
PL Thodey	500,668	244,358	23,226				945,833			1,714,085
Former										
IR Crouch	743,776		7,091	12,015			1,110,553	979,887		2,853,322
MT Laing	590,233	65,000	12,964	10,753			941,348	1,234,790		2,855,088
PA McKinnon	686,407	73,000	11,170	12,015			1,303,920	1,302,625		3,389,137
RE McKinnon *(10)*	845,004		14,542	35,033			1,513,805			2,408,384
IF Scholes	275,221		3,442	5,313			737,095	2,243,193		3,264,264

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(1) *Reflects total remuneration package consisting of fixed pay in cash, annual leave, annual leave loading and where applicable, long service and bank extended leave entitlements. Leave earned but not taken has been recognised*

as part of cash salary for the first time in 2004 on adoption of AASB 1046A Director and Executive Disclosures by Disclosing Entities . Annual leave taken during the year has been applied first against accumulated leave accrued in prior year, and then against current year balances. The following specified executives have carry-forward accumulated annual leave earned in prior years which is a current entitlement: Mr MacDonald, 16 days; Mr R McKinnon, 77 days and Mr Scott, 53 days. The value of long service leave earned during the year is disclosed when it is probable the entitlement will vest. In general terms, the entitlement represents 13 weeks for every 15 years worked, paid at the fixed pay rate on the date leave is taken. The following specified executives have carry-forward long service leave earned in prior years: Mr MacDonald, 126 days; Mr R McKinnon, 61 days; and Mr Pinney, 52 days. In addition, Mr MacDonald has 84 days of bank extended leave earned in prior years. Bank extended leave has not been available to new employees since 1998.

(2) Reflects performance-based remuneration accrued but not yet paid in respect of performance for the year to September 30, 2004. Specified executives can elect to be provided the bonus in the form of Company shares or additional superannuation.

(3) Includes motor vehicle benefits and parking. Expatriate specified executive non-monetary benefits include housing, health insurance and airfares. Fringe benefits tax on non-monetary benefits is included within the value of the benefit.

(4) Represents: (a) one-off compensation on joining the Company; or (b) shares received under a share ownership plan.

(5) Performance options and rights are issued as part of the Group s long term incentive plan as described in this report on the directors and officers. Remuneration for former executives who continue to hold performance options and rights at September 30, 2004 reflects the full year benefit of the unvested performance options and performance rights. No terms of vested performance options or rights were altered during the reporting period. Refer below for an explanation of fair value basis used to determine remuneration.

(6) Termination benefits include all annual leave, long service leave and bank extended leave accrued but not taken before cessation with the Group. Some accrued leave reflects leave earned but not taken in prior years which has not been previously disclosed as part of cash salary. No specified executives had post-employment benefits that required approval by members in accordance with the Corporations Act 2001 (Cth).

(7) Remuneration relates to the period from October 1, 2003 to February 1, 2004. Remuneration relating to performance options and rights represents the fair value of performance options vested during the year of $229,623. Performance options and rights with a fair value of $1,058,125, which were disclosed as remuneration in 2003, have been forfeited on resignation.

(8) Remuneration relates to the period from September 1, 2004 to 30 September 2004. Shares represent 75,216 shares issued on September 30, 2004 under the National Australia Bank Staff Share Ownership Plan of which 25% will no longer be subject to applicable forfeiture provisions on each anniversary of his commencement date

and 225,649 shares also issued under the National Australia Bank Staff Share Ownership Plan. Remuneration for the year includes one-off performance options, performance rights and one-off cash compensation on joining the Company as described in footnote (9).

(9) Other represents one-off compensation in cash of $3,857,000 made in September 2004, plus cash payments associated with the sale of his US residence and the purchase of a principal residence in Australia.

(10) Ceased as a senior executive of the Company and Group on August 31, 2004 but continues to be employed by the Company. Remuneration disclosed reflects remuneration for the full year.

Fair value basis used to determine equity remuneration

The disclosure of the allocation of fair value of performance options and performance rights in the above tables has been based upon the requirements of AASB 1046A Director and Executive Disclosures by Disclosing Entities . In accordance with these guidelines, each year a portion of the fair value of all unvested performance options and rights is included in the remuneration of directors of the Company and specified executives of the Group for disclosure purposes. This portion of the fair value is based on a straight-line allocation of fair value over the vesting period of each unvested performance option or right. Included within some equity remuneration above is the reversal of equity remuneration disclosed as remuneration in previous periods, which subsequently lapsed due to resignation.

Prior to October 1, 2002, the Company disclosed the fair value of performance options granted during the financial year using a numerical pricing model, but did not allocate those values over their expected life for reporting emoluments. Rather, the full fair value of the grant was disclosed as an emolument in the year of grant. As a result, included in the amounts disclosed above as an allocation of fair value of performance options and performance rights in relation to 2004, are amounts related to unvested performance options granted in prior years that were disclosed as part of emoluments in the relevant prior years.

Note however, when the Group transitions to Australian equivalents to International Financial Reporting Standards, they will not require all unvested performance options and rights to be recognised in this way, only those granted after November 7, 2002 that are unvested at January 1, 2005. A difference may therefore arise between disclosure under AASB 1046A and the remuneration expense recognised under the new accounting standards in the Group s financial performance.

Performance options and rights granted as part of executive emoluments have been valued using a numerical pricing model, which takes account of factors including the performance option or right exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the performance option or performance right. The probability of the performance hurdle being reached has been taken into consideration in estimating the number of performance options or rights likely to vest. *For further details, refer to note 38 in the financial report.*

Executive performance options and performance rights

Performance options and performance rights are granted by the Company under the National Australia Bank Executive Share Option Plan No. 2 (executive share option plan) and the National Australia Bank Performance Rights Plan (performance rights plan). Each performance option or performance right is for one fully paid ordinary share in the Company.

The number and terms of performance options and performance rights granted during 2004 and since October 1, 2004 up to December 2, 2004, over ordinary shares granted by the Group under the executive share option plan and the performance rights plan, and the Company s valuation of those performance options and performance rights at grant date are shown in the table below:

Grant date	Exercise period (1)	Exercise price (2)	Held at September 30, 2004 (No.)	Lapsed during the period (3) (No.)	Granted since October 1, 2003 (No.)	Fair value as at grant date (4)
Performance options						
Oct 30, 2003	Mar 21, 2006 - Mar 20, 2011	$ 30.98	102,500	25,000	127,500	$ 559,725
Jan 16, 2004	Jan 16, 2007 - Jan 15, 2012	$ 30.25	5,023,225	35,500	5,058,725	$23,826,594
Jan 30, 2004	Jan 16, 2007 - Jan 15, 2012	$ 30.25	448,000	19,750	467,750	$ 2,203,103
Jun 25, 2004	Jan 16, 2007 - Jan 15, 2012	$ 30.25	156,500		156,500	$ 677,645
Jun 25, 2004	Jan 16, 2007 - Jan 15, 2012	$ 29.91	134,625		134,625	$ 595,043
Sep 30, 2004	Sep 1, 2007 - Aug 31, 2009	$ 26.59	390,625		390,625	$ 1,562,500

Grant date	Exercise period (1)	Exercise price (2)	Held at September 30, 2004 (No.)	Lapsed during the period (3) (No.)	Granted since October 1, 2003 (No.)	Fair value as at grant date (4)
Performance rights						
Oct 30, 2003	Mar 21, 2006 - Mar 20, 2011	$ 1.00	25,625	6,250	31,875	$ 720,056
Jan 16, 2004	Jan 16, 2007 - Jan 15, 2012	$ 1.00	1,250,022	8,873	1,258,895	$27,519,444
Jan 30, 2004	Jan 16, 2007 - Jan 15, 2012	$ 1.00	112,000	4,938	116,938	$ 2,556,265
Jun 25, 2004	Jan 16, 2007 - Jan 15, 2012	$ 1.00	72,782		72,782	$ 1,607,754
Sep 30, 2004	Sep 1, 2007 - Aug 31, 2009	$ 1.00	97,656		97,656	$ 1,708,980

(1) *Performance options and performance rights generally expire on the last day of their exercise period.*

(2) *A notional sum of $1.00 is payable by the holder on exercise of all performance rights exercised on any particular day.*

(3) *The performance options and performance rights generally lapse 30 days after the termination of employment unless otherwise determined by the Board in accordance with their terms.*

(4) *Fair values of performance options and performance rights are based on a numerical pricing model. For the purposes of this table, the fair value at grant date represents the full fair value in the year of grant and has not been allocated over the expected life of the option or performance right. Refer above and to note 38 in the financial report for further information.*

The executive share option plan was approved by shareholders by special resolution in January 1997 and again at the 2002 annual general meeting. All performance options that have not expired are detailed in note 38 in the financial report.

The executive share option plan provides for the Board to grant performance options to executives of the Group to subscribe for fully paid ordinary shares in the Company. Each performance option is to subscribe for one fully-paid ordinary share in the Company. The performance options cannot be transferred and are not quoted on the ASX. No payment is required from executives at the time of the grant. The exercise price per performance option is the market price of the Company s fully paid ordinary shares as at the date the performance option was granted or such other date determined by the Board. The market price is determined as the weighted average of the prices at which the Company s fully paid ordinary shares were traded on the ASX in the one week up to and including the relevant day. There are no voting or dividend rights attached to the performance options. The Board may determine such other terms for the grant of performance options consistent with the ASX

Listing Rules and the *Corporations Act* 2001 (Cth).

Time and performance hurdles

Generally, the performance options may not be exercised before the third anniversary of their effective date of grant, and must be exercised before the eighth anniversary (March 2000 to June 2004 grants) or fifth anniversary (September 2004 grant and future grants) of that date.

Exercise of the performance options is also subject to satisfaction of a performance hurdle. The performance hurdle for all performance options issued between March 2000 and June 2004 is measured after the first three years by comparing the performance of the Company with the performance of other companies in a peer group. This peer group of companies is based on 50 of the companies listed in the S&P/ASX 100 by market capitalisation (excluding the Company) determined at the grant date or the effective grant date. Performance options become exercisable depending on the maximum TSR of the Company relative to the TSR of the peer group companies. TSR measures share price growth, assuming reinvestment of returns to the shareholders including dividends, over consecutive five day (March 2000 to June 2002 grants) or 30 day (March 2003 to June 2004 grants) periods to prevent vesting being achieved on short-term spikes in the Company s total shareholder return performance during the performance or vesting period (years three to eight).

For performance options granted between June 2002 and June 2004, if the relative performance of the Company during the vesting period (years three to eight) does not reach the median (50th percentile) of the peer group during the vesting period, then no performance options will vest. Half of the performance options will vest when the performance of the Company achieves the median (50th percentile) of the peer group, with an additional 2% of the performance options becoming exercisable with every additional percentile achieved. All of the performance options will therefore vest when the total shareholder return performance of the Company has reached or exceeded the 75th percentile of the peer group. Grants prior to June 2002 also allow vesting from the 25th percentile (25% of the performance options) with an additional 1% of the performance options becoming exercisable with every additional percentile achieved up to the 50th percentile. This does not apply from June 2002 onwards.

The performance hurdle for performance options issued from September 2004 onwards will be measured against two separate peer groups of companies. The first peer group is 50 of the companies listed in the S&P/ASX 200, and the second is the 13 top financial services sector organisations listed in the S&P/ASX 200 (excluding the Company). Both peer groups are determined at the grant date or effective date when the performance options are issued. Half of the performance options will become exercisable depending on the maximum TSR (measured over 30 consecutive days) of the Company relative to the first peer group, and the

other half relative to the second peer group. The highest rank which is sustained for a 30 consecutive day period relative to each peer group will determine the percentage of performance options which will vest in relation to that peer group. If the performance of the Company during the vesting period (years three to five) does not exceed the median (50th percentile) of either peer group during the vesting period, then no performance options will vest (ie. none are exercisable). Half of each portion of performance options will vest and become exercisable when the performance of the Company achieves the 51st percentile of the relevant peer group, with an additional 2% of each portion of performance options becoming exercisable with every additional percentile achieved. All of the performance options will therefore vest when the TSR performance of the Company has exceeded the 75th percentile of each peer group.

Lapsing of performance options

Performance options will lapse if unexercised on or before their expiry date at the end of eight years (March 2000 to June 2004 grants) or five years (September 2004 grant). Performance options will also generally lapse 30 days (or such shorter time as determined at the time of grant) after an executive ceases to be employed by the Group unless the Board determines otherwise (generally only in case of retirement, redundancy, death, or total and permanent disablement). For some grants, performance options may be automatically retained in cases of death or total and permanent disablement.

In some circumstances, performance options may, however, be exercised before the third anniversary of the grant and notwithstanding the performance hurdle (described below) where an executive ceases employment with the Group as the result of death or total and permanent disablement. The Board may also allow optionholders to exercise the performance options irrespective of the normal criteria where certain events occur, such as the making of a takeover offer or announcement to the holders of fully paid ordinary shares in the Company.

A loan may be available to executives if and when they wish to exercise their performance options subject to the provisions of applicable laws and regulations (including the United States *Sarbanes-Oxley Act of 2002*). The rules of this plan provide that the rate of interest applicable to such a loan shall be the Company s base lending rate plus any margin determined by the Board. Dividends payable in respect of a loan share are applied firstly towards payment of any interest which is due, and secondly towards repayment of the principal amount outstanding under the loan.

Performance options must not be granted if the total number of shares issued in the last five years under the Company s employee share, performance option and rights plans and the total number of outstanding performance options and rights under its plans, including the proposed offer or grant, exceed 5% of the number of shares in the issued share capital of the Company at the time of the proposed offer or grant. This calculation does not include offers or grants made or shares, performance options or performance rights acquired as a result of an offer or grant made to a person situated outside Australia at the time of the offer or grant or which did not need disclosure under section 708 of the *Corporations Act* 2001 (Cth) (eg. shares provided to executive officers of the Company) otherwise than as a result of relief granted by ASIC.

The performance rights plan was approved by shareholders at the 2002 annual general meeting and rights issued under this plan during the year are shown in the table above.

This plan provides for the Board to grant performance rights to executives of the Group to subscribe for fully-paid ordinary shares in the Company. Each performance right is to subscribe for one fully-paid ordinary share in the Company. The performance rights cannot be transferred and are not quoted on the ASX.

No payment is required from executives at the time of the grant, but the holder of performance rights must pay a nominal exercise price to exercise those rights. The total exercise price payable on the exercise of any rights on a particular day is $1.00, irrespective of the number of rights exercised on that day. There are no voting or dividend rights attached to the rights. The Board may determine such other terms for the grant of performance rights consistent with ASX Listing Rules and the terms of the *Corporations Act* 2001 (Cth).

Exercise of the performance rights is subject to the same time and performance hurdle as performance options issued under the executive share option plan. However, performance rights were only granted to executives for the first time in March 2003. An unexercised performance right will lapse in similar circumstances to an unexercised option granted under the executive share option plan.

Performance rights cannot be granted under the performance rights plan if the number of shares to be received on exercise of those performance rights together with all shares issued under the Company s employee incentive plans over the last five years and the number of outstanding performance options and performance rights issued under those plans exceed 5% of the Company s issued share capital. This calculation does not include offers or grants made or shares, performance options or performance rights acquired as a result of an offer or grant made to a person situated outside Australia at the time of the offer or grant or which did not need disclosure under section 708 of the *Corporations Act* 2001 (Cth) (eg. shares provided for no consideration under the staff share allocation plan), otherwise than as a result of relief granted by ASIC.

Options and performance rights on issue and number exercised

At December 2, 2004, there were 36,468,975 performance options and 2,947,851 performance rights which were exercisable, or may become exercisable in the future, under the respective plans.

The holders of exchangeable capital units have the right to exchange those units for ordinary shares in the Company or, at the Company s option, cash. *Refer to note 31 in the financial report for full details of the number and terms of exchangeable capital units issued by the Group.*

There were 2,205,000 fully paid ordinary shares of the Company issued during the year as a result of performance options granted being exercised, for a total consideration of $51,248,018. There were 83,000 fully paid ordinary shares of the Company issued since September 30, 2004 up to December 2, 2004 as a result of performance options granted being exercised, for a total consideration of $1,767,070. No performance rights were exercised during the relevant time. The amount paid on issue of each of these shares is set out in note 38 to the financial report.

No person holding an option has or had, by virtue of the option, a right to participate in a share issue of any body corporate other than the Company.

Directors meetings

The table below shows the number of directors meetings held (including meetings of Board committees) and number of meetings attended by each of the directors of the Company during the year:

Directors	Directors meetings of the Company				Audit Committee meetings of the Company		Risk Committee meetings of the Company	
	Scheduled meetings attended	Scheduled meetings held	Unscheduled meetings attended	Unscheduled meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held
DCK Allen	4*(3)*	4*(3)*	10	10	3*(1)*	3*(1)*	4*(1)*	4*(1)*
FJ Cicutto	3*(3)*	3*(3)*	5	5	2*(1)*	2*(1)*	4	4
JB Clark *(8)*	9*(3)*	9*(3)*	17*(2)*	24				
PJB Duncan	10	10	22*(2)*	25	13	15	18	18
RG Elstone *(7)*	1*(3)*	1*(3)*	1	1			1	1
DT Gilbert *(7)*	1*(3)*	1*(3)*	1	1	1	1		
GJ Kraehe *(5)*	10	10	24*(2)*	25	6*(1)*	6*(1)*	17	17
KJ Moss *(6)*	9*(3)*	9*(3)*	22*(2)*	24	13	13	3*(1)*	3*(1)*
PJ Rizzo *(7)*	1*(3)*	1*(3)*	1	1	1	1	1	1
JS Segal *(9)*			1	1				
JM Stewart *(10)*	10	10	21*(2)*	25	7*(1)*	7*(1)*	14	14
JG Thorn	10	10	24*(2)*	25	15	15	3*(1)*	3*(1)*
GA Tomlinson	10	10	22*(2)*	25			3*(1)*	3*(1)*
ED Tweddell *(6)*	9*(3)*	9*(3)*	22*(2)*	24			16	16
CM Walter *(11)*	7*(3)*	7	21*(2)*	23	5	5	3*(1)*	3*(1)*
GM Williamson *(12)*	3*(3)*	3*(3)*	2	2				

Directors	Human Resources Committee meetings of the Company		Nomination Committee meetings of the Company		Directors meetings of controlled entities (3)		Additional meetings
	Meetings attended	Meetings held (2)	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended (4)
DCK Allen	3*(1)*	3*(1)*	3	3	5	5	3
FJ Cicutto			2	2	3	3	7
JB Clark(8)	3	7	1	3	6	6	1
PJB Duncan			3	3	7	7	6
RG Elstone*(7)*					1	1	
DT Gilbert *(7)*					1	1	
GJ Kraehe *(5)*	3*(1)*	3*(1)*	3	3	7	7	13
KJ Moss *(6)*	6	7	3	3	6	6	7
PJ Rizzo *(7)*					1	1	
JS Segal *(9)*							
JM Stewart *(10)*	2*(1)*	2*(1)*	2	3	15	37	11
JG Thorn	6	6	3	3	7	7	8
GA Tomlinson	2	2	3	3	29	33	8
ED Tweddell *(6)*	5	7	3	3	6	6	9
CM Walter *(11)*			3	3	5	5	13
GM Williamson *(12)*					14	14	4

(1) *Reflects attendance at committee meetings even though the director is not a member of that committee.*

(2) Where a director is unable to attend an unscheduled board meeting called at short notice, the director is provided with a separate briefing on the matters to be considered and the views of the director are obtained.

(3) Reflects the number of meetings held during the time the director held office during the year. Where a controlled entity holds board meetings in a country other than the country of residence of the director, or where there may be a potential conflict of interest, then the number of meetings held is the number of meetings the director was expected to attend, which may not be every board meeting held by the controlled entity during the year. Reflects the number of committee meetings attended, even though the director is not a member of the committee.

(4) Reflects the number of additional formal meetings attended during the year by each director, including committee meetings (other than Audit Committee, Risk Committee, Human Resources Committee or Nomination Committee) where any two directors are required to form a quorum.

(5) Mr Kraehe resigned as a member of Risk Committee on March 11, 2004. Mr Kraehe attended nine meetings as a member of the Risk Committee and eight meetings as a non-member.

(6) Dr Moss and Dr Tweddell resigned as directors on August 27, 2004.

(7) Mr Elstone, Mr Gilbert and Mr Rizzo were appointed as directors on September 2, 2004.

(8) Dr Clark resigned as a director on August 30, 2004

(9) Ms Segal was appointed as a director on September 7, 2004.

(10) Mr Stewart was appointed as a member of the Risk Committee on February 6, 2004.

(11) Mrs Walter resigned from the Audit Committee on March 11, 2004 and resigned from the Board on May 7, 2004.

(12) Mr Williamson was appointed as a director on May 10, 2004.

Subsequent to September 30, 2004 Mr Ahmed Fahour and Mr Michael J Ullmer were appointed as executive directors, and Mr Michael Chaney was appointed as a non-executive director.

Directors interests

The table below shows the interests of each director in the issued ordinary shares and National Income Securities of the Group, and in registered schemes made available by the Group as at December 31, 2004. No director held an interest in Trust Preferred Securities or exchangeable capital units of the Company.

Directors	Fully paid ordinary shares of the Company	Performance options over fully paid ordinary shares of the Company	Performance rights over fully paid ordinary shares of the Company	National Income Securities	Registered schemes
M Chaney					
PJB Duncan *(1)*	10,006			950	
RG Elstone *(1)*	2,256				
A Fahour	302,865	160,000	40,000		
DT Gilbert *(1)*	3,968			1,253	
GJ Kraehe *(1)*	29,393			670	
PJ Rizzo *(1)*	2,219				
JS Segal *(1)*	2,598			180	
JM Stewart	3,179	275,000	68,750		
JG Thorn *(1)*	3,271				
GA Tomlinson *(1)*	32,822			500	
MJ Ullmer	2,863	100,000	25,000		
GM Williamson	2,060				

(1) Includes shares acquired under the Non-Executive Director Share Plan operated through the National Australia Bank Staff Share Ownership Plan.

There are no contracts, other than those disclosed above, to which directors are a party, or under which the directors are entitled to a benefit and that confer the right to call for or deliver interests in a registered scheme made available by the Company or a related body corporate.

All of the directors have disclosed interests in organisations not related to the Group and are to be regarded as interested in any contract or proposed contract that may be made between the Company and any such organisations.

Executives interests

The table below shows the interests of each senior executive, excluding executive directors, in the issued ordinary shares and National Income Securities of the Group, and in registered schemes made available by the Group as at December 31, 2004. No executives held an interest in Trust Preferred Securities or exchangeable capital units of the Company.

Senior executives(1)	Fully paid ordinary shares of the Company	Performance options over fully paid ordinary shares of the Company (2)	Performance rights over fully paid ordinary shares of the Company(2)	National Income Securities	Registered schemes
CA Clyne	1,000	55,000	13,750		
JE Hooper	5,152	105,000	12,500		
IG MacDonald	6,370	750,000	62,500		
LM Peacock		150,000	37,500		
RE Pinney *(3)*	61,451	700,000	43,750		
PB Scott	3,386	900,000	62,500		
GR Slater	4,525	67,500	8,125		
PL Thodey *(4)*	129	487,500	46,875		
GD Willis	22,058	187,500	15,625		

(1) Senior executives current as at September 30, 2004 where shareholding information is disclosed in note 51 to the financial report.

(2) Exercise price, exercise period, expiry date and fair value of performance options and performance rights for those issued during the year are disclosed in note 51 to the financial report.

(3) In addition to fully paid ordinary shares, Mr Pinney holds 4,070 partly paid shares of the Company.

(4) Mr Thodey exercised 100,000 options since September 30, 2004 which were issued March 23, 2000.

Details of each tranche of performance options and performance rights over ordinary shares in the Company provided to each senior executive above are set out below. *Further details regarding the exercise price, exercise period and fair value are disclosed in note 38 to the financial report.*

	Performance options							
Senior executives	September 30, 2004	June 25, 2004	January 16/ January 30, 2004	October 30, 2003	March 21, 2003	June 14, 2002	March 23, 2001	March 23/ September 28 2000 (1)
CA Clyne	55,000							

JE Hooper		25,000		25,000	30,000	20,000	5,000
IG MacDonald		125,000		125,000	250,000	250,000	
LM Peacock	25,000	75,000	50,000				
RE Pinney	25,000	75,000		75,000	75,000	250,000	200,000
PB Scott		125,000		125,000	250,000	250,000	150,000
GR Slater		20,000		12,500	25,000	10,000	
PL Thodey		100,000		87,500	150,000	150,000	
GD Willis		30,000		32,500	65,000	60,000	

(1) *Mr Hooper s and Mr Pinney s performance options were granted on March 23, 2000 and Mr Scott s performance options were granted on September 28, 2000*

			Performance rights		
Senior executives	**September 30, 2004**	**June 25, 2004**	**January 16/ January 30, 2004**	**October 30, 2003**	**March 21, 2003**
CA Clyne	13,750				
JE Hooper			6,250		6,250
IG MacDonald			31,250		31,250
LM Peacock		6,250	18,750	12,500	
RE Pinney		6,250	18,750		18,750
PB Scott			31,250		31,250
GR Slater			5,000		3,125
PL Thodey			25,000		21,875
GD Willis			7,500		8,125

Past employment with external auditor

Mr Christopher D Lewis, who ceased employment with the Group on March 12, 2004 and Mr Michael J Ullmer, who commenced employment with the Group on September 1, 2004 previously held positions as partners of the Group s external auditor, KPMG, during a time when KPMG undertook the audit of the Group. Mr Ullmer resigned from KPMG in 1992.

Non-audit services

Fees paid or due and payable to the external auditor, KPMG, for non-audit services provided by the external auditor to the Group during the year to September 30, 2004 are set out in the table below:

	Group 2004 $ 000
Audit-related fees (regulatory)	
National Custodian Services Auditing Guidance Statement (AGS) 1026 reports	366
APRA reporting (Prudential Standard APS 310 sign-off and tripartite review)	300
Regulatory audits / attestations for Wealth Management entities (in all regions)	277
UK regulatory audits / attestations	243
New Zealand regulatory audits / attestations	77
Other regulatory audits / attestations (in all regions)	151
Review of Japanese translation of annual financial report	35
Total audit-related fees (regulatory)	1,449
Audit-related fees (non-regulatory)	
Agreed-upon procedures on results announcements	200
Services in connection with IFRS transition (including International Accounting Standard (IAS) training)	96
Audit of employee benefit plans	69
Review of reconciliation of half year financials under Australian GAAP to US GAAP	55
Accounting advice in connection with securitisation transactions	47
Other (including procedures in relation to the Group s corporate social responsibility report)	33
Total audit-related fees (non-regulatory)	500
Tax fees	
Tax compliance services	337
Total tax fees	337
All other fees	
Australian Payments Clearing Association cash review reporting	357
Regulatory or compliance audits/attestations for Wealth Management entities (in all regions) unrelated to the audit or review of the Group s financial statements	290
Internet banking security testing (Europe)	76
Other regulatory audits/attestations (in all regions) unrelated to the audit or review of the Group s financial statements	24
Total all other fees	747
Total non-audit service fees	3,033

Fees exclude GST, VAT or equivalent taxes.

The external auditor also provides audit and non-audit services to non-consolidated securitisation vehicles sponsored by the Group, non-consolidated trusts of which a Group entity is trustee, manager or responsible entity and non-consolidated Group superannuation or pension funds. The fees paid or due and payable to the external auditor for these services during the year to September 30, 2004 total approximately $2,731,000.

In accordance with advice received from the Audit Committee, the directors are satisfied that the provision of non-audit services during the year to September 30, 2004 by the external auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act* 2001 (Cth). The directors are so satisfied because the Audit Committee has, having regard to auditor independence requirements of applicable laws, rules and regulations, concluded in respect of each non-audit service that the provision of that service would not impair the independence of the external auditor.

A description of the Audit Committee s pre-approval policies and procedures is set out on page 75. Further details of the services provided by the external auditor to the Group and the fees paid or due and payable to the external auditor for those services are set out in note 52 in the financial report.

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2004 Annual Financial Report

Statement of financial performance

For the year ended September 30	Note	Group 2004 $m	Group 2003 $m	Group 2002 $m	Company 2004 $m	Company 2003 $m
Interest income	4	**18,650**	17,022	16,434	**13,707**	11,901
Interest expense	5(b)	**(11,459)**	(9,603)	(9,212)	**(9,605)**	(7,850)
Net interest income		**7,191**	7,419	7,222	**4,102**	4,051
Premium and related revenue	4, 54	**1,005**	949	1,134		
Investment revenue	4, 54	**4,842**	2,759	(988)		
Claims expense	5(b), 54	**(702)**	(958)	(956)		
Change in policy liabilities	5(b), 54	**(3,368)**	(1,518)	1,637		
Policy acquisition and maintenance expense	5(b), 54	**(723)**	(713)	(751)		
Investment management fees	5(b), 54	**(42)**	(75)	(86)		
Net life insurance income		**1,012**	444	(10)		
Other banking and financial services income	4	**4,831**	5,010	7,006	**3,490**	6,230
Mortgage servicing and origination revenue	4			378		
Movement in the excess of net market value over net assets of life insurance controlled entities	4	**(137)**	(160)	(155)		
Significant revenue						
Proceeds from the sale of strategic shareholdings	4, 5(a)	**993**			**993**	
Proceeds from the sale of foreign controlled entities	4, 5(a)			2,671		
Personnel expenses	5(b)	**(3,616)**	(3,416)	(3,379)	**(1,976)**	(1,907)
Occupancy expenses	5(b)	**(591)**	(556)	(559)	**(297)**	(280)
General expenses	5(b)	**(2,605)**	(2,382)	(4,769)	**(1,399)**	(1,072)
Amortisation of goodwill	5(b)	**(103)**	(98)	(101)		
Charge to provide for doubtful debts	5(b), 17	**(559)**	(633)	(697)	**(325)**	(373)
Significant expenses						
Cost of sale of strategic shareholdings	5(a), (b)	**(678)**			**(678)**	
Foreign currency options trading losses	5(a), (b)	**(360)**			**(360)**	
Write-down of impaired application software	5(a), (b)	**(409)**			**(239)**	
Charge to provide for doubtful debts revision of accounting estimate	5(a), (b), 17	**(292)**			**(190)**	
Cost of foreign controlled entity sold revision of accounting estimate	5(a), (b)	**64**			**64**	
Restructuring costs	5(a), (b)			(580)		
Cost of foreign controlled entities sold	5(a), (b)			(2,686)		
Profit from ordinary activities before income tax expense		**4,741**	5,628	4,341	**3,185**	6,649
Income tax expense relating to ordinary activities	6	**(1,190)**	(1,681)	(962)	**(768)**	(929)
Net profit		**3,551**	3,947	3,379	**2,417**	5,720
Net loss/(profit) attributable to outside equity interest Life insurance business		**(365)**	16	(6)		
Net profit attributable to outside equity interest Other		**(9)**	(8)			
Net profit attributable to members of the Company		**3,177**	3,955	3,373	**2,417**	5,720
Other changes in equity other than those resulting from transactions with owners as owners						
Net credit to asset revaluation reserve	34	**71**	9	9	**5**	
Net credit/(debit) to foreign currency translation reserve	34	**226**	(1,251)	(520)	**6**	(40)
Net credit to retained profits on initial adoption of AASB 1044 Provisions, Contingent Liabilities and Contingent Assets	35		1,151			1,151
Total revenues, expenses and valuation adjustments attributable to members of the Company and recognised		**297**	(91)	(511)	**11**	1,111

directly in equity						
Total changes in equity other than those resulting from transactions with owners as owners		**3,474**	3,864	2,862	**2,428**	6,831
Basic earnings per share (cents)	8	**197.3**	248.8	205.7		
Diluted earnings per share (cents)	8	**196.1**	243.6	202.5		
Dividends per ordinary share (cents)						
Interim	7	**83**	80	72		
Final	7	**83**	83	75		

Statement of financial position

As at September 30	Note	Group 2004 $m	Group 2003 $m	Company 2004 $m	Company 2003 $m
Assets					
Cash and liquid assets	9	**8,080**	8,405	**4,189**	4,152
Due from other financial institutions	10	**23,494**	29,234	**21,615**	26,475
Due from customers on acceptances	11	**16,344**	19,562	**16,266**	19,496
Trading securities	12	**24,248**	23,724	**23,699**	22,952
Trading derivatives		**17,939**	23,644	**17,279**	22,773
Available for sale securities	13	**4,610**	6,513	**3,978**	6,503
Investment securities	14	**11,513**	8,647	**5,383**	3,668
Investments relating to life insurance business	15	**41,013**	35,846		
Loans and advances	16	**247,836**	225,735	**156,035**	143,718
Due from controlled entities				**32,244**	29,569
Shares in controlled entities, joint venture entities and other securities	19	**158**	1,445	**11,432**	12,250
Regulatory deposits	20	**177**	225	**93**	93
Property, plant and equipment	21	**2,257**	2,498	**878**	1,166
Income tax assets	22	**1,367**	1,203	**876**	679
Goodwill	23	**632**	740		
Other assets	24	**11,641**	10,050	**2,435**	1,323
Total assets		**411,309**	397,471	**296,402**	294,817
Liabilities					
Due to other financial institutions	25	**42,044**	52,530	**38,675**	48,302
Liability on acceptances		**16,344**	19,562	**16,266**	19,496
Trading derivatives		**16,150**	21,479	**15,181**	20,479
Deposits and other borrowings	26	**220,752**	201,194	**147,420**	136,297
Life insurance policy liabilities	27	**36,134**	32,457		
Income tax liabilities	28	**1,178**	1,537	**740**	562
Provisions	29	**1,129**	1,262	**629**	768
Due to controlled entities				**18,004**	17,025
Bonds, notes and subordinated debt	30	**32,573**	24,257	**31,449**	23,643
Other debt issues	31	**1,612**	1,743	**350**	367
Other liabilities	32	**13,627**	14,239	**6,600**	7,292
Total liabilities		**381,543**	370,260	**275,314**	274,231
Net assets		**29,766**	27,211	**21,088**	20,586
Equity					
Contributed equity	33	**10,191**	9,728	**9,216**	8,753
Reserves	34	**1,194**	893	**50**	34
Retained profits	35	**14,515**	13,786	**11,822**	11,799
Total parent entity interest		**25,900**	24,407	**21,088**	20,586
Outside equity interest Life insurance business	36	**3,866**	2,614		
Outside equity interest Other	36		190		
Total equity	37	**29,766**	27,211	**21,088**	20,586

Statement of cash flows

For the year ended September 30	Note	Group 2004 $m	Group 2003 $m	Group 2002 $m	Company 2004 $m	Company 2003 $m
Cash flows from operating activities						
Interest received		**18,594**	17,372	15,639	**12,578**	10,668
Interest paid		**(11,136)**	(10,115)	(9,263)	**(8,272)**	(6,603)
Dividends received		**23**	39	35	**974**	3,534
Fees and other income received		**5,068**	3,026	6,182	**3,020**	999
Life insurance						
Premiums received		**7,467**	6,546	10,378		
Investment and other revenue received		**1,339**	1,857	2,024		
Policy payments		**(6,694)**	(5,778)	(8,483)		
Other life insurance payments		**(641)**	(476)	(1,111)		
Personnel expenses paid		**(3,521)**	(3,327)	(3,637)	**(1,908)**	(1,847)
Occupancy expenses paid		**(521)**	(489)	(549)	**(243)**	(226)
General expenses paid		**(3,048)**	(2,959)	(2,339)	**(1,481)**	(1,184)
Income tax paid		**(1,567)**	(1,830)	(2,131)	**(987)**	(1,118)
Goods and services tax paid		**(30)**	(52)	(68)	**(8)**	(21)
Net decrease/(increase) in trading securities		**(449)**	(4,345)	136	**(725)**	(5,653)
Net decrease/(increase) in mortgage loans held for sale		**(22)**	50	1,304		
Net cash provided by/(used in) operating activities	42(a)	**4,862**	(481)	8,117	**2,948**	(1,451)
Cash flows from investing activities						
Movement in available for sale securities						
Purchases		**(5,727)**	(15,052)	(14,765)	**(5,098)**	(15,047)
Proceeds from sale		**2,002**	3	90	**2,001**	
Proceeds on maturity		**5,399**	13,500	14,543	**5,394**	13,761
Movement in investment securities						
Purchases		**(15,032)**	(15,449)	(40,653)	**(11,724)**	(11,327)
Proceeds on maturity		**12,373**	18,578	37,434	**10,060**	15,985
Net increase in life insurance business investments and policy liabilities		**(1,683)**	(3,650)	(2,148)		
Net increase in loans and advances		**(20,657)**	(28,402)	(19,032)	**(13,690)**	(24,819)
Net increase in amounts due from controlled entities					**(2,007)**	(2,379)
Net (increase)/decrease in shares in controlled entities, joint venture entities and other securities		**609**	428	212	**140**	(323)
Payments for mortgage servicing rights				(74)		
Proceeds from the sale of mortgage servicing rights				98		
Payments for acquisition of controlled entities	42(e)		(83)			
Proceeds from the sale of controlled entities	42(f)	**110**	2,671			
Payments for property, plant and equipment		**(660)**	(534)	(791)	**(244)**	(298)
Proceeds from the sale of operating assets				2,314		
Proceeds from the sale of strategic shareholdings		**993**			**993**	
Net proceeds from the sale of property, plant and equipment		**157**	166	418	**53**	108
Net decrease/(increase) in regulatory deposits		**47**	(113)	(35)	**(3)**	(57)
Net decrease/(increase) in other assets		**(1,515)**	2,762	10,057	**(1,191)**	2,231
Net cash used in investing activities		**(23,584)**	(25,175)	(12,332)	**(15,316)**	(22,165)
Cash flows from financing activities						
Net increase in deposits and other borrowings		**17,390**	15,237	17,320	**11,232**	13,725
Net proceeds from bonds, notes and subordinated debt		**14,059**	10,136	6,738	**13,660**	9,383

Repayments of bonds, notes and subordinated debt		**(5,473)**	(7,017)	(8,314)	**(5,473)**	(5,665)
Payments from provisions		**(270)**	(340)	(116)	**(233)**	(257)
Net proceeds from issue of ordinary shares		**739**	216	130	**739**	216
Net proceeds from issue of Trust Preferred Securities			975			
Payments made under on-market buy-back of ordinary shares		**(162)**	(1,565)	(1,248)	**(162)**	(1,565)
Payments made on buy-back of preference shares		**(582)**			**(582)**	
Dividends and distributions paid		**(1,976)**	(2,255)	(1,948)	**(1,921)**	(2,255)
Net increase/(decrease) in other liabilities		**(978)**	(204)	(5,892)	**(498)**	566
Net cash provided by financing activities		**22,747**	15,183	6,670	**16,762**	14,148
Net increase/(decrease) in cash and cash equivalents		**4,025**	(10,473)	2,455	**4,394**	(9,468)
Cash and cash equivalents at beginning of year		**(14,891)**	(8,307)	(12,469)	**(17,675)**	(12,707)
Effects of exchange rate changes on balance of cash held in foreign currencies		**396**	3,889	1,707	**410**	4,500
Cash and cash equivalents at end of year	42(b)	**(10,470)**	(14,891)	(8,307)	**(12,871)**	(17,675)

Notes to the Financial Statements

1 Principal accounting policies

This financial report is a general purpose financial report which is prepared in accordance with the requirements of the *Banking Act* 1959 (Cth), *Corporations Act* 2001 (Cth), Australian Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the AASB.

The financial report also includes disclosures required by the United States SEC in respect of foreign registrants. Other prescribed SEC disclosures, which are not required to be included in the financial report, are presented elsewhere in this annual financial report. Certain key terms used in this financial report are defined in the glossary on page 255.

The preparation of the financial report requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Assumptions made at each balance date are based on best estimates at that date. Although the Group has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. It is not anticipated that such differences would be material.

The Group has elected to early adopt a new Australian Accounting Standard, AASB 1046A, amending AASB 1046 Director and Executive Disclosures by Disclosing Entities . AASB 1046A permits the use of market condition rules when valuing equity grants within director and executive remuneration disclosures (*refer to note 51*). The Group considers this to be a more appropriate basis for disclosure than that applied under AASB 1046.

(a) Historical cost

The financial report is based on historical cost and except where stated does not take into account changing money values or fair values.

(b) Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

(c) Rounding of amounts

In accordance with Australian Securities and Investments Commission Class Order 98/100 dated July 10, 1998, all amounts have been rounded to the nearest million dollars, except where indicated.

(d) Reclassifications

In respect of the statement of financial position, the basis of classification of three items was changed during 2004.

The basis of classification of transferable certificates of deposit (TCDs) has been revised and bonds issued under the Group s TCD program have been reclassified from deposits and other borrowings to bonds, notes and subordinated debt . As a result of this change, on the consolidated statement of financial position $1,550 million has been reclassified in the 2003 comparatives.

Certain repurchase and reverse repurchase agreements with other financial institutions have been reclassified to due to other financial institutions and due from other financial institutions respectively, in order to provide users with an enhanced level of understanding and comparability of the Group s loan portfolio. Previously, these repurchase and reverse repurchase agreements were included in deposits and other borrowings and loans and advances respectively.

Accordingly, $7,402 million of repurchase agreements previously disclosed as at September 30, 2003 as deposits and other borrowings have been reclassified to due to other financial institutions. Further, $18,851 million of reverse repurchase agreements as at September 30, 2003 previously disclosed as loans and advances have been reclassified to due from other financial institutions. In addition, reverse repurchase agreements of $3,373 million at September 30, 2003 with non-financial institutions have been reclassified from loans and advances to cash and liquid assets .

Corresponding reclassifications have also been made to revenue, expense and cash flow classifications.

The basis of classification of the medium-term notes (MTN) issued by the Group s controlled entity, Bank of New Zealand (BNZ) has been revised. Accordingly, from April 1, 2004 amounts issued under this MTN program have been reclassified from deposits and other borrowings to bonds, notes and subordinated debt . Comparative information has not been reclassified as it is impracticable to do so.

(e) Comparative amounts

Comparative amounts have been reclassified to accord with changes in presentation made in 2004, except where otherwise stated.

(f) Principles of consolidation

All entities which are controlled by the Company are consolidated in the financial report. Control means the ability or power of the Company to dominate decision making directly or indirectly in relation to the financial and operating policies of another entity, to enable that other entity to operate with it in pursuing its objectives.

All inter-entity balances, transactions and profits and losses are eliminated on consolidation. Controlled entities prepare accounts for consolidation in conformity with the Company s accounting policies.

Where controlled entities have been acquired or sold during the year, their operating results have been included from the date of acquisition or to the date of sale. Controlled entity acquisitions have been accounted for using the purchase method of accounting.

Outside interest in the equity and results of the entities that are controlled by the Company is shown as a separate item, outside equity interest , in the consolidated financial statements.

Statutory funds of the Group s life insurance business have been consolidated into the financial report as required by Australian Accounting Standard AASB 1038 Life Insurance Business . The financial report consolidates all of the assets, liabilities, revenues and expenses of the statutory funds and non-statutory fund life insurance business irrespective of whether they are designated as relating to policyholders or shareholders. In addition, where the Group s life insurance statutory funds have the capacity to control managed investment schemes in which they are the majority investor, the Group has consolidated all of the assets, liabilities, revenues and expenses of these managed investment schemes.

Joint venture entities are entities that are jointly controlled by the Group. In the consolidated financial statements, investments in joint venture entities, including partnerships, are accounted for using equity accounting principles.

Investments in joint venture entities are carried at the lower of the equity accounted amount or recoverable amount. The Group s share of the joint venture entities net profit or loss is recognised in the profit and loss account from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in consolidated reserves.

(g) Foreign currency translation

All foreign currency monetary assets and liabilities are revalued at the rates of exchange ruling at balance date. Unrealised profits and losses arising from these revaluations are recognised immediately in the profit and loss account. Foreign currency revenue and expense amounts are translated at average rates of exchange for the year.

Differences arising on the translation of the financial report of the Group s overseas operations which are considered to be economically self-sustaining are included in the foreign currency translation reserve, after allowing for foreign currency hedges. Differences arising on the translation of the financial report of all other overseas controlled entities and overseas branches are recognised immediately in the profit and loss account. Foreign exchange profits and losses, in respect of life insurance business, are recognised in the profit and loss account.

Assets

(h) Cash assets

Cash assets are items readily convertible into cash and are generally repayable on demand. Cash assets are brought to account at the face value or the gross value of the outstanding balance where appropriate.

(i) Due from other financial institutions

Due from other financial institutions includes loans, nostro balances, reverse repurchase agreements, certificates of deposit and settlement account balances due from other financial institutions. They are brought to account at the gross value of the outstanding balance.

(j) Acceptances

The Group s liability under acceptances is reported in the statement of financial position. The Group has equal and offsetting claims against its customers which are reported as an asset. The Group s own acceptances discounted are held as part of either the trading securities or loan portfolio depending on whether, at the time of such discount, the intention was to hold the acceptances for resale or until maturity, respectively.

(k) Trading securities

Trading securities are public and other debt securities which are purchased for current resale in day-to-day trading operations. Trading securities are recorded at fair value and unrealised profits or losses in respect of fair value adjustments are recognised immediately in the profit and loss account. Trading securities are recorded on a trade-date basis.

(l) Available for sale securities

Available for sale securities are public and other debt securities which are purchased with the intention to be held for an indefinite period of time but not necessarily to maturity. Such securities may be sold in response to various factors including significant changes in interest rates, liquidity requirements and regulatory capital considerations.

Available for sale securities are recorded at the lower of aggregate cost or fair value. Cost is adjusted for the amortisation of premiums and accretion of discounts to maturity. Unrealised losses in respect of market value adjustments and realised profits and losses on sale of available for sale securities are recognised in the profit and loss account. The cost of securities sold is calculated on a specific identification basis. Available for sale securities are recorded on a trade-date basis.

(m) Investment securities

Investment securities are public and other debt securities, which are purchased with the positive intent and ability to hold until maturity. Such securities are recorded at original cost adjusted for the amortisation of premiums, accretion of discounts to maturity and other than temporary diminutions in their value. Unrealised losses relating to other than temporary diminutions in the value of investment securities are recognised in the profit and loss account and the recorded values of those securities adjusted accordingly. The sale of an investment security would only be considered in those unusual and rare situations when significant unforeseeable changes in circumstance may have caused a change in intent without calling into question the Group s intent and ability to hold other investment securities to maturity in the future (eg. evidence of a significant deterioration in a security issuer s creditworthiness). In any unusual and rare instances where investment securities are sold prior to maturity, profits and losses on sale are taken to the profit and loss account when realised. Investment securities are recorded on a trade-date basis.

(n) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase are retained within the investment, available for sale or trading portfolios and accounted for accordingly. The obligation to repurchase is recorded as deposits and other borrowings or, where the transaction is with a financial institution, as due to other financial institutions . The difference between the sale and repurchase price represents interest expense and is recognised in the profit and loss account over the term of the repurchase agreement. Securities held under reverse repurchase agreements are recorded as cash and liquid assets , due from other financial institutions or loans and advances depending on liquidity and the counterparty. The difference between the purchase and sale price represents interest income and is recognised in the profit and loss account over the term of the reverse repurchase agreement.

(o) Investments relating to life insurance business

Investment assets held by the Group s life insurance business have been recorded at net market value including an allowance for estimated realisation costs. Where no quoted market values exist, the directors adopt various valuation methods. In those cases, the values adopted are deemed equivalent to net market value.

Details of particular methods adopted are as follows:

freehold land and leasehold properties are stated at values not greater than independent valuations, which are carried out at regular

intervals not exceeding three years. As market value is adopted, building depreciation is not provided for;

ordinary and preference shares, equity options and investments in unit trusts that are not controlled entities, are recorded at their latest available market value or, where no quoted security exists, at directors valuations with reference to their net tangible assets;

investments in controlled entities of life insurance operations that do not have quoted market values are recorded at not greater than independent valuation or where no independent valuation is available at directors valuations, or, for entities in voluntary liquidation, at net tangible assets;

investments in associates are recorded at directors valuation with reference to the life insurance entity s proportionate interest in the market value of each associate;

interest-bearing securities quoted on stock exchanges are shown at prices quoted at balance date. Unquoted interest-bearing securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable quoted investments; and

participations in lease transactions are included in investment assets. The transactions are recorded at market value, based on the net present value of the after-tax cash flows arising from the transactions.

Restrictions on assets

The assets and liabilities held in the statutory funds of the Australian life insurance business are subject to the restrictions of the *Life Insurance Act* 1995 (Cth) and the constitutions of the life insurance entities. The main restrictions are that the assets in a statutory fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund, or to make profit distributions when solvency and capital adequacy requirements of the *Life Insurance Act* 1995 (Cth) are met. Therefore, assets held in statutory funds are not available for use by other parts of the Group s business other than any profits generated in the statutory funds.

(p) Loans and advances

Loans and advances include overdrafts, credit card lending, market rate advances, bill financing, housing loans, lease finance, other term lending and redeemable preference share finance. They are carried at recoverable amount represented by the gross value of the outstanding balance adjusted for provision for doubtful debts and unearned income. Unearned income represents interest not yet earned on the Group s consumer instalment lending and leasing and is calculated on an actuarial basis. Interest is recognised as revenue when interest is earned.

(i) Bad and doubtful debts

Provision for doubtful debts provides for losses inherent in loans, and off-balance sheet credit extensions such as letters of credit, guarantees and undrawn commitments to extend credit.

The specific provision for doubtful debts is established to cover all identified doubtful debts and is recognised when there is reasonable doubt over the collectability of principal and interest in accordance with the loan agreement (an impaired loan). Amounts provided for are determined by specific identification or by management s determination of probable losses for individual loans that are considered impaired in relation to loan portfolios where specific identification is impracticable. All bad debts are written off against the specific provision for doubtful debts in the reporting period in which they are classified as irrecoverable.

The Group has adopted a statistically-based provisioning methodology for its general provision for doubtful debts. Under this methodology, the Group estimates the level of losses inherent but not specifically identified in its existing credit portfolios at balance date.

For retail lending (smaller-balance homogeneous loans), the general provision is assessed at a portfolio level and is based on product loss rates, to make a provision for losses inherent in the portfolio but not yet identified at balance date. These rates are determined by reference to observed historical loss experience for the relevant product types.

In respect of non-retail lending, the amount of the general provision is determined by multiplying the customer s probability of default by the loss given default. The probability of default is determined by the Group s internal customer rating system. Internal ratings are assigned at the customer level. This system utilises objective, verifiable external data, such as external credit ratings, and is supplemented with an assessment of economic and industry outlooks, conducted by the Group s discrete specialist economics unit. The loss given default is the amount of an individual loan at risk having regard to the level of collateral held against that facility. The level of collateral held is determined on a loan-by-loan basis, based on the Group s assessment of the loan security s value at the time of loan application and any subsequent valuations.

The operation of the statistically-based provisioning methodology is such that when individual loans are impaired, a specific provision will be raised by making a transfer from the general provision for doubtful debts. The general provision for doubtful debts is then re-established based on the remaining portfolios of credit exposures applying the above methodology.

All loans and off-balance sheet credit extensions are subject to continuous management surveillance.

(ii) Asset quality

A loan is considered to be impaired when, based on current information and events, the Group considers it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan agreement.

The Group has disclosed certain components of its loan portfolios as impaired assets according to the classifications discussed below *(refer to note 18).*

Non-accrual loans consist of:

retail loans (excluding credit card loans) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest;

non-retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest to warrant the cessation of interest accruals; and

impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.

Where required, a specific provision is raised for non-accrual loans.

Restructured loans are those loans on which the original contractual terms have been concessionally modified due to the financial difficulties of

borrowers, and on which interest continues to be accrued at a rate which is equal to or greater than the Group s average cost of funds at the date of restructuring.

Assets acquired through security enforcement are those assets (primarily real estate) acquired through actual foreclosure or in full or partial satisfaction of loans.

Accruing portfolio facilities past due 90 to 180 days are those assets (including credit card loans) which continue to accrue interest to 180 days. A general provision is raised against accruing portfolios loans.

(iii) Revenue recognition on non-accrual loans

When a loan is classified as non-accrual, interest income ceases to be recognised in the profit and loss account on an accruals basis, as reasonable doubt exists as to the collectability of interest and principal. Interest charged on non-accrual loans in the current reporting period is reversed against income.

Cash receipts in relation to non-accrual loans are recognised as interest income to the extent that the cash receipts represent unaccrued interest except where there is a contrary agreement with the borrower, or the receipts relate to proceeds from the sale of security, or are scheduled principal repayments.

The accrual of interest recommences when a non-accrual loan is restored to accrual status. This occurs when management judges that the customer is capable of fully servicing its future obligations under the facility.

(iv) Leasing

Finance leases in which the Group is the lessor are included in loans and advances and are accounted for using the finance method, whereby income determined on an actuarial basis is taken to account over the term of the lease in proportion to the outstanding investment balance. Where the Group is a lessee, finance lease assets are capitalised and the corresponding liability is recognised in other liabilities.

Leveraged leases with lease terms beginning on or after October 1, 1999 are accounted for as finance leases. Investments in leveraged leases entered into before October 1, 1999 are recorded at an amount equal to the equity participation and are net of long-term debt for which there is no recourse to the lessor in the event of default by the lessee. Income is taken to account on an actuarial basis over the term of each lease. Where a change occurs in estimated lease cash flows during the term of a lease, total lease profit is recalculated and reallocated over the entire lease term. Net of tax income has been grossed up at current rates to reflect the appropriate pre-tax equivalent amount.

Lease rentals receivable and payable on operating leases are recognised in the profit and loss account in periodic amounts over the effective lease term.

(q) Shares in controlled entities, joint venture entities and other securities

Except where a life insurance controlled entity consolidates a controlled entity *(refer to note 1(o))*, shares in controlled entities and other securities are stated at original cost less any necessary provision for diminution in value. Unrealised losses relating to diminution in the value of shares in controlled entities and other securities are recognised in the profit and loss account.

Interests in joint venture entities are accounted for under the equity method of accounting *(refer to note 1(f))*.

(r) Regulatory deposits

In several countries in which the Group operates, the law requires that regulatory deposits be lodged with the local central bank at a rate of interest generally below that prevailing in the market. The amount of the deposit and the interest rate receivable are determined in accordance with the requirements of the local central bank. Regulatory deposits are brought to account at the gross value of the outstanding balance.

(s) Property, plant and equipment

Except for life insurance business investments, all land and buildings are revalued annually by directors to reflect fair values. Directors valuations are based on advice received from independent valuers and regular independent valuations. Revaluation increments are credited to the asset revaluation reserve. Revaluation decrements are charged against the asset revaluation reserve to the extent that they reverse previous revaluation increments and any excess is recognised as an expense.

A provision for capital gains tax is only made when it is known that the relevant asset will eventually be sold. This provision, when required, is made against the asset revaluation reserve.

All other items of property, plant and equipment are carried at the lower of cost, less accumulated depreciation or amortisation, and recoverable amount. If the carrying amount of property, plant and equipment exceeds its recoverable amount, the asset is written down to the lower value. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value unless otherwise stated.

The costs of developing, acquiring and enhancing internal-use software are capitalised on a component or module basis and amortised over the estimated useful life of the software, which ranges from three to ten years. From October 1, 2004, the estimated useful life of application software will not exceed five years. The annual amortisation expense for assets previously amortised over more than five years will increase to reflect the reduction in the estimate of each relevant asset s remaining useful life.

With the exception of land, all items of property, plant and equipment are depreciated or amortised using the straight-line method at the rates appropriate to its estimated useful life to the Group. For major classes of property, plant and equipment, the annual rates of depreciation or amortisation are: buildings 3.3%; leasehold improvements up to 10%; furniture, fixtures and fittings and other equipment from 10% to 20%; personal computers and related application software 33.3%; and other data processing equipment and related application software from 10% (20% from October 1, 2004) to 33.3%.

Profit or loss on the sale of property, plant and equipment, which is determined as the difference between the carrying amount of the property, plant and equipment at the time of sale and the sale proceeds, is treated as revenue or expense.

(t) Goodwill

Goodwill, representing the excess of the purchase consideration over the fair value of the identifiable net assets acquired on the date of acquisition of a non-life insurance controlled entity, is recognised as an asset. Goodwill is amortised from the date of acquisition by systematic charges on a straight-line basis to the profit and loss account over the period in which the benefits are expected to arise, but not exceeding 20 years. The carrying value of goodwill is reviewed at least annually. If the carrying value of goodwill exceeds the value of the expected future benefits, the difference is charged to the profit and loss account.

(u) Excess of net market value over net assets of life insurance controlled entities

Where a life insurance entity within the Group consolidates a controlled entity, any difference between the values consolidated line by line and the market value of the controlled entity recorded in the life insurer s financial report is shown as excess of net market value over net assets of life insurance controlled entities . This asset is disclosed within other assets in the statement of financial position.

The excess of net market value over net assets of life insurance controlled entities represents:

acquired goodwill to the extent it remains at balance date;

increases in the value of goodwill of the controlled entity since acquisition or establishment; and

differences between the values assigned to the assets and liabilities of the controlled entity within the Group financial report and those in the financial report of the controlled entity, arising due to valuation methodology differences.

The significant assumptions used in the valuation basis underlying the directors valuations are disclosed in note 24.

The excess is not amortised. Movements in the excess of net market value over net assets of life insurance controlled entities are included in the Group s revenue or expense.

Liabilities

(v) Due to other financial institutions

Due to other financial institutions includes deposits, vostro balances, repurchase agreements and settlement account balances due to other financial institutions. They are brought to account at the gross value of the outstanding balance.

(w) Deposits and other borrowings

Deposits and other borrowings include non-interest-bearing deposits redeemable at call, certificates of deposit, interest-bearing deposits, debentures and other funds raised publicly by borrowing corporations. They are brought to account at the gross value of the outstanding balance.

(x) Life insurance policy liabilities

Policy liabilities in the Group s statement of financial position and the change in policy liabilities disclosed as an expense have been calculated using the Margin on Services (MoS) methodology in accordance with guidance provided by the Life Insurance Actuarial Standard Board s Actuarial Standard AS 1.03 Valuation of Policy Liabilities *(refer to note 1(kk)).*

Policy liabilities for investment-linked business are calculated using the accumulation method. The liability is generally the accumulation of amounts invested by policyholders plus investment earnings less fees specified in policy contracts. Deferred acquisition costs are offset against this liability.

Policy liabilities from non-investment-linked business are measured mainly using the projection method which is the net present value of estimated future policy cash flows. Future cash flows incorporate investment income, premiums, expenses, redemptions and benefit payments (including bonuses). The accumulation method may be used only where the result would not be materially different to the projection method.

Unvested policyholder benefits represent amounts that have been allocated to certain non-investment-linked policyholders that have not yet vested with specific policyholders.

The measurement of policy liabilities is subject to actuarial assumptions. Assumptions made in the calculation of policy liabilities at each balance date are based on best estimates at that date. The assumptions include the benefits payable under the policies on death, disablement or surrender, future premiums, investment earnings and expenses. Best estimate means that assumptions are neither optimistic nor pessimistic but reflect the most likely outcome. The assumptions used in the calculation of the policy liabilities are reviewed at each balance date. A summary of the significant actuarial methods and assumptions used is contained in note 54.

(y) Provisions

Provisions are recognised when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are not discounted to the present value of their expected net future cash flows except where stated below.

(i) Employee entitlements

Employee entitlements to long service leave are accrued using an actuarial calculation, based on legal and contractual entitlements and assessments having regard to staff departures, leave utilisation and future salary increases. This method does not differ significantly from calculating the amount using present value techniques.

Wages and salaries, annual leave and other employee entitlements expected to be paid or settled within 12 months of reporting date are measured at their nominal amounts using remuneration rates that the Group expects to pay when the liabilities are settled.

All other employee entitlements that are not expected to be paid or settled within 12 months of the reporting date are measured at the present value of net future cash flows.

(ii) Non-lending losses

Provision for non-lending losses is raised for losses incurred by the Group, which do not relate directly to principal outstanding for loans and advances.

(iii) **Restructuring costs**

Provision for restructuring costs includes provisions for expenses incurred but not yet paid and future expenses that will arise as a direct consequence of decisions already made. A provision for restructuring costs is only made where the Group has made a commitment and entered into an obligation such that it has no realistic alternative but to carry out the restructure and make future payments to settle the obligation. Provision for restructuring costs is only recognised when a detailed plan has been approved and the restructuring has either commenced or been publicly announced. This includes the cost of staff termination benefits and surplus leased space. Costs related to ongoing activities are not provided for.

(iv) **Surplus leased space**

Surplus leased space is an onerous contract and a provision is recognised when the expected benefits to be derived from the contract are less than the costs that are unavoidable under the contract. This arises where premises are currently leased under non-cancellable operating leases and either the premises are not occupied, or are being sub-leased for lower rentals than the Group pays, or there are no substantive benefits beyond a known future date. The provision is determined on the basis of the present value of net future cash flows.

(v) Provision for dividends

Provision for dividends is recognised at the time the dividend is declared, determined or publicly recommended.

(z) Bonds, notes and subordinated debt

Bonds, notes and subordinated debt issued by the Group are recorded at cost or at cost adjusted for premium or discount amortisation.

(aa) Other debt issues

Other debt issues include perpetual floating rate notes, exchangeable capital units and fixed rate securities issued by the Group. They are recorded at cost or at cost adjusted for premium or discount amortisation.

(bb) Derivative financial instruments held or issued for trading purposes

Derivative financial instruments held or issued for trading purposes, also referred to as trading derivatives, include swaps, futures, forward, option and other contingent or exchange-traded contracts in the interest rate, foreign exchange, credit derivatives and commodities markets. Trading derivatives are measured at fair value and the resultant profits and losses are recognised in other income. The fair value of trading derivatives is reported on a gross basis as assets or liabilities as appropriate.

The fair value of a derivative financial instrument represents the present value of future expected cash flows arising from that instrument.

(cc) Derivative financial instruments held or issued for purposes other than trading

The principal objective of using derivative financial instruments for purposes other than trading is to maximise the level of net interest income, while maintaining acceptable levels of interest rate, credit and liquidity risk, and to facilitate the funding needs of the Group. To achieve this objective, a combination of derivatives including swaps, futures, forward, option and other contingent or exchange-traded contracts in the interest rate and foreign exchange markets and credit derivatives may be used.

Hedging derivatives must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Accordingly, changes in the fair value of the hedging derivative must be closely correlated with changes in the fair value of the underlying exposure at inception of the hedge and over the term of the hedged exposure. The timing of the impact of hedging derivatives on the profit and loss account is consistent with the timing of the impact of the hedged items on the profit and loss account.

The net revenue or expense on derivatives used to manage interest rate exposures is recorded in net interest income on an accruals basis. If a derivative that is used to manage an interest rate exposure is terminated early, any resulting gain or loss is deferred within other assets or other liabilities and amortised to net interest income over the remaining period originally covered by the terminated contract. If the underlying interest rate exposure position ceases to exist, any deferred gain or loss is recognised immediately in revenue.

Interest accruals, premiums and realised settlement amounts arising on derivatives used to hedge exposures arising from anticipated future transactions, are deferred within other assets or other liabilities until such time as the accounting impact of the anticipated transaction is recognised in the financial report. Such amounts only qualify for deferral where there is a high probability of the future transaction materialising. If it becomes apparent that the future transaction will not materialise, any deferred amounts are recognised immediately in other income.

Interest receivables and payables for interest rate swaps with the same counterparty are reported on a net basis as other assets or other liabilities where a legal right of set-off exists.

Margin deposits for exchange-traded derivatives are reported as other assets.

(dd) Trustee and funds management activities

The Group acts as trustee, custodian or manager of a number of funds and trusts, including superannuation and approved deposit funds, and wholesale and retail investment trusts. Where the Group does not have direct or indirect control of these funds and trusts as defined by Australian Accounting Standard AASB 1024 Consolidated Accounts , the assets and liabilities are not included in the consolidated financial statements of the Group. Where controlled entities, as responsible entities or trustees, incur liabilities in respect of their activities, a right of indemnity exists against the assets of the applicable trusts and funds. As these assets are sufficient to cover liabilities, and it is not probable that the controlled entities will be required to settle them, the liabilities are not included in the consolidated financial statements.

Commissions and fees earned in respect of the Group s trust and funds management activities are included in the profit and loss account *(refer to note 1(jj))*.

(ee) Securitisation

Through its Australian loan securitisation program, the Group packages and sells loans (principally housing mortgage loans) as securities to investors through a securitisation vehicle. The Group determines if this special purpose entity is a controlled entity and if so the principles of consolidation outlined in note 1(f) are applied. In such transactions, the Group receives fees for various services provided to the program on an arm s length basis, including servicing fees and management fees. Fee income is recognised in revenue on an accruals basis in relation to the reporting period in which the costs of providing these services are incurred.

Interest rate swaps and liquidity facilities are provided to the program by the Group on an arm s length basis, in accordance with APRA guidelines.

The Group is entitled to any residual income of the program after all payments due to investors and costs of the program have been met. Due to the significant uncertainties inherent in estimating the underlying loan repayment rates and interest margins with respect to the Australian loan securitisation program, future cash flows cannot be reliably measured and no asset in relation to any entitlement to residual income is recognised. The residual income is recognised as revenue when receivable. Furthermore, due to this uncertainty in relation to valuation of future cash flows, the assets are transferred at book value and no profit or loss on sale of the loans is recognised.

Revenue and expense recognition

(ff) Interest income

Interest income is reflected in the profit and loss account when earned on an accruals basis *(refer also to note 1(n), (p)(iii) and (p)(iv)).*

(gg) Dividend income

Dividend income is recorded in the profit and loss account on an accruals basis when the Group obtains control of the right to receive the dividend.

(hh) Loan-related fees and costs

Loan origination fees, if material, are recognised as revenue over the life of the loan as an adjustment of yield. Commitment fees are deferred, and if the commitment is exercised, recognised as revenue over the life of the loan as an adjustment of yield or, if unexercised, recognised as revenue upon expiration of the commitment. Where commitment fees are retrospectively determined and nominal in relation to market interest rates on related loans, commitment fees are recognised as revenue when charged. Where the likelihood of exercise of the commitment is remote, commitment fees are recognised as revenue over the commitment period. Loan-related administration and service fees are recognised as revenue over the period of service. Credit card fees are recognised as revenue over the card usage period. Syndication fees are recognised as revenue after certain retention, timing and yield criteria are satisfied.

Direct loan origination costs, if material, are netted against loan origination fees and the net amount recognised as revenue over the life of the loan as an adjustment of yield. All other loan-related costs are expensed as incurred.

Loan origination fees and direct loan origination costs are recognised as revenue as an adjustment of yield using the constant yield method of amortisation. All other loan-related fees are recognised as revenue using the straight-line method of amortisation.

(ii) Trading income

Trading income is brought to account when earned based on changes in net fair value of financial instruments and recorded from trade date. Further information is included in note 1(g) foreign currency translation, 1(k) trading securities and 1(bb) derivative financial instruments held or issued for trading purposes.

(jj) Fees and commissions

Fees and commissions that relate to specific transactions or events are recognised as revenue in the period that the services are provided. When they are charged for services provided over a period, they are recognised as revenue on an accruals basis.

(kk) Life insurance business revenue and expenses

The Group conducts its life insurance business through a number of controlled entities including National Australia Financial Management Limited, MLC Lifetime Company Limited, MLC (Hong Kong) Limited, MLC Limited, BNZ Life Insurance Limited, National Australia Life Company Limited, PT MLC Life Indonesia and Advance MLC Assurance Co. Limited.

(i) Types of business

The Australian life insurance operations of the Group consist of investment-linked business and non-investment-linked business, which are conducted in separate statutory funds as required under the *Life Insurance Act* 1995 (Cth). The overseas life insurance operations of the Group consist primarily of non-investment-linked business.

Investment-linked business relates to business where policyholders investments are made into the statutory funds and policyholders returns are directly linked to the investment performance of the assets in that fund. The policyholder bears all the risks and rewards of the investment performance. The policyholder has no direct access to the specific assets; however, the policy value is calculated by reference to the market value of the statutory fund s assets. Investment-linked business includes superannuation and allocated pension business.

Non-investment-linked business refers to business where an insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness or, in the case of an annuity, either the continuance of the annuitant s life or the expiry of the annuity term. The benefit payable is not directly referable to the market value of the fund s assets. Non-investment-linked business includes traditional whole of life and endowment policies (where the risks and rewards generally are shared between policyholders and shareholders) and risk policies such as death, disability and income insurance (where the shareholder bears all the financial risks).

(ii) **Allocation of profit**

Profits are brought to account in the statutory funds on a MoS basis *(refer to note 1(x))*. Under MoS, profit is recognised as fees are received and services are provided to policyholders. When fees are received but the service has not been provided, the profit is not recorded at the point of sale. Losses are expensed when identified.

Consistent with the principle of deferring unearned profit is the requirement to defer expenditure associated with the deferred profit. MoS permits costs associated with the acquisition of policies to be charged to the profit and loss account over the period that the policy will generate profits. However, costs may only be deferred to the extent that a policy is expected to be profitable *(refer to note 1 (kk)(vii))*.

Profit from investment-linked business is derived as the excess of the fees earned by the shareholder for managing the funds invested, over operating expenses and amortisation of policy acquisition costs.

Profit arising from policies comprising non-investment-linked business is based on actuarial assumptions, and calculated as the excess of premiums and investment earnings less claims, operating expenses and the amortisation of acquisition costs that will be incurred over the estimated life of the policies. The profit is systematically recognised over the estimated time period the policy will remain in force.

Certain policies are entitled to share in the profits that arise from the non-investment-linked business. This profit sharing is governed by the *Life Insurance Act* 1995 (Cth) and the life insurance companies constitutions. This profit sharing amount is treated as an expense in the profit and loss account.

(iii) Premium revenue

Premiums are separated into their revenue and liability components. Premium amounts earned by providing services and bearing risks including protection business are treated as revenue. Other premium amounts received, net of initial fee income, which are akin to deposits, are recognised as an increase in policy liabilities. The initial fee, which is the difference between the premium received and the initial surrender value, is recognised as premium revenue. For the Group s investment-linked business, premiums are recognised as an increase in policy liabilities.

Premiums with a regular due date are recognised as revenue on a due basis. Premiums with no due date are recognised as revenue or an increase in policy liabilities on a cash received basis. Premiums due before the end of the year but not received at balance date are included as outstanding premiums in note 24. Premiums due after but received before the end of the year are accounted for as premiums in advance.

(iv) Investment revenue

Dividend and interest income is brought to account on an accruals basis when the life insurance controlled entity obtains control of the right to receive the dividend or interest income.

Net realised and unrealised profits and losses represent changes in the measurement of net market values in respect of all investments recognised at net market value *(refer to note 1(o)).*

(v) Claims

Claims are recognised when the liability to a policyholder under a policy contract has been established or upon notification of the insured event, depending on the type of claim.

Claims incurred in respect of investment-linked business, which are in the nature of investment withdrawals, are recognised as a reduction in policy liabilities.

Claims incurred that relate to the provision of services and bearing of risks are treated as expenses and are recognised on an accruals basis.

(vi) Basis of expense apportionment

All expenses charged to the profit and loss account are equitably apportioned to the different classes of business in accordance with Division 2 of Part 6 of the *Life Insurance Act* 1995 (Cth) as follows:

expenses and other outgoings that related specifically to a particular statutory fund have been directly charged to that fund;

expenses and other outgoings (excluding commissions, medical fees and stamp duty relating to the policies which are all directly allocatable) have been apportioned between each statutory fund and shareholders fund. Expenses are apportioned between classes of business by first allocating the expenses to major functions and activities, including those of sales support and marketing, new business processing and policyholder servicing, and then to classes of products using relevant activity cost drivers, including commissions, policy counts, funds under management and benchmark profit; and

investment income, profits and losses on sale of property, plant and equipment, profits and losses on sale of investments, and appreciation and depreciation of investments have been directly credited or charged to the appropriate statutory fund or shareholders fund.

Apportionment between policy acquisition, policy maintenance and investment management has been made in line with principles set out in the Life Insurance Actuarial Standard Board s Actuarial Standard AS 1.03 Valuation of Policy Liabilities .

(vii) Deferred acquisition costs

Policy acquisition costs are deferred, provided that the business generated continues to be profitable. The deferred costs are reflected as a reduction in policy liabilities and are amortised in the profit and loss account over the expected duration of the relevant policies.

(ll) Superannuation

For accumulation benefit superannuation and pension plans (also known as defined contribution plans), the superannuation expense recognised in the profit and loss account represents the contributions payable to the plans. For defined benefit plans, the superannuation expense recognised in the profit and loss account is determined on an actuarial basis. Under this basis, actuarial gains and losses are taken into account over the average remaining employment period of plan members, generally between 10 and 15 years. The measurement of the prepaid asset and the annual pension expense involves actuarial and economic assumptions.

On acquisition of entities, surpluses and deficits in their sponsored defined benefit plans at the date of acquisition are recognised on the Group s balance sheet as a prepaid pension cost asset or an accrued pension cost liability, respectively. The assets and liabilities of these plans are not consolidated as the Group has no control over them. The Group also recognises a prepaid asset for contributions the Group has made to the pension plans in excess of pension expenses. Conversely, the Group recognises a liability where pension expenses are in excess of contributions made by the Group to the pension plans. The prepaid pension cost asset is subject to a recoverable amount test, having regard to discounted cash flows.

(mm) Equity-based compensation

The Group operates a number of share-based compensation plans where shares are issued to employees and directors as remuneration. The Group records an expense where it has paid cash to the respective compensation plan trustee, which in turn purchases the Company s shares on-market. Where the Company issues shares as compensation, no expense is recorded in the profit and loss account.

The Group also operates an executive share option plan and performance rights plan. No accounting entries are made in relation to options and performance rights granted to executives until they are exercised, at which time the amounts receivable from executives are recognised in the balance sheet as contributed equity. No expense is recorded in the profit and loss account.

Details of equity-based compensation plans of the Group, including the fair value of instruments granted, are provided in note 38.

(nn) Income tax

The Group adopts tax-effect accounting using the income statement liability method.

The tax effect of timing differences, which occur where items are claimed for income tax purposes in a period different from when they are recognised in the financial statements, is included in the provision for deferred income tax or future income tax benefits, as applicable, at the tax rate expected to apply when the timing differences reverse. Any future income tax benefit relating to timing differences is carried forward as an asset unless the benefits are not assured beyond any reasonable doubt of being realised. Any future income tax benefit relating to tax losses, is not carried forward as an asset unless the benefits are virtually certain of being realised. In the statement of financial position, future income tax benefits are disclosed within income tax assets and the provision for deferred income tax is disclosed within income tax liabilities.

Capital gains tax, if applicable, is provided for in determining the income tax expense in the reporting period in which an asset is sold.

For life insurance business, taxation is not based on the concept of profit. Special legislative provisions apply to tax policyholders and shareholders on different bases. According to the class of business to which their policies belong, policyholders have their investment earnings taxed at the following rates in Australia:

superannuation policies 15%;

annuity policies 0%; or

non-superannuation investment policies 30%.

The life insurance business shareholders funds are taxed at the company rate of 30% on fee income and profit arising from insurance risk policies, less deductible expenses. For five years from July 1, 2000 (the date that the current life company tax regime commenced), there is a transitional provision that allows a one-third exemption from assessable income of fee income derived from policies in force as at July 1, 2000.

During the year ended September 30, 2004, the Company made the decision to elect to consolidate its Australian wholly-owned controlled entities under the Australian tax consolidation regime. The Company is the head entity in the tax-consolidated group comprising the Company and all of its Australian wholly-owned controlled entities. The implementation date for the tax-consolidated group was October 1, 2002.

The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intra-group transactions). Members of the tax-consolidated group have entered into a tax funding agreement that requires Australian wholly-owned controlled entities to make contributions to the Company for the Company s tax liabilities as the head entity of the tax-consolidated group. Under the tax funding agreement, contributions are calculated as if the Australian wholly-owned controlled entities were taxed on a stand-alone basis . The Company has agreed to reimburse its Australian wholly-owned controlled entities for current and deferred tax assets arising at the date of entering tax consolidation and that arise from the actions and operations of the particular controlled entity following formation of the tax-consolidated group. Australian wholly-owned controlled entities have agreed to reimburse the Company for deferred tax liabilities arising at the date of entering tax consolidation and that arise from the actions and operations of the particular subsidiary following formation of the

tax-consolidated group. Ongoing assets and liabilities arising under the tax funding agreement are recognised by the Australian wholly-owned controlled entities as inter-company assets and liabilities with a corresponding charge to income tax expense.

(oo) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax or other value-added tax, except where the tax incurred is not recoverable from the relevant taxation authority. In these circumstances, the tax is recognised as part of the expense or the cost of acquisition of the asset.

Receivables and payables are stated at an amount with tax included. The net amount of tax recoverable from, or payable to, the relevant taxation authority is included within other assets or other liabilities.

Cash flows are included in the statement of cash flows on a gross basis. The tax component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the relevant taxation authority is classified as operating cash flows.

(pp) Overseas classification

Amounts booked in branches and controlled entities outside Australia are classified as overseas.

2 Transition to Australian equivalents to International Financial Reporting Standards

In July 2002, the Financial Reporting Council in Australia formally announced that Australian reporting entities would be required to comply with Australian accounting standards equivalent to International Financial Reporting Standards (AIFRS) and other pronouncements set by the International Accounting Standards Board (IASB) for financial years commencing on or after January 1, 2005.

The Group will be required to adopt these standards for the financial year commencing October 1, 2005 and they will be first reflected in the Group s financial statements for the half year ending March 31, 2006. Comparative financial information prepared in compliance with AIFRS will be required for the year commencing October 1, 2004. Comparative information is not required for AASB 132 Financial Instruments: Disclosure and Presentation , AASB 139 Financial Instruments: Recognition and Measurement and AASB 4 Insurance Contracts .

A program board is monitoring the Group s AIFRS implementation plans. Dedicated work streams are responsible for evaluating the impact of specific accounting changes and how the necessary changes will be made. Consistent with general project management methodology, each work stream is progressing through phases of technical evaluation, design, development, and implementation and testing. The program is well progressed through these phases and is achieving scheduled plan milestones. The program will be complete by September 30, 2005, although there are several future changes that the Group will need to address, including Phase II of the IASB s insurance project and proposed further amendments to IAS 39 Financial Instruments: Recognition and Measurement . The Group continues to monitor these and other developments, including emerging industry interpretations and practice.

AIFRS frequently require application of fair value measurement techniques. This will potentially introduce greater volatility to the Group s reported financial performance. The Group continues to evaluate the areas impacted by these standards. The adoption of these standards is expected to have a material effect on the Group s reported financial performance and financial position; however, the underlying economics of the business will not change. It is not possible at this time to estimate reliably the quantitative impact of the changes upon the Group s reported financial performance and financial position or regulatory capital adequacy. Most accounting policy changes to retrospectively apply AIFRS will be made against opening retained profits in the first AIFRS balance sheet.

Upon transition to AIFRS, a number of the Group s accounting policies will be altered. The areas of most significant impact are outlined below:

(a) Recognition of derivative financial instruments and hedging

Under AIFRS, the Group will be required to recognise all derivative financial instruments at fair value on the balance sheet, irrespective of whether the instrument is used in a hedging relationship or otherwise under AIFRS.

Where fair value hedge accounting criteria are met, fair value changes on both the hedged item and the hedging instrument will be recognised directly in the income statement. Where cash flow hedge accounting criteria are met, fair value changes on the related hedging instruments will be deferred in an equity reserve and will then be transferred to the income statement at the time the cash flows occur.

It should be noted that the underlying economics and risks of the Group will not change. The change affects the manner by which the Group will account for the way it mitigates its interest rate risk. In this accounting, the Group will most likely use a hybrid of approaches with a predominance of cash flow hedge accounting. As a consequence, this will create volatility in the balance of the cash flow hedge equity reserve.

All hedging arrangements will be subject to rigorous effectiveness testing and where an arrangement fails effectiveness tests, hedge accounting cannot be applied and fair value changes on the hedging instrument will generally be recognised in the income statement. This raises the potential for income statement volatility.

Whilst hedge accounting rules may alter the accounting for the Group s interest rate risk management process, the treatment of trading derivatives is not likely to be affected by hedge accounting.

In certain circumstances, the Group will seek to minimise the impact of the fair value measurement requirements by recognising both the item that is subject to an economic hedge and the accompanying derivative instrument at fair value in the income statement.

These changes do not require comparatives for the 2005 financial year.

(b) Loan provisioning

Under AIFRS, the Group is not able to recognise loan impairment (currently referred to as provision for doubtful debts) until objective evidence is available that a loss event has occurred. Further, loan impairment is calculated as the difference between the carrying amount and the present value of future expected cash flows discounted at the loan s original effective interest rate. Significant loans will be individually assessed for impairment. Those loans that are not assessed as impaired will then be placed into portfolios of assets with similar risk profiles and be subjected to a collective assessment of impairment. Smaller loans will not be individually assessed but impairment tested in portfolios based upon similar risk profiles using objective evidence, which may be based on historical experience adjusted to accommodate the effects of current conditions at each balance date. The impact of AIFRS on the Group s current methodology for calculating the provision for doubtful debts is still being evaluated.

These changes do not require comparatives for the 2005 financial year.

(c) Wealth Management revaluation excess of market value over net assets (EMVONA)

EMVONA represents:

- acquired goodwill in respect of life insurance controlled entities remaining at balance date;

increases in the value of goodwill of the controlled entities since acquisition; and

the difference between the values assigned to assets and liabilities of the controlled entity within the Group financial report and those in the report of the controlled entity arising due to valuation methodology differences.

On transition to AIFRS, the Group must derecognise the asset EMVONA. At the same time, the Group will derecognise a deferred tax liability

associated with EMVONA and recognise goodwill and any other acquired intangible assets arising from acquisition of the MLC group to the extent of the remaining balance.

(d) Securitisation

The combined effect of financial asset derecognition rules and the consolidation of special purpose entity rules is likely to impact both existing and new securitisation arrangements involving both the Group s assets and those of its customers. The rules provide more stringent criteria for the derecognition of financial assets. AIFRS consolidation rules may require the Group to consolidate assets that, in the past, have been sold into a special purpose entity. In addition, special purpose entities holding assets originated outside the Group will require consolidation where the Group has access to the majority of the residual income or is exposed to the majority of the residual risk associated with the special purpose entity.

(e) Taxation

The Group will be required to adopt a balance sheet approach to determining deferred tax items. This approach is based upon a comparison of carrying amounts of assets and liabilities with their tax base, thereby identifying a broader range of differences than those that arise under the current tax-effect accounting standard. Consequently, the Group may be required to recognise additional levels of deferred tax assets and liabilities.

(f) Insurance contracts

Contracts that do not have significant insurance risk will no longer be treated as insurance contracts but as financial instruments. Further, it will not be possible to defer any internal acquisition costs for those contracts. These changes will likely have a negative impact on accounting profit in respect of new business. Accounting profits will be higher in later periods as a result of the expense being recognised upfront.

For those contracts that continue to meet the definition of an insurance contract, the Group will account for those under the existing Margin on Services (MoS) approach. It is expected that further changes to insurance accounting will arise under Phase II of the IASB s insurance project at which time the existing MoS approach will be phased out.

(g) Share-based payments

AIFRS introduces a new requirement for the Group to recognise performance options and performance rights granted and shares issued to employees as an expense in the income statement. The fair value of the performance options and performance rights at grant date will be expensed over their expected vesting period on a straight-line basis. This rule must be applied to performance options and performance rights granted from November 7, 2002 and unvested at January 1, 2005.

In addition, shares issued under the Company s staff share schemes, as described in note 38, will be recognised as an expense when issued.

(h) Post-employment benefits

AIFRS will require all periodic movements in defined benefit pension/superannuation plan surpluses/deficits, including the full actuarial gain or loss in each period, to be reflected in the income statement, thereby introducing volatility. A corresponding asset or liability will be recognised on the Group s balance sheet.

(i) Revenue recognition

At present, loan origination fee revenue is either recognised upfront or deferred in the balance sheet and amortised as an adjustment of yield over the life of the loan. It is likely that a greater volume of fees will be deferred and amortised over the life of the respective loans under AIFRS. Revenue that is deferred must be amortised on an effective interest rate basis. Whilst some revenue classification changes may arise, where the level of business remains constant, the change is not expected to materially affect annual income recognition.

(j) Intangible assets

The amortisation of goodwill acquired in a business combination is prohibited under AIFRS. Instead, any goodwill recognised within the Group is subject to an impairment test at least annually and where impairment is identified it must be recognised immediately in the income statement.

Other intangibles will be amortised on a systematic basis that best reflects the expected pattern of consumption of the assets benefits over their respective useful lives.

(k) Transitional policy changes

On the date of transition to AIFRS, the Group will need to effect two types of changes:

those concerning presentation and disclosure of items in the financial statements (eg. the format of the income statement and balance sheet); and

those concerning recognition and measurement of items in the financial statements.

Any recognition and measurement adjustments that arise as a result of the transitional process will be recognised in either retained earnings or the appropriate equity reserve.

Under the AASB s transitional rules, several one-off exemptions are available on first time adoption of AIFRS. The exemptions recognise some of the practical difficulties that arise in making the transition to AIFRS. The Group will apply these exemptions, the most significant of which is not needing to change the original acquisition accounting for all controlled entities and businesses acquired throughout the Group s history.

(l) Capital implications

The full implications for the Group s capital adequacy are dependent on rules currently being developed by APRA. Priority areas for review by APRA include the treatment of innovative capital instruments, defined benefit pension/superannuation surpluses/deficits, and EMVONA. APRA has stated that it will not make any AIFRS-related changes to the existing prudential framework until it has completed relevant consultations and not before July 1, 2005 at the earliest. Existing prudential rules continue to apply in the interim. Developments are being closely monitored by the Group.

3 Segment information

The following segment information is disclosed in accordance with Australian Accounting Standard AASB 1005 Segment Reporting and US accounting standard, SFAS 131 Disclosures about Segments of an Enterprise and Related Information . For the purposes of this note, a business/primary operating segment is defined as a component of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in assessing performance. The Group results are based on the business segments as reviewed separately by the chief operating decision maker, the Managing Director and Chief Executive Officer, as well as other members of senior management.

The Group s business is organised into five major operating segments: Financial Services Australia, Financial Services Europe, Financial Services New Zealand, Corporate & Institutional Banking and Wealth Management. Financial Services Australia, Europe and New Zealand are the retailing arms of the Group and provide a full range of financial services to customers. These Financial Services businesses are managed on a regional basis across Australia, Europe and New Zealand. Corporate & Institutional Banking is responsible for the Group s relationships with large corporations, institutions, supranationals and government bodies worldwide. It comprises Corporate Banking, Financial Institutions, Markets, Specialised Finance, National Custodian Services and a Services unit. Wealth Management manages a diverse portfolio of financial services businesses, comprising Investments, Insurance and Other (Private Bank and Advice Solutions). The Group s Other business segment includes Finance, Technology, People & Culture, Risk Management, Corporate Development, and Office of the CEO, which are not considered to be separate reportable operating segments.

Revenues and expenses directly associated with each business segment are included in determining their result. Transactions between business segments are based on agreed recharges between segments operating within the same country and are at arm s length between segments operating in different countries.

A change to business segments has been made in the 2004 year as a result of certain European corporate customers previously managed as part of Financial Services Europe being transferred to Corporate & Institutional Banking. The 2003 and 2002 business segment results, assets and liabilities have been restated to reflect this change.

In August 2004, the Group announced a number of changes to the structure of its business operating model. The new business operating model will be managed along regional lines and will be made effective during the 2005 year. It is impracticable at the date of this report to restate the 2004 and prior years to this new basis of segmentation. In the next reporting period, once the basis of segmentation is finalised, the Group will restate its comparatives (where practicable). *For further information on the new business operating model, refer to the business overview section of the annual financial report.*

Business segments

Year ended September 30, 2004	Financial Services Australia $m	Financial Services Europe $m	Financial Services New Zealand $m	Corporate & Institutional Banking $m	Wealth Management $m	Other $m	Inter-segment eliminations $m	Total Group $m
Net interest income *(1)*	3,552	2,133	700	678	132	(4)		7,191
Non-interest income	1,893	700	313	1,056	6,538	41		10,541
Significant revenue *(2)*						993		993
Inter-segment revenue	100	137	13	(8)	7	132	(381)	
	5,545	2,970	1,026	1,726	6,677	1,162	(381)	18,725

Total revenue after interest expense *(3)*								
Significant expenses *(4)*	(169)	(118)	(34)	(422)	(78)	(854)		(1,675)
Other expenses	(2,871)	(2,105)	(505)	(799)	(5,554)	(475)		(12,309)
Inter-segment expenses	4	(71)	(29)	(171)	(180)	66	381	
Total expenses excluding interest expense	(3,036)	(2,294)	(568)	(1,392)	(5,812)	(1,263)	381	(13,984)
Profit/(loss) from ordinary activities before tax	2,509	676	458	334	865	(101)		4,741
Income tax (expense)/benefit *(5)*	(760)	(223)	(153)	(3)	(130)	79		(1,190)
Net profit/(loss)	1,749	453	305	331	735	(22)		3,551
Net profit attributable to outside equity interest				(9)	(365)			(374)
Net profit/(loss) attributable to members of the Company	1,749	453	305	322	370	(22)		3,177
Total assets *(6)*	157,616	62,173	30,448	168,297	54,421	(2,090)	(59,556)	411,309
Total liabilities *(6)*	159,273	56,739	29,032	163,070	40,426	(7,441)	(59,556)	381,543
Acquisition of property, plant and equipment and intangible assets	327	216	62	16	39			660
Depreciation and amortisation of plant and equipment	189	106	30	40	39	37		441
Amortisation of goodwill	8	62	1			32		103
Non-cash expenses other than depreciation and amortisation	498	416	69	259	167	265		1,674

Year ended September 30, 2003	Financial Services Australia $m	Financial Services Europe $m	Financial Services New Zealand $m	Corporate & Institutional Banking $m	Wealth Management $m	Other $m	Inter-segment eliminations $m	Total Group $m
Net interest income *(1)*	3,519	2,327	651	848	117	(43)		7,419
Non-interest income	1,900	809	316	1,105	4,269	159		8,558
Inter-segment revenue	50	129	13	(3)	12	66	(267)	
Total revenue after interest expense *(3)*	5,469	3,265	980	1,950	4,398	182	(267)	15,977
Other expenses	(2,798)	(1,995)	(494)	(700)	(3,931)	(431)		(10,349)
Inter-segment expenses	(5)	(33)	(21)	(125)	(140)	57	267	
Total expenses excluding interest expense	(2,803)	(2,028)	(515)	(825)	(4,071)	(374)	267	(10,349)
Profit/(loss) from ordinary activities before tax	2,666	1,237	465	1,125	327	(192)		5,628
Income tax (expense)/benefit	(798)	(402)	(155)	(239)	(169)	82		(1,681)
Net profit/(loss)	1,868	835	310	886	158	(110)		3,947
Net (profit)/loss attributable to outside equity interest				(9)	16	1		8
Net profit/(loss) attributable to members of the Company	1,868	835	310	877	174	(109)		3,955
Total assets *(6) (7)*	143,203	56,531	25,532	163,395	49,971	7,157	(48,318)	397,471
Total liabilities *(6) (7)*	146,316	50,635	28,111	150,334	38,551	4,631	(48,318)	370,260
Acquisition of property, plant and equipment and intangible assets	382	120	58	8	29			597
Depreciation and amortisation of plant and equipment	156	111	32	39	26	37		401
Amortisation of goodwill	3	62	1			32		98
Non-cash expenses other than depreciation and amortisation	422	312	34	155	102	32		1,057

Year ended September 30, 2002	Financial Services Australia $m	Financial Services Europe $m	Financial Services New Zealand $m	Corporate & Institutional Banking $m	Wealth Management $m	Other (8) $m	Inter-segment eliminations $m	Total Group $m
Net interest income *(1)*	3,307	2,402	549	1,088	101	(225)		7,222
Non-interest income *(9)*	1,726	860	281	910	792	2,806		7,375
Significant revenue *(10)*						2,671		2,671
Inter-segment revenue	54	153	2	(8)	(2)	55	(254)	
Total revenue after interest expense *(3)*	5,087	3,415	832	1,990	891	5,307	(254)	17,268
Significant expenses *(11)*	(261)	(166)	(20)	(42)	(29)	(2,748)		(3,266)
Other expenses *(12)*	(2,633)	(2,084)	(426)	(780)	(779)	(2,959)		(9,661)
Inter-segment expenses	37	(31)	(15)	(154)	(189)	98	254	
Total expenses excluding interest expense	(2,857)	(2,281)	(461)	(976)	(997)	(5,609)	254	(12,927)
Profit/(loss) from ordinary activities before tax	2,230	1,134	371	1,014	(106)	(302)		4,341
	(658)	(377)	(129)	(197)	232	167		(962)

Income tax (expense)/benefit *(13)*								
Net profit/(loss)	1,572	757	242	817	126	(135)		3,379
Net profit attributable to outside equity interest					(6)			(6)
Net profit/(loss) attributable to members of the Company	1,572	757	242	817	120	(135)		3,373
Total assets *(7)*	123,362	64,999	22,689	155,285	46,449	3,564	(38,961)	377,387
Total liabilities *(7)*	123,854	57,766	22,782	148,505	37,406	2,784	(38,961)	354,136
Acquisition of property, plant and equipment and intangible assets	390	170	56	14	73	88		791
Depreciation and amortisation of plant and equipment	196	128	34	14	28	19		419
Amortisation of goodwill		62	2			37		101
Non-cash expenses other than depreciation and amortisation	509	557	23	289	110	52		1,540

(1) Net interest income includes interest on capital employed by business segments.

(2) Significant revenue represents the proceeds from the sale of strategic shareholdings in St George Bank Limited, AMP Limited and HHG PLC of $993 million (refer to note 5(a)).

(3) Total revenue has been disclosed net of interest expense. It is impracticable to disclose gross interest revenue on a business segment basis due to the Group s business segmental management reporting system s usage of net interest income as an operating measure rather than gross interest income and gross interest expense.

(4) Significant expenses comprises the cost of sale of strategic shareholdings in St George Bank Limited, AMP Limited and HHG PLC of $678 million, losses arising from unauthorised foreign currency options trading of $360 million, write-back of a provision for SR Investment, Inc. (the parent entity of HomeSide US) in respect of selling-related costs of $64 million, the write-down of impaired application software of $409 million, and the charge to provide for doubtful debts relating to a revision of an accounting estimate of $292 million (refer to note 5(a)).

(5) Income tax (expense)/benefit includes an income tax benefit of $108 million attributable to the losses arising from the unauthorised foreign currency options trading within the Corporate & Institutional Banking business segment, an income tax benefit of $102 million attributable to the write-down of impaired application software, and an income tax benefit of $88 million on the charge to provide for doubtful debts relating to a revision of an accounting estimate.

(6) For Corporate & Institutional Banking, this amount includes approximately $30 billion (2003: $20 billion) of funding raised on behalf of Asset & Liability Management functions in Europe and New Zealand due to the nature of the funding model in those regions and related legal entity structure.

(7) For 2002 and 2003, certain internal assets and liabilities relating to the funding of the Group s activities which were eliminated at the Group level, have now been reclassified to eliminate within Corporate & Institutional Banking.

(8) Includes the results of SR Investment, Inc. and its controlled entity, HomeSide US, up to the date of their sale on October 1, 2002 (refer note 5(a)).

(9) Non-interest income includes proceeds from sale of operating assets of HomeSide US of $2,314 million within the Other business segment (refer to note 4, footnote (5)).

(10) Significant revenue represents the proceeds from sale of SR Investment, Inc. (refer to note 5(a)).

(11) Significant expenses includes the cost of assets sold of SR Investment, Inc. of $2,686 million within the Other business segment (refer to note 5(a)).

(12) Other expenses includes the carrying value of operating assets sold of HomeSide US of $2,322 million within the Other business segment (refer to note 4, footnote (5)).

(13) Income tax (expense)/benefit includes an income tax benefit of $21 million attributable to the loss on sale of SR Investment, Inc. within the Other business segment.

Geographical segments

The Group has operations in Australia (the Company s country of domicile), Europe, New Zealand, the US and Asia. The allocation of revenue and assets is based on the geographical location in which transactions are booked. There are no material inter-segment transactions.

	Group					
	2004	**2004**	**2003**	**2003**	**2002**	**2002**
	$m	**%**	**$m**	**%**	**$m**	**%**
Total revenue						
Australia	**19,980**	**66.3**	15,827	61.9	11,384	43.0
Australia significant revenue	**993**	**3.3**			2,671	10.1
Europe	**5,741**	**19.0**	6,239	24.3	6,422	24.3
New Zealand	**2,632**	**8.7**	2,608	10.2	2,194	8.3
US	**251**	**0.8**	274	1.1	3,351	12.6
Asia	**587**	**1.9**	632	2.5	458	1.7
Total revenue	**30,184**	**100.0**	25,580	100.0	26,480	100.0
Total assets *(1)*						
Australia	**256,470**	**62.5**	243,726	61.3	213,428	56.6
Europe	**104,148**	**25.3**	103,904	26.1	107,169	28.4
New Zealand	**36,805**	**8.9**	32,565	8.2	30,319	8.0
US	**6,768**	**1.6**	8,257	2.1	17,339	4.6
Asia	**7,118**	**1.7**	9,019	2.3	9,132	2.4
Total assets	**411,309**	**100.0**	397,471	100.0	377,387	100.0
Acquisition of property, plant and equipment and intangible assets						
Australia	**348**	**52.7**	383	64.1	416	52.6
Europe	**238**	**36.1**	150	25.1	221	27.9
New Zealand	**63**	**9.5**	60	10.1	59	7.5
US	**8**	**1.2**			90	11.4
Asia	**3**	**0.5**	4	0.7	5	0.6
Total acquisition of property, plant and equipment and intangible assets	**660**	**100.0**	597	100.0	791	100.0

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(1) Includes statutory funds assets of $41,917 million at September 30, 2004 (2003: $37,058 million, 2002: $32,743 million).

4 Revenue from ordinary activities

	Note	Group			Company	
		2004 $m	2003 $m	2002 $m	2004 $m	2003 $m
Interest income						
Loans to customers *(1)*		**15,879**	14,425	13,457	**10,158**	8,706
Marketable debt securities		**1,678**	1,451	1,462	**1,328**	1,094
Other financial institutions		**798**	1,093	920	**721**	965
Controlled entities					**1,233**	1,197
Other interest		**295**	53	595	**267**	(61)
		18,650	17,022	16,434	**13,707**	11,901
Life insurance income						
Premium and related revenue	54	**1,005**	949	1,134		
Investment revenue	54	**4,842**	2,759	(988)		
		5,847	3,708	146		
Other banking and financial services income						
Dividends received from						
Controlled entities					**952**	3,495
Other entities		**23**	39	35	**22**	39
Profit on sale of property, plant and equipment and other assets *(2)*		**14**	36	13	**6**	5
Loan fees from banking		**1,447**	1,441	1,361	**1,141**	1,133
Money transfer fees		**983**	1,026	1,014	**503**	475
Trading income *(3)*						
Foreign exchange derivatives *(4)*		**313**	442	457	**178**	308
Trading securities		**168**	170	214	**117**	154
Interest rate derivatives		**94**	13	(108)	**85**	(5)
Foreign exchange income		**(2)**	12	15		1
Fees and commissions		**1,221**	1,158	1,118	**461**	479
Fleet management fees		**108**	85	56		
Proceeds from sale of operating assets *(5)*				2,314		
Investment management fees		**321**	303	297		
Other income		**141**	285	220	**25**	146
		4,831	5,010	7,006	**3,490**	6,230
Mortgage servicing and origination revenue						
Net mortgage servicing fees				187		
Net mortgage origination revenue				191		
				378		
Movement in the excess of net market value over net assets of life insurance controlled entities		**(137)**	(160)	(155)		
Significant revenue						
Proceeds from the sale of strategic shareholdings	5(a)	**993**			**993**	
Proceeds from the sale of foreign controlled entities	5(a)			2,671		
Total revenue from ordinary activities		**30,184**	25,580	26,480	**18,190**	18,131

(1) Included within interest income (loans to customers) is rental income of $543 million (2003: $551 million, 2002: $423 million) and depreciation of $403 million (2003: $403 million, 2002: $299 million) in relation to operating leases where the Group is the lessor.

(2) For the Group, net profit on sale of property, plant and equipment and other assets of $8 million (2003: $25 million, 2002: $7 million) is the difference between the proceeds from sale of $157 million (2003: $166 million, 2002: $418 million) and their carrying value of $149 million (2003: $141 million, 2002: $411 million). Net profit on sale consists of gross profits of $14 million (2003: $36 million, 2002: $13 million) and gross losses of $6 million (2003: $11 million, 2002: $6 million) as disclosed in note 5(b). For the Company, net profit on sale of property, plant and equipment and other assets of $3 million (2003: $4 million) is the difference between the proceeds from sale of $53 million (2003: $108 million) and their carrying value of $50 million (2003: $104 million). Net profit on sale consists of gross profits of $6 million (2003: $5 million) and gross losses of $3 million (2003: $1 million) as disclosed in note 5(b).

(3) Under Australian Accounting Standard AASB 1032 Specific Disclosures by Financial Institutions , separate disclosure of trading income arising from foreign exchange derivatives, trading securities and interest rate derivatives is required. As the Group manages its trading positions utilising a variety of instruments, fluctuations between the disclosed components may occur. Foreign exchange derivatives income includes trading income from cross currency swaps, which includes an interest rate element.

(4) Foreign currency options trading losses, reported as significant expenses due to their nature and incidence, are not included. Refer to note 5(a).

(5) The operating assets of HomeSide US were sold to Washington Mutual Bank, FA on March 1, 2002. Under the terms of the sale, HomeSide US received proceeds of $2,314 million for the operating assets, which consisted primarily of loans held for sale. The carrying value of the assets sold was $2,322 million.

5 Profit from ordinary activities before income tax expense

(a) Individually significant items included in profit from ordinary activities before income tax expense

Sale of strategic shareholdings

On January 28, 2004, the Company sold its strategic shareholdings in St George Bank Limited, AMP Limited and HHG PLC. The Group received proceeds on sale of $993 million for assets with a carrying value of $678 million, resulting in a profit on sale of $315 million (after tax).

Foreign currency options trading losses

In January 2004, the Company announced that it had identified losses relating to unauthorised trading in foreign currency options and had established a structured process to review and resolve all issues arising from this matter.

The Company announced a total loss of $360 million before tax, or $252 million after tax, arising from the unauthorised foreign currency options trading. This total loss consisted of losses arising from the removal of fictitious trades from the foreign currency options portfolio of $185 million and a further loss of $175 million arising from a risk evaluation and complete mark-to-market revaluation of the foreign currency options portfolio in January 2004. Included within the total loss of $360 million was a valuation allowance for long-dated and illiquid trading derivatives in other portfolios of $26 million as at September 30, 2004.

During the year, the Company also released reports by PricewaterhouseCoopers (PwC) and APRA into this matter. The PwC and APRA reports provide a roadmap for the Company to address issues concerning culture, risk management, governance and operational controls, primarily related to the Markets division of Corporate & Institutional Banking. The Company is in the process of implementing remedial actions required by APRA. On October 20, 2004, the Group announced that it had provided the Australian Securities and Investments Commission (ASIC) with a range of undertakings to review certain key systems and controls across those businesses which operate under the primary Australian Financial Services Licence applicable to the Company s Australian banking business. The enforceable undertakings require the Group to carry out work that is in line with current regulatory requirements within a specific timeframe, as agreed with ASIC and to provide reports on each of the areas identified.

Refer to the report on the directors and officers for further information on the foreign currency options trading losses, including key findings arising from the PwC and APRA investigations, and the remedial actions implemented by the Company.

Write-down of impaired application software

During the year, the Group undertook a detailed review of the carrying value of its software assets which resulted in a charge to the profit and loss account of $409 million ($307 million after tax).

The Group ceased its global enterprise resource planning strategy supported by its Integrated Systems Implementation application software and has indefinitely deferred the implementation of further modules of this software. The software was written down by $200 million to its recoverable amount of $87 million as at September 30, 2004.

The recoverable amount of the software was determined through the application of a valuation methodology performed by an external party. In performing the assessment, the external party used a number of assumptions based on its industry expertise taking into account the complexity of the software, the cost of building such software and the build environment. The resulting carrying value of the asset represents the recoverable amount of the software that is in use.

Other software assets that were no longer expected to provide future economic benefits with a carrying value of $209 million were identified as fully impaired and were written off.

General provision for doubtful debts revision of accounting estimate

During the year, the Group reviewed the level of the general provision for doubtful debts and the application of the associated statistically-based provisioning methodology, taking into account recent experience, industry practice and emerging developments. As a result, the discount rate in the statistical model was reduced from the shareholder cost of capital to a rate akin to a risk-free debt rate, resulting in a revision to the accounting estimate of general provision for doubtful debts as at September 30, 2004. This discount rate is used to determine the present value of cumulative probability of default rates used for the purpose of loan provisioning.

The impact of this reduction in discount rate and flow on impact was an increase in the charge to provide for doubtful debts of $292 million ($204 million after tax).

SR Investment, Inc. sale of foreign controlled entity and revision of accounting estimate

On October 1, 2002, the Group sold SR Investment, Inc. (the parent entity of HomeSide US) to Washington Mutual Bank, FA. Controlled entities other than HomeSide US were excluded from the sale. The Group received proceeds on sale of $2,671 million for assets with a cost of $2,686 million, resulting in a profit on sale of $6 million after all disposal costs, including income tax. Included within the sale result was a charge to provide for certain sale-related costs of $70 million. During 2004, $64 million of this provision was written back as a revision to the accounting estimate.

The results of SR Investment, Inc. and its controlled entities were included in the Group s financial performance up to and including the year ended September 30, 2002. The assets and liabilities of SR Investment, Inc. and its controlled entities were included in the Group s financial position up to and including the year ended September 30, 2002. SR Investment, Inc. contributed $98 million net profit to the Group in the 2002 year up to the date of sale. The net asset position at the date of sale was $2,267 million. The net cash outflow of SR Investment, Inc. in the 2002 year to the date of sale was $609 million, which is reflected in the Group s cash flows.

Restructuring costs

During 2002, the Group recognised restructuring costs of $580 million resulting from the Positioning for Growth and other restructuring initiatives. The Positioning for Growth initiative comprised a fundamental reorganisation of the management and organisational structure of the Group at the time. The $580 million was comprised of termination benefits of $327 million, occupancy costs of $68 million, write-off of property, plant and equipment of $132 million (which included write-off of then redundant components of the Integrated Systems Implementation application software assets of $54 million) and other costs of $53 million.

Personnel costs of $327 million provided for and expensed in 2002 related to termination benefits for approximately 2,955 positions in management, support and customer-facing roles. In 2004, payments of $37 million (2003: $147 million, 2002: $101 million) were made in respect of 417 positions (2003: 1,317 positions, 2002: 859 positions) made redundant. The reduction in staff numbers occurred in both managerial and non-managerial positions in the following regions:

	Australia	**Europe**	**New Zealand**	**United States**	**Asia**	**Total**
Original number of positions to be made redundant	1,852	910	121	36	36	2,955
Number of positions made redundant during 2002	(707)	(56)	(51)	(18)	(27)	(859)
Number of positions made redundant during 2003	(880)	(360)	(59)	(11)	(7)	(1,317)
Number of positions made redundant during 2004	(231)	(174)	(11)	(1)		(417)
Adjustments to the number of positions to be made redundant in 2004		(44)			(2)	(46)
Number of positions to be made redundant as at September 30, 2004	34	276		6		316

The remaining provision for restructuring costs raised in 2002 relates to future payments for redundancies, occupancy and other costs. Final payments for redundancies and other costs will be made in the first half of the 2005 year, whilst future payments for occupancy costs will be made in periods corresponding with the relevant lease terms.

(b) Expenses included in profit from ordinary activities before income tax expense

		Group			**Company**
	2004	**2003**	**2002**	**2004**	**2003**
	$m	**$m**	**$m**	**$m**	**$m**

Interest expense					
Deposits and other borrowings	**8,672**	6,809	6,423	**6,567**	4,859
Other financial institutions	**1,587**	1,842	1,546	**1,471**	1,685
Bonds, notes and subordinated debt	**1,077**	807	1,072	**1,008**	734
Controlled entities				**550**	562
Other debt issues	**123**	145	171	**9**	10
Total interest expense	**11,459**	9,603	9,212	**9,605**	7,850
Life insurance expenses					
Claims expense	**702**	958	956		
Change in policy liabilities	**3,368**	1,518	(1,637)		
Policy acquisition and maintenance expense	**723**	713	751		
Investment management fees	**42**	75	86		
Total life insurance expenses	**4,835**	3,264	156		

Personnel expenses					
Salaries	**2,443**	2,379	2,438	**1,441**	1,352
Related personnel expenses					
Superannuation	**309**	243	130	**86**	111
Payroll tax	**175**	170	158	**96**	95
Fringe benefits tax	**23**	33	46	**20**	29
Charge to provide for					
Annual leave	**52**	41	27	**30**	18
Long service leave and retiring allowances	**43**	46	43	**38**	42
Performance-based compensation	**197**	230	221	**108**	131
Restructuring costs termination benefits	**12**		4		
Other expenses	**362**	274	312	**157**	129
	3,616	3,416	3,379	**1,976**	1,907
Significant restructuring costs *(1)*					
Termination benefits			104		
Charge to provide for termination benefits			223		
Total personnel expenses	**3,616**	3,416	3,706	**1,976**	1,907
Occupancy expenses					
Depreciation of buildings	**14**	15	22	**2**	2
Amortisation of leasehold assets	**55**	52	57	**39**	38
Operating lease rental expense	**302**	276	269	**177**	171
Maintenance and repairs	**84**	78	79	**23**	22
Electricity, water and rates	**80**	82	88	**27**	24
Other expenses	**56**	53	44	**29**	23
	591	556	559	**297**	280
Significant restructuring costs *(1)*					
Charge to provide for surplus leased space			68		
Total occupancy expenses	**591**	556	627	**297**	280
General expenses					
Depreciation and amortisation of plant and equipment	**364**	325	332	**205**	182
Amortisation of leasehold plant and equipment	**8**	9	8	**3**	3
Loss on sale of property, plant and equipment and other assets *(2)*	**6**	11	6	**3**	1
Operating lease rental expense	**72**	61	53	**59**	46
Charge to provide for					
Non-lending losses	**106**	100	112	**28**	34
Diminution in value of shares in entities	**4**		13	**27**	1
Fees and commissions	**176**	137	172	**101**	81
Communications, postage and stationery	**416**	407	473	**173**	165
Computer equipment and software	**271**	289	222	**172**	178
Advertising	**225**	176	192	**152**	110
Professional fees	**391**	349	272	**249**	188
Travel	**85**	83	50	**38**	40
Bureau charges	**54**	57	68	**22**	21
Carrying value of operating assets sold *(3)*			2,322		
Motor vehicle expenses	**41**	37	29	**9**	9
Insurance	**42**	29	14	**13**	9
Other expenses	**344**	312	431	**145**	4
	2,605	**2,382**	**4,769**	**1,399**	**1,072**
Significant general and restructuring costs *(1)*					
Write-down of impaired application software	**409**			**239**	
Write-off of property, plant and equipment *(4)*			132		
Other			53		
Total general expenses	**3,014**	2,382	4,954	**1,638**	1,072

Amortisation of goodwill					
Australia	**1**	3	8		
European banks	**62**	62	62		
New Zealand	**40**	33	31		
Total amortisation of goodwill	**103**	98	101		
Charge to provide for doubtful debts					
General *(5)*	**559**	633	697	**325**	373
General revision of accounting estimate *(1) (5)*	**292**			**190**	
Total charge to provide for doubtful debts *(5)*	**851**	633	697	**515**	373
Other significant expenses *(1)*					
Cost of sale of strategic shareholdings	**678**			**678**	
Foreign currency options trading losses	**360**			**360**	
Cost of foreign controlled entity sold revision of accounting estimate	**(64)**			**(64)**	
Cost of foreign controlled entity sold			2,686		

(1) Refer to note 5(a).

(2) Refer to note 4, footnote(2).

(3) The operating assets of HomeSide US were sold to Washington Mutual Bank, FA on March 1, 2002. Under the terms of the sale, HomeSide US received proceeds of $2,314 million for the operating assets, which consisted primarily of loans held for resale. The carrying value of the assets sold was $2,322 million.

(4) Includes write-off of redundant components of the Integrated Systems Implementation application software assets of $54 million during 2002 (refer to note 5(a)).

(5) Refer to note 17.

6 Income tax expense

		Group			Company
	2004	**2003**	**2002**	**2004**	**2003**
	$m	**$m**	**$m**	**$m**	**$m**
Reconciliation of income tax expense shown in the statement of financial performance with prima facie tax payable on the pre-tax accounting profit					

Profit from ordinary activities before income tax expense					
Australia	**3,269**	3,309	2,288	**3,116**	6,422
Overseas	**1,472**	2,319	2,053	**69**	227
Add/(deduct): (Profit)/loss from ordinary activities before income tax expense attributable to the life insurance statutory funds and their controlled trusts *(1)*	**(995)**	(424)	21		
Total profit from ordinary activities excluding that attributable to the statutory funds of the life insurance business, before income tax expense	**3,746**	5,204	4,362	**3,185**	6,649
Prima facie income tax at 30%	**1,124**	1,561	1,309	**956**	1,995
Add/(deduct): Tax effect of permanent differences					
Rebate of tax on dividends, interest, etc.	**(43)**	(28)	44	**(291)**	(1,066)
Amortisation of goodwill	**31**	29	29		
Assessable foreign income	**26**	26	25	**23**	23
Under/(over) provision in prior years	**(9)**	(6)	6	**26**	(3)
Profit on sale of strategic shareholdings	**(95)**			**(45)**	
Reimbursement to subsidiaries for capital losses transferred				**38**	
Cost of foreign controlled entity sold revision of accounting estimate	**(19)**			**(19)**	
Write-down of impaired application software	**22**			**14**	
Effect of reset tax values on entering tax consolidation regime	**(150)**				
Interest expense on exchangeable capital units	**33**			**33**	
Non-taxable amounts attributable to HomeSide US operation			(53)		
Recognition of HomeSide US operation future income tax benefit not previously recognised			(89)		
Other	**(31)**	(27)	(61)	**33**	(20)
Total income tax expense on profit from ordinary activities excluding that attributable to the statutory funds of the life insurance business *(2) (3)*	**889**	1,555	1,210	**768**	929
Income tax expense/(benefit) attributable to the statutory funds of the life insurance business *(1)*	**301**	126	(248)		
Total income tax expense *(2) (3)*	**1,190**	1,681	962	**768**	929

(1) The income tax expense attributable to the life insurance statutory funds and their controlled trusts has been determined after segregating the life insurance business into various classes of business and then applying, when appropriate, different tax treatments to these classes of business (refer to note 1(nn)).

(2) In 2004, total income tax expense on profit from ordinary activities includes $108 million income tax benefit attributable to the losses arising from the unauthorised foreign currency options trading, an income tax benefit of $102 million attributable to the write-down of impaired application software, and an income tax benefit of $88 million on the charge to provide for doubtful debts relating to a revision of an accounting estimate (refer to note 5(a)).

(3) In 2002, total income tax expense on profit from ordinary activities includes $21 million income tax benefit attributable to the loss on sale of SR Investment, Inc. (refer to note 5(a)).

During the year ended September 30, 2004, the Company made the decision to elect to consolidate its Australian wholly-owned controlled entities under the Australian tax consolidation regime. The Company is the head entity in the tax-consolidated group comprising the Company and all of its Australian wholly-owned controlled entities. The implementation date for the tax-consolidated group was October 1, 2002.

Tax consolidation calculations at September 30, 2004 have been based on legislation enacted to that date.

As part of the election to enter tax consolidations, the Company is able to elect to reset the tax values of certain wholly-owned Australian controlled entities under tax allocation rules (the reset tax values). Under Urgent Issues Group Abstract 52 Income Tax Accounting under the Tax Consolidation System , the Company is required to recognise the effects of its election to enter tax consolidation. The decision to enter tax consolidation resulted in a tax benefit of $150 million, recognised in the 2004 year. The $150 million tax benefit is due to the reset tax values of assets of life insurance controlled entities within the Wealth Management group. This benefit reflects the reduction of the provision for deferred income tax relating to the excess of net market value over net assets of life insurance controlled entities.

7 Dividends and distributions

	Amount per share cents	Total amount $m	Franked amount per share %
Dividends recognised by the Company for the years shown below at September, 30:			
2004			
Final 2003 ordinary *(1)*	**83**	**1,250**	**100**
Interim 2004 ordinary	**83**	**1,253**	**100**
Deduct: Bonus shares in lieu of dividend	**n/a**	**(98)**	**n/a**
Total dividends paid		**2,405**	
2003			
Final 2002 ordinary *(1)*	75	1,207	90

Interim 2003 ordinary	80	1,153	100
Deduct: Bonus shares in lieu of dividend	n/a	(105)	n/a
Total dividends paid		2,255	
2002			
Interim 2002 ordinary	72	1,160	100
Final 2002 ordinary *(1)*	75	1,195	90
Deduct: Bonus shares in lieu of dividend	n/a	(89)	n/a
Total dividends paid or provided for		2,266	
Franked dividends declared or paid during the year were franked at a tax rate of 30%.			
Proposed final dividend			
On November 10, 2004, the directors declared the following dividend:			
Final 2004 ordinary	**83**	**1,287**	**100**

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(1) The Group adopted Australian Accounting Standard AASB 1044 Provisions, Contingent Liabilities and Contingent Assets for the first time from October 1, 2002. Provisions for dividends are recognised at the time the dividends are declared, determined or publicly recommended and as a result, the final dividend in respect of the year ended September 30, 2003 has been recognised in 2004, the year the final dividend was paid. For the year ended September 30, 2002, the Group recognised a provision for dividend in the reporting period to which the dividend related, even though the dividend was declared or announced after the end of that reporting period. This provision was subsequently reversed on October 1, 2002 and recognised during 2003.

The final 2004 ordinary dividend was paid on December 8, 2004. The financial effect of this dividend has not been brought to account in the financial statements for the year ended September 30, 2004 and will be recognised in subsequent financial reports.

The dividend payout for each reported year was based on after tax cash earnings (adjusted for significant items). *Refer to page 6 for a reconciliation of non-GAAP measures and page 69 for further information on non-GAAP financial measures .*

Franking credits

The Company elected during the year ended September 30, 2004 to be taxed as a single entity under the tax consolidation regime in Australia *(for further details, refer to note 1(nn)).* The tax consolidation regime requires the tax-consolidated group (comprising the Company and all of its Australian wholly-owned controlled entities) to keep a single franking account. Accordingly, the amount of franking credits available to members of the Company at September 30, 2004 represents those available from the tax-consolidated group. This includes the benefit of imputation credits on dividends received by the Australian wholly-owned controlled entities. Previously, members of the Company only had access to franking credits available from the Company.

The franking credits available to the Group at September 30, 2004, after allowing for tax payable in respect of the current reporting period s profits that will be subject to Australian income tax, the payment of the proposed final dividend, and the receipt of dividends recognised as receivable at balance date, are estimated to be $nil (2003: $nil, 2002: $nil). The extent to which future dividends will be franked will depend on a number of factors including the level of the Group s profits that will be subject to Australian income tax and any future changes to Australia s business tax system (including the dividend imputation system) as a result of the Australian Commonwealth Government s tax reform initiatives.

New Zealand imputation credits

The Company is now able to attach available New Zealand imputation credits to dividends paid. As a result, New Zealand imputation credits of NZ$0.13 per share have been attached to the final 2004 ordinary dividend paid by the Company. New Zealand imputation credits are only relevant for shareholders who are required to file New Zealand income tax returns.

		Group			Company
	2004 $m	**2003 $m**	**2002 $m**	**2004 $m**	**2003 $m**
Distributions on other equity instruments					
Trust units exchangeable for preference shares *(1)*	**16**	61	70		
National Income Securities	**132**	122	117	**132**	122
Trust Preferred Securities *(2)*	**39**				
Total distributions on other equity instruments	**187**	183	187	**132**	122

(1) On January 22, 2004, the Company bought back 36,008,000 fully paid non-converting non-cumulative preference shares of the Company that were issued in connection with the issue of 18,004,000 Trust Units Exchangeable for Preference Shares™ (TrUEPrS℠) in 1998. The TrUEPrS℠ were redeemed on the same date. Refer to note 33 for further information.

(1) On September 29, 2003, the Trust Preferred Securities were issued.

8 Earnings per share

	Group					
	2004		2003		2002	
	Basic	Diluted (1)	Basic	Diluted (1)	Basic	Diluted (1)
Earnings ($m)						
Net profit attributable to members of the Company	**3,177**	**3,177**	3,955	3,955	3,373	3,373
Distributions on other equity instruments	**(187)**	**(187)**	(183)	(183)	(187)	(187)
Potential dilutive adjustments						
Interest expense on exchangeable capital units		**112**		90		102
Adjusted earnings	**2,990**	**3,102**	3,772	3,862	3,186	3,288
Weighted average ordinary shares (No. 000)						
Weighted average ordinary shares	**1,515,270**	**1,515,270**	1,515,871	1,515,871	1,549,136	1,549,136
Potential dilutive ordinary shares						
Options and performance rights		**711**		3,742		8,335
Partly paid ordinary shares		**375**		485		670
Exchangeable capital units		**65,454**		65,460		65,460
Total weighted average ordinary shares	**1,515,270**	**1,581,810**	1,515,871	1,585,558	1,549,136	1,623,601
Earnings per share (cents)	**197.3**	**196.1**	248.8	243.6	205.7	202.5

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(1) The weighted average diluted number of ordinary shares includes the impact of options, performance rights, partly paid ordinary shares and potential conversion of exchangeable capital units.

There were 83,000 fully paid ordinary shares of the Company issued since the end of the year as a result of share options granted being exercised, for a total consideration of $1,767,070. Other than these issues, there has been no conversion to, calls of, or subscriptions for ordinary shares, or issues of potential ordinary shares from October 1, 2004 up to December 2, 2004.

For further information on earnings per share calculations, refer to the financial review section of the annual financial report.

9 Cash and liquid assets

	Group		Company	
	2004	**2003**	**2004**	**2003**
	$m	**$m**	**$m**	**$m**
Australia				
Coins, notes and cash at bank	**1,524**	1,596	**722**	792
Money at short call	**2**	134	**2**	134
Securities purchased under agreements to resell *(1)*	**1,417**	805	**1,417**	805
Other (including bills receivable and remittances in transit)	**1,021**	2,386	**(984)**	245
	3,964	4,921	**1,157**	1,976
Overseas				
Coins, notes and cash at bank	**625**	623	**10**	2
Money at short call	**495**	401		
Securities purchased under agreements to resell *(1)*	**3,167**	2,568	**3,114**	2,568
Other (including bills receivable and remittances in transit)	**(171)**	(108)	**(92)**	(394)
	4,116	3,484	**3,032**	2,176
Total cash and liquid assets	**8,080**	8,405	**4,189**	4,152

(1) Comparative information has been restated to reflect the reclassification of reverse repurchase agreements from loans and advances to cash and liquid assets and due from other financial institutions . Refer to note 1(d) for further information.

Included within cash and liquid assets are cash and liquid assets within the Group s life insurance business statutory funds of $687 million (2003: $745 million) which are subject to restrictions imposed under the *Life Insurance Act* 1995 (Cth) and other restrictions and therefore are not available for use in operating, investing or financing activities of other parts of the Group *(refer to note 1(o)).*

10 Due from other financial institutions

	Group		Company	
	2004	**2003**	**2004**	**2003**
	$m	**$m**	**$m**	**$m**
Australia				
Interest-earning *(1)*	**6,152**	6,122	**6,035**	5,993
Non-interest-earning	**16**	64	**14**	51
	6,168	6,186	**6,049**	6,044
Overseas				
Interest-earning *(1)*	**16,763**	22,982	**15,035**	20,380
Non-interest-earning	**563**	66	**531**	51
	17,326	23,048	**15,566**	20,431
Total due from other financial institutions	**23,494**	29,234	**21,615**	26,475

(1) Comparative information has been restated to reflect the reclassification of reverse repurchase agreements from loans and advances to cash and liquid assets and due from other financial institutions . Refer to note 1(d) for further information.

11 Due from customers on acceptances

	Group		Company	
	2004 $m	**2003 $m**	**2004 $m**	**2003 $m**
Australia				
Government and public authorities	**9**	4	**9**	4
Agriculture, forestry and fishing	**1,892**	2,047	**1,892**	2,047
Financial, investment and insurance	**3,182**	4,006	**3,182**	4,006
Real estate construction	**699**	844	**699**	844
Manufacturing	**1,043**	1,594	**1,043**	1,594
Instalment loans to individuals and other personal lending (including credit cards)	**136**	185	**136**	185
Other commercial and industrial	**9,305**	10,816	**9,305**	10,816
	16,266	19,496	**16,266**	19,496
Overseas				
Financial, investment and insurance	**1**	17		
Real estate construction	**2**			
Manufacturing	**45**	1		
Other commercial and industrial	**30**	48		
	78	66		
Total due from customers on acceptances	**16,344**	19,562	**16,266**	19,496

12 Trading securities

		Group		Company	
		2004 $m	2003 $m	2004 $m	2003 $m
Listed Australia					
Australian Commonwealth Government bonds and securities		**367**	1,317	**367**	1,317
Securities of Australian and semi-government authorities		**2,013**	2,435	**2,013**	2,435
Private corporations/other financial institutions	certificates of deposit	**4,358**	4,197	**4,358**	4,197
Private corporations/other financial institutions	bills	**13,960**	11,327	**13,960**	11,327
Private corporations/other financial institutions	bonds	**399**	352	**399**	352
Private corporations/other financial institutions	commercial paper		20		
Private corporations/other financial institutions	floating rate notes	**71**	56	**71**	56
Private corporations/other financial institutions	promissory notes	**808**	1,107	**808**	1,107
Other securities		**263**	320	**263**	320
		22,239	21,131	**22,239**	21,111
Listed Overseas					
Private corporations/other financial institutions	bonds	**981**	1,266	**981**	1,266
Other government bonds and securities		**240**	242	**240**	242
		1,221	1,508	**1,221**	1,508
Total listed trading securities		**23,460**	22,639	**23,460**	22,619
Unlisted Overseas					
Securities of or guaranteed by New Zealand Government		**196**	351		
Private corporations/other financial institutions	certificates of deposit	**271**	290	**132**	170
Private corporations/other financial institutions	bonds	**31**	96		
Other government bonds and securities		**1**	22		
Private corporations/other financial institutions	commercial paper	**45**	120	**45**	120
Private corporations/other financial institutions	medium-term notes	**62**	43	**62**	43
Private corporations/other financial institutions	promissory notes	**182**	163		
Total unlisted trading securities		**788**	1,085	**239**	333
Total trading securities		**24,248**	23,724	**23,699**	22,952

13 Available for sale securities

		Group		Company	
		2004 $m	2003 $m	2004 $m	2003 $m
Listed Australia					
Private corporations/other financial institutions	bonds	**142**	186	**142**	186
Private corporations/other financial institutions	floating rate notes	**97**	183	**97**	183
Other securities		**23**	1,078	**23**	1,078
		262	1,447	**262**	1,447
Listed Overseas					
Securities of or guaranteed by UK/Irish governments		**3**	3		
Private corporations/other financial institutions deposit/bills	certificates of	**2,048**	2,873	**2,048**	2,873
Private corporations/other financial institutions	bonds	**714**	201	**90**	201
		2,765	3,077	**2,138**	3,074
Total listed available for sale securities		**3,027**	4,524	**2,400**	4,521
Unlisted Overseas					
		187	208	**187**	208

Private corporations/other financial institutions deposit/bills	certificates of				
Private corporations/other financial institutions	bonds	**275**	662	**275**	662
Other government treasury notes		**16**	56	**16**	56
Other central banks bonds and securities		**73**		**73**	
Private corporations/other financial institutions	commercial paper	**847**	700	**847**	700
Private corporations/other financial institutions	medium-term notes	**180**	356	**180**	356
Other securities		**5**	7		
Total unlisted available for sale securities		**1,583**	1,989	**1,578**	1,982
Total available for sale securities		**4,610**	6,513	**3,978**	6,503

Market value information				
Listed Australia				
Private corporations/other financial institutions bonds	**142**	187	**142**	187
Private corporations/other financial institutions floating rate notes	**97**	184	**97**	184
Other securities	**23**	1,077	**23**	1,077
	262	1,448	**262**	1,448
Listed Overseas				
Securities of or guaranteed by UK/Irish governments	**3**	3		
Private corporations/other financial institutions certificates of deposit/bills	**2,048**	2,873	**2,048**	2,873
Private corporations/other financial institutions bonds	**714**	201	**90**	201
	2,765	3,077	**2,138**	3,074
Total listed available for sale securities at market value	**3,027**	4,525	**2,400**	4,522
Unlisted Overseas				
Private corporations/other financial institutions certificates of deposit/bills	**187**	208	**187**	208
Private corporations/other financial institutions bonds	**275**	662	**275**	662
Other government treasury notes	**16**	56	**16**	56
Other central banks bonds and securities	**73**		**73**	
Private corporations/other financial institutions commercial paper	**847**	700	**847**	700
Private corporations/other financial institutions medium-term notes	**180**	356	**180**	356
Other securities	**5**	7		
Total unlisted available for sale securities at market value	**1,583**	1,989	**1,578**	1,982
Total available for sale securities at market value	**4,610**	6,514	**3,978**	6,504

The following table reconciles gross unrealised profits and losses of the Group s holdings of available for sale securities for each year below, as at September 30:

		2004				**2003**		
	Amortised cost $m	**Gross unrealised profits $m**	**Gross unrealised losses $m**	**Market value $m**	**Amortised cost $m**	**Gross unrealised profits $m**	**Gross unrealised losses $m**	**Market value $m**
Securities of or guaranteed by UK/Irish governments	**3**			**3**	3			3
Private corporations/other financial institutions certificates of deposit/bills	**2,235**			**2,235**	3,081			3,081
Private corporations/other financial institutions bonds	**1,136**		**(5)**	**1,131**	1,049	1		1,050
Other government treasury notes	**16**			**16**	56			56
Other central banks bonds and securities	**73**			**73**				
Private corporations/other financial institutions commercial paper	**847**			**847**	700			700
Private corporations/other financial institutions medium-term notes	**180**			**180**	356			356
Private corporations/other financial institutions floating rate notes	**97**			**97**	183	1		184
Other securities	**28**			**28**	1,085		(1)	1,084
Total	**4,615**		**(5)**	**4,610**	6,513	2	(1)	6,514

Maturities of available for sale securities

The following table analyses the maturity of the Group s holdings of available for sale securities at September 30, 2004:

	$m	0 to 1 year yield pa	$m	1 to 5 year(s) yield pa	$m	5 to 10 years yield pa	$m	Over 10 years yield pa
Australia								
Private corporations/other financial institutions bonds	43	5.7%	99	5.7%				
Private corporations/other financial institutions floating rate notes			97	5.7%				
Other securities	9	5.7%	14	5.8%				
	52		210					
Overseas								
Securities of or guaranteed by UK/Irish governments							3	4.8%
Private corporations/other financial institutions certificates of deposit/bills	2,235	1.2%						
Private corporations/other financial institutions bonds	152	3.8%	837	3.9%				
Other government treasury notes	16	3.5%						
Other central banks bonds and securities	73	4.5%						
Private corporations/other financial institutions commercial paper	847	3.0%						
Private corporations/other financial institutions medium-term notes	180	2.3%						
Other securities	5	1.4%						
	3,508		837				3	
Total maturities at carrying value	3,560		1,047				3	
Total maturities at market value	3,560		1,047				3	

Proceeds from maturities of available for sale securities during 2004 were $5,399 million (2003: $13,500 million, 2002: $14,543 million). Proceeds from sale of available for sale securities during 2004 were $2,002 million (2003: $3 million, 2002: $90 million). Gross profits of $nil (2003: $nil, 2002: $nil) and gross losses of $5 million (2003: $nil, 2002: $1 million) were realised on sale during 2004.

14 Investment securities

	Group			Company	
	2004 $m	2003 $m	2002 $m	2004 $m	2003 $m