NATIONAL AUSTRALIA BANK LTD
Form 20-F
December 02, 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 September 30, 2005

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 7 7/8% 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	**1,567,187,648**
Staff Share Scheme shares (partly paid shares)	**465,346 paid to 25 Australian cents**
National Income Securities	**20,000,000**
Trust Preferred Securities	**400,000**
Trust Preferred Securities II	**800,000**

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

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ý

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes o No o

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Chairman s message

I was honoured to take up the position of Chairman of the National Australia Bank Limited (NAB) in September this year. Over the almost 150 years of its life as a company, the NAB has played an important role in the development of Australia and it is now also an active financial services operator in the United Kingdom and New Zealand.

The past two years have been challenging ones for the NAB. Losses incurred in foreign currency options trading in January 2004 revealed shortcomings in the NAB s systems and culture and there has been a strong focus in the period since to rectify these. This has been accompanied by a widespread change of personnel at senior management and Board levels.

Those actions have borne significant fruit, with the NAB now performing better in its markets. However, much remains to be done in systems development, risk management, regulatory compliance and culture change. Given the determination of the Board and senior management, and the talent, enthusiasm and dedication of the people involved, I have no doubt about the eventual positive outcomes.

On behalf of the Board, I pay tribute to the efforts of Graham Kraehe, who stepped down as Chairman and as a director in September. Graham assumed the Chair in February 2004, and has led the program of change in senior management and Board ranks with great dedication and skill.

The Board contains a good mix of directors with backgrounds in the financial services industry, general business and commerce, and in regulatory affairs. Our two most recently appointed directors, Patricia Cross and Kerry McDonald, will provide additional, valuable experience upon joining the Board in December 2005. Patricia adds significant experience in the financial industry, while Kerry brings to the Board substantial industry experience in the New Zealand region.

John Stewart has, similarly, assembled an excellent senior management team since he was appointed Managing Director and Group Chief Executive in February 2004.

The team s efforts over the past 18 months have required a focus not only on meeting the internal challenges but also on the satisfaction of new compliance obligations resulting from the Basel II Capital Accord, the requirements of the United States Sarbanes-Oxley legislation and International Financial Reporting Standards. That so much has been achieved in restoring the Company s fortunes in these circumstances is an enormous credit to management s efforts.

The theme New Thinking, New Actions initiated by John Stewart has given rise to a large number of initiatives across the Group designed to make its business more efficient and well placed for growth. These are described in detail in the management reports that follow.

One of the things your directors are determined to ensure is that management s actions are focused on the long term. It is evident that many of the difficulties experienced by the Company over recent years resulted from a desire to satisfy external, short-term demands. That is no way to run a business if the core objective is to provide superior long-term shareholder returns. Many decisions taken in the interests of good long-term returns, such as investments in information systems, may have a negative effect on near-term results. The Board plays an important role in

supporting management actions in such instances against pressure from those whose focus is on the short-term.

The NAB is a great institution with a proud history. The directors are determined to ensure that our shareholders and other stakeholders once again view the Company as a positive force in the communities in which it operates.

In closing, may I again acknowledge the dedicated efforts of all our employees, many of whom make significant personal sacrifices in the interests of the Company.

/s/ Michael Chaney
Michael A Chaney AO
Chairman

Managing Director s message

2005 highlights

New regional operating model;

Appointment of new executive team;

Sale of the Irish Banks at a profit of $1,043 million (after tax); and

Restructuring costs of $838 million.

2005 summary

The 2005 financial year brought us half way through our three-year recovery program.

Net profit attributable to members of the Company increased by 30% to $4,132 million. Diluted earnings per share increased from 196.1 cents to 248.1 cents. Dividends per share for the year were 166 cents, franked to 80%.

During the year, the Group adopted a new regional operating model that is designed to make the organisation more nimble and customer focused.

The four businesses that comprise the Group are the Australia region (principally the NAB and MLC brands), the United Kingdom region (principally the Clydesdale Bank and Yorkshire Bank brands), the New Zealand region (principally the Bank of New Zealand brand), and Institutional Markets & Services, which operates internationally.

Each business is operating under the overall Group strategy, which has four elements:

restoring revenue growth;

business efficiency;

compliance and risk management; and

cultural change.

The regional Chief Executives and their management teams have each developed their own strategic agenda within this framework because each business is at a different stage of development, and must address local market conditions and the challenges relevant to their business.

In Australia, there is a large integration task as we bring together the retail and corporate banking operations as well as the MLC wealth management business.

In conjunction with the integration of these businesses we have improved the distribution network, product range and service levels to make the Australian operations a more customer-focused organisation.

Improvement of market share in categories such as mortgage and business lending indicates that we are making progress in this area.

The Irish Banks, Northern Bank Limited and National Irish Bank Limited, were sold to Danske Bank A/S for $2,493 million in February 2005 at a profit of $1,043 million (after tax). This was an attractive price and allowed the Company s senior management in the United Kingdom to focus on the operations of the combined Clydesdale and Yorkshire banks.

In the United Kingdom, products have been reviewed and made more competitive and the branch network has been restructured. Branches that experienced very low levels of activity have been closed or in the process of being closed.

New Financial Solutions Centres and flagship branches in high traffic areas in the north of England and in Scotland have been opened.

Expansion into the south of England to attract small to medium-sized business customers and high net worth individuals has been underway using an integrated financial services approach.

In New Zealand, we have a well-established business in a competitive and mature market. The objective has been to grow through continued improvements to customer service and product range. One example of this is the award-winning customer service provided by Bank of New Zealand s call centres.

The Institutional Markets & Services business was at the centre of the regulatory review that took place following the foreign currency options trading losses.

The 2005 year was a turning point for the Group following the changes that took place in the wake of the foreign currency options trading losses and the distraction caused by the Board dispute.

In response to the March 2004 APRA report on the foreign currency options trading losses, significant progress has been made in addressing deficiencies in market risk systems, governance processes and organisational culture.

The foreign currency options trading desk was re-opened in May 2005 and the support our customers have shown during this period is very gratifying.

The Institutional Markets & Services strategy is to focus on simplifying its operations, delivering sustainable revenue growth, creating the right environment for employees to excel and creating ownership of effective risk practices within the business.

As a result of the changes taking place in several of the Group s businesses, we have incurred $838 million in restructuring costs. We have outlined efficiency gains that will involve 4,662 redundancies over two years. Of those, 1,834 redundancies took place during 2005. The majority of the redundancies result from streamlining our processes and reducing duplication in administrative areas.

I am confident that the changes I have outlined, combined with a strong focus on risk management, our community responsibilities and cultural change set the NAB on a path for sustainable long-term growth in shareholder value.

Finally, I would like to express my deep admiration for the hard work and dedication displayed by our employees who have enabled the NAB to protect its franchise in a competitive environment during a difficult period.

/s/ John Stewart
John M Stewart
Managing Director and Group Chief Executive

Presentation of information

Basis of presentation

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 2005, 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$0.7643 = 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, 2005.

Certain definitions and glossary

The Company s fiscal year ends on September 30. As used herein, the fiscal year ended September 30, 2005 is referred to as 2005 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 years ended September 30, 2005, September 30, 2004 and September 30, 2003 included herein at pages 114 to 250. 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 285. In addition, non-GAAP financial measures have been defined at page 70.

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 in the financial review and report of the directors;

anticipated implementation of certain control systems and programs, including, but not limited to those described in 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

Profitability

Net profit attributable to members of the Company increased 30.1% to $4,132 million.

Net profit attributable to members of the Company before significant items*(1)* increased 5.6% to $3,761 million.

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

net profit of $1,043 million on the sale of Northern Bank Limited and National Irish Bank Limited (Irish Banks);

restructuring costs of $606 million;

provision for settlement of TrUEPrS^{SM} tax dispute of $97 million;

reversal of a provision in relation to foreign currency options trading losses, of $24 million; and

reversal of prior year restructuring provisions of $7 million.

The 2004 result included $384 million (after tax) of net significant expenses. *Refer to page 20 for further information.*

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

Shareholder returns

Diluted earnings per share increased 26.5% to 248.1 cents. Excluding significant items, diluted earnings per share increased 2.2% to 225.2 cents.

Diluted cash earnings*(1)* per share increased 15.5% to 232.9 cents. Excluding significant items, diluted cash earnings per share decreased 7.0% to 210.1 cents.

Return on average ordinary shareholder funds increased from 14.0% to 16.6%. Excluding significant items, return on average ordinary shareholder funds decreased from 15.8% to 15.0%.

2005 dividends remained steady with 2004 at 166 cents per share. In 2005, the interim dividend of 83 cents per share and the final dividend of 83 cents per share were each 80% franked. In 2004, the interim dividend of 83 cents per share and the final dividend of 83 cents were fully franked.

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

Business growth

Total assets grew by 5.0% in local currency terms.

Total assets (excluding the impact of the sale of the Irish Banks) grew by 9.0% in local currency terms.

Net assets (excluding the impact of the sale of the Irish Banks) grew by 28.6% in local currency terms.

Movements in exchange rates decreased total assets (in Australian dollar terms and excluding the impact of the sale of the Irish Banks) by $10,296 million.

Gross loans and advances (excluding the impact of the sale of the Irish Banks) increased 13.2% in local currency terms.

Assets under management and administration grew by 12.0%.

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(1) Refer to non-GAAP financial measures on page 70 for an explanation of the Group s non-GAAP measures and reconciliations of non-GAAP financial measures for quantitative reconciliations of such non-GAAP measures to the GAAP measure on page 8.

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 2005, except where otherwise stated.

	Group					
	2005 (1) $m	**2005 (2) US$m**	**2004 $m**	**2003 $m**	**2002 (3) $m**	**2001 (4) $m**
Summary of financial performance						
Australian GAAP						
Net interest income	**7,082**	**5,413**	7,191	7,419	7,222	6,960
Net life insurance income	**1,672**	**1,278**	1,012	444	(10)	128
Other banking and financial services income	**5,102**	**3,899**	4,831	5,010	7,006	4,749
Mortgage servicing and origination revenue					378	810
Movement in the excess of net market value over net assets of life insurance controlled entities	**335**	**256**	(137)	(160)	(155)	510
Significant revenue	**2,493**	**1,905**	993		2,671	5,314
Operating expenses	**(7,304)**	**(5,582)**	(6,812)	(6,354)	(8,707)	(6,470)
Amortisation of goodwill	**(98)**	**(75)**	(103)	(98)	(101)	(167)
Charge to provide for doubtful debts	**(534)**	**(408)**	(559)	(633)	(697)	(989)
Significant expenses	**(2,209)**	**(1,688)**	(1,675)		(3,266)	(6,866)
Profit from ordinary activities before income tax expense	**6,539**	**4,998**	4,741	5,628	4,341	3,979
Income tax expense relating to ordinary activities	**(1,797)**	**(1,373)**	(1,190)	(1,681)	(962)	(1,891)
Net profit	**4,742**	**3,625**	3,551	3,947	3,379	2,088
Net loss/(profit) attributable to outside equity interest Life insurance business	**(610)**	**(466)**	(365)	16	(6)	(5)
Net profit attributable to outside equity interest Other			(9)	(8)		
Net profit attributable to members of the Company	**4,132**	**3,159**	3,177	3,955	3,373	2,083
Dividends paid/payable *(5)*	**2,454**	**1,876**	2,405	2,255	2,266	2,080
Adjusted to accord with US GAAP *(6)*						
Net income	**3,908**	**2,987**	2,781	3,667	3,455	1,794

	Group					
	2005 $m	**2005 (2) US$m**	**2004 $m**	**2003 $m**	**2002 (3) $m**	**2001 $m**
Summary of financial position						
Australian GAAP						
Investments relating to life insurance business	**50,500**	**38,597**	41,013	35,846	31,012	31,381
Loans and advances (after provisions for doubtful debts)	**260,053**	**198,759**	247,836	225,735	212,929	197,827

Total assets	**419,588**	**320,691**	411,309	397,471	377,387	374,720
Total risk-weighted assets *(7)*	**289,833**	**221,519**	286,805	254,266	253,135	257,513
Deposits and other borrowings	**209,079**	**159,799**	219,028	198,483	199,325	187,850
Life insurance policy liabilities	**42,123**	**32,195**	36,134	32,457	30,425	30,257
Bonds, notes and subordinated debt	**39,238**	**29,990**	32,573	24,257	24,961	24,984
Perpetual floating rate notes	**328**	**251**	350	367	460	507
Exchangeable capital units	**1,231**	**941**	1,262	1,262	1,262	1,262
Net assets	**34,280**	**26,200**	29,766	27,211	23,251	23,557
Contributed equity	**11,486**	**8,779**	10,191	9,728	9,931	10,725
Ordinary shares	**7,552**	**5,772**	7,271	6,078	7,256	8,050
Equity instruments *(8)*	**3,934**	**3,007**	2,920	3,650	2,675	2,675
Total equity (excludes outside equity interest)	**28,056**	**21,443**	25,900	24,407	23,184	23,489
Adjusted to accord with US GAAP *(6)*						
Total assets	**425,958**	**325,560**	417,758	398,448	380,280	377,167
Total equity	**24,486**	**18,715**	23,311	22,297	24,005	23,987

	Group					
	2005 (1) $	2005 (2) US$	2004 $	2003 $	2002 (3) $	2001 (4) $
Shareholder information						
Australian GAAP						
Earnings per share *(9)*						
Basic	**2.52**	**1.93**	1.97	2.49	2.06	1.22
Diluted *(10)*	**2.48**	**1.90**	1.96	2.44	2.03	1.21
Earnings per share before significant items *(9) (11)*						
Basic	**2.28**	**1.74**	2.23	2.49	2.32	2.47
Diluted	**2.25**	**1.72**	2.20	2.44	2.27	2.43
Cash earnings per share *(11)*						
Basic	**2.36**	**1.80**	2.03	2.69	2.22	1.11
Diluted *(10)*	**2.33**	**1.78**	2.02	2.62	2.18	1.11
Cash earnings per share before significant items *(11)*						
Basic	**2.12**	**1.62**	2.29	2.69	2.48	2.37
Diluted	**2.10**	**1.61**	2.26	2.62	2.43	2.33
Dividends per share *(5)*	**1.66**	**1.27**	1.66	1.63	1.47	1.35
Total shareholder return (3 year annualised accumulation) (%) *(12)*	**2.4**	**2.4**	3.8	11.1	19.2	12.8
Dividends per American depositary share (ADS) *(5)*	**8.30**	**6.34**	8.30	8.15	7.35	6.75
Dividend payout ratio (%) *(5)*	**78.19**	**78.19**	72.14	56.46	56.62	56.13
Net assets per share	**21.87**	**16.72**	19.19	18.09	15.11	15.15
Share price at year end	**33.05**	**25.26**	26.98	30.80	33.48	25.66
Number of ordinary shares at year end (No. 000)	**1,567,654**	**n/a**	1,551,347	1,504,635	1,534,840	1,551,575
Adjusted to accord with US GAAP *(6)*						
Net income per share *(9)*						
Basic	**2.38**	**1.82**	1.71	2.30	2.11	1.03
Diluted *(10)*	**2.34**	**1.79**	1.71	2.22	2.06	1.02
Dividends per ADS (US$) *(5) (13)*	**n/a**	**n/a**	6.13	6.03	4.12	3.51
Dividends as percentage of net income (%)	**65.02**	**65.02**	89.78	64.14	65.59	115.94

	Group				
	2005 %	2004 %	2003 %	2002 %	2001 %
Selected financial ratios					
Australian GAAP					
Average equity (ordinary shareholder funds) to average total assets (excluding statutory funds) *(14) (15)*	**6.2**	5.8	5.7	6.3	6.4
Return on average assets *(16)*	**0.9**	0.7	1.0	0.9	0.5
Return on average equity (ordinary shareholder funds) *(15) (16)*	**16.6**	14.0	18.3	15.1	9.0
Average net interest spread	**1.71**	1.94	2.18	2.39	2.34
Average net interest margin	**2.20**	2.35	2.53	2.67	2.71
Gross non-accrual loans to gross loans and acceptances	**0.35**	0.46	0.65	0.76	0.87
Net impaired assets to equity (parent entity interest)	**2.5**	3.5	5.0	5.7	6.0

Total provisions for doubtful debts to gross impaired assets	**235.8**	198.1	138.0	141.5	143.5
Capital risk asset ratios *(17)*					
Tier 1	**7.9**	7.3	7.7	7.6	7.5
Tier 2	**3.6**	4.3	3.3	3.7	3.9
Deductions	**(1.0)**	(1.0)	(1.4)	(1.3)	(1.2)
Total	**10.5**	10.6	9.6	10.0	10.2
Adjusted to accord with US GAAP *(6)*					
Net income as a percentage of					
Average total assets (excluding statutory funds) *(14)*	**1.0**	0.8	1.0	1.0	0.5
Average equity	**16.4**	12.2	15.8	14.5	7.7
Total equity as percentage of total assets (excluding statutory funds) *(14)*	**6.5**	6.2	6.2	6.9	7.0

	Group				
	2005 $m	2004 $m	2003 $m	2002 $m	2001 $m
Reconciliations of non-GAAP measures *(11)*					
Net profit to cash earnings before significant items reconciliation					
Net profit attributable to members of the Company	**4,132**	3,177	3,955	3,373	2,083
Adjusted for					
Net (loss)/profit attributable to outside equity interest Life insurance business	**610**	365	(16)	6	5
Net profit attributable to outside equity interest Other		9	8		
Net profit	**4,742**	3,551	3,947	3,379	2,088
Adjusted for					
Net loss/(profit) attributable to outside equity interest Life insurance business	**(610)**	(365)	16	(6)	(5)
Net profit attributable to outside equity interest Other		(9)	(8)		
Distributions on other equity instruments	**(204)**	(187)	(183)	(187)	(213)
Movement in the excess of net market value over net assets of life insurance controlled entities	**(335)**	137	160	155	(510)
Income tax expense/(benefit) on movement in the excess of net market value over net assets of life insurance controlled entities	**(10)**	(153)	40	(3)	177
Amortisation of goodwill	**98**	103	98	101	167
Cash earnings	**3,681**	3,077	4,070	3,439	1,704
Adjusted for					
Significant revenue	**(2,493)**	(993)		(2,671)	(5,314)
Significant expenses	**2,209**	1,675		3,266	6,866
Income tax expense/(benefit) on significant items	**(87)**	(298)		(189)	384
Cash earnings before significant items	**3,310**	3,461	4,070	3,845	3,640
Average ordinary shareholder funds reconciliation					
Total average equity *(refer to note 39 in the financial report)*	**31,371**	27,802	24,111	23,847	23,427
Adjusted for					
National Income Securities (average)	**(1,945)**	(1,945)	(1,945)	(1,945)	(1,945)
Preference shares (average)		(227)	(730)	(730)	(730)
Trust Preferred Securities (average)	**(975)**	(975)	(5)		
Trust Preferred Securities II (average)	**(531)**				
Outside equity interest (average)	**(4,281)**	(3,314)	(852)	(68)	(67)
Average ordinary shareholder funds	**23,639**	21,341	20,579	21,104	20,685

	Group				
	2005	2004	2003	2002	2001
Other information					
Total staff					
Full-time and part-time	**40,689**	47,025	45,206	46,642	49,710
Full-time equivalent *(18)*	**38,933**	43,517	42,540	43,202	47,597

	Group				
	2005	2004	2003	2002	2001
Exchange rates (average and closing per A$1.00)					
Average					
British pound	**0.4141**	0.4055	0.3824	0.3622	0.3626
Euro	**0.6024**	0.5970	0.5648	0.5798	0.5880
United States dollar	**0.7654**	0.7265	0.6125	0.5324	0.5227

New Zealand dollar	**1.0847**	1.1254	1.1142	1.1992	1.2474
Closing					
British pound	**0.4326**	0.3973	0.4072	0.3474	0.3354
Euro	**0.6329**	0.5799	0.5850	0.5528	0.5393
United States dollar	**0.7617**	0.7149	0.6804	0.5440	0.4928
New Zealand dollar	**1.0991**	1.0682	1.1446	1.1565	1.2135
United States dollar (per A$1.00)					
Average *(19)*	**0.7655**	0.7263	0.6167	0.5329	0.5181
September 30	**0.7643**	0.7244	0.6797	0.5628	0.4946

On November 11, 2005 the noon buying rate was US$0.7309 per A$1.00.

	Group 2005					
	November	October	September	August	July	June
United States dollar (per A$1.00)						
High	0.7444	0.7636	0.7750	0.7743	0.7654	0.7809
Low	0.7271	0.7479	0.7559	0.7491	0.7393	0.7495

(1) Includes amounts relating to National Europe Holdings (Ireland) Limited, the immediate parent entity of National Irish Bank Limited and Northern Bank Limited, to February 28, 2005. The Group sold this entity on February 28, 2005.

(2) Translated at the noon buying rate on September 30, 2005 of US$0.7643 = A$1.00.

(3) 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.

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

(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 the dividend amounts for a year divided by cash earnings before significant items. Refer to page 8 for a reconciliation of cash earnings before significant items and page 70 for an explanation of non-GAAP financial measures .

(6) Net income, total assets and total equity adjusted to accord with US GAAP for 2004 and 2003 have been restated. Refer to note 56 for further information. Where net income, total assets and total equity are used to calculate a financial ratio, comparative information has been restated for 2004 and 2003. Comparative information for periods prior to 2003 has not been restated as it is impracticable to do so.

(7) The calculation to determine the market risk capital component of risk-weighted assets at September 30, 2005 and 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.

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

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

(10) The 2001 dilutive calculations have been restated to exclude certain anti-dilutive potential ordinary shares that were previously included, in order to comply with Australian Accounting Standard AASB 1027 Earnings per share and US Accounting Standard FAS 128 Earnings per share .

(11) Refer to page 70 for explanations of non-GAAP financial measures .

(12) 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.

(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. The 2005 final dividend of $0.83 per ordinary share is not payable until December 19, 2005. Accordingly, the total US dollar dividend per ADS for 2005 cannot be determined until that date.

(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 in the financial report for detailed discussion of the separation of assets from the Group s total assets.

(15) Refer to page 8 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 48).

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

(19) 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 24 floor, 500 Bourke Street, Melbourne Victoria 3000, Australia. The Company operates under the requirements of the *Banking Act* 1959 (Cth) and the *Corporations Act* 2001 (Cth).

Globally, as at September 30, 2005, the Group had:

- total assets of $420 billion;
- $91 billion in assets under management and administration;
- $425 billion in funds under custody and investment administration; and
- 7.7 million banking customers and 2.3 million wealth management customers.

Strategy and corporate principles

The Group has a clear and simple strategy to improve performance and generate sustainable returns to shareholders.

In 2004, a new Board and a new management team were appointed. A new strategy was developed that has focused on four key drivers simplifying the business, delivering sustainable revenue growth, driving culture change and improving compliance.

In 2005, the Group s focus was on stabilising the performance of the regional and global businesses. Good progress has been made in this direction but more work is required in some areas.

Going forward, the Group will move to build capability in each region with the ultimate aim of being truly competitive in all markets in which it operates.

A new set of corporate principles has also been established to ensure that new thinking and new actions are aligned with strategy. The five principles are:

we will be open and honest;

we take ownership and hold ourselves accountable (for all 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 number of action plans have been established to ensure that these principles are embedded and result in improved company performance. The Group is on track to implement each of these action plans.

Business operating model

The business operating model is run along regional lines of business as follows:

Total Australia comprises Australian Banking and Wealth Management Australia;

Total United Kingdom comprises United Kingdom Banking and Wealth Management United Kingdom;

Total New Zealand comprises New Zealand Banking and Wealth Management New Zealand; and

Institutional Markets & Services (global).

This is supported by the Group s Other business segment which includes streamlined functions that support all the regional businesses and comprises Group Funding and Corporate Centre activities.

Total Australia

The Total Australia region of the Group provides a broad range of banking and wealth management products and services that help its banking and wealth management customers fulfil their aspirations.

As well as lending and deposit taking, Total Australia includes the Australian acquiring, cards, custody and other transactional banking operations, as well as its wealth management activities in both Australia and Asia. In addition to these activities, Total Australia encompasses HomeSide-branded products, the Custom Fleet business, National Australia Trustees, as well as various financial planning dealerships.

Total Australia incorporates an extensive distribution network to service customers at a location convenient to them. At September 30, 2005, there were 87 integrated financial service centres (catering for customers financial advice needs), 220 business banking centres, 108 agribusiness locations, 19 private banking suites, 786 branches and agencies, and over 3,000 Australia Post GiroPost outlets.

Electronic distribution also provides customers with the choice to meet their financial needs via the internet, over the telephone, through more than 1,282 automatic teller machines (ATM) as at September 30, 2005, or through an extensive network of electronic funds transfer point of sale (EFTPOS) terminals. There were over 1 million registered internet banking customers at September 30, 2005.

At September 30, 2005, Total Australia had 22,136 full-time equivalent employees.

2005 was a pivotal year for the future success of the Group in Australia, as the business responded to the challenges that emerged during the 2004 year. Key actions taken by management during the reporting period included:

integrating wealth management and banking operations in a single division to reduce back-office duplication and facilitate cross-selling;

restructuring the region into distribution, product and support businesses to better reflect how customers choose to interact with the Group;

establishing a strong regional leadership team with a balance of external and internal appointments;

improving service standards and turnaround times;

addressing uncompetitive credit settings and restructuring front-line incentive payments to re-energise sales;

introducing new products and packages; and

making significant progress on regulatory and compliance projects, such as International Financial Reporting Standards (IFRS), Sarbanes-Oxley, and Basel II Capital Accord.

These actions have helped to stabilise the business and successfully reignited volume growth, particularly in lending with sound growth in core home and business lending during the year. Wealth Management continues to benefit from strong underlying industry trends and investment returns.

These actions have also driven significant cultural and behavioural change within the Total Australia region. Recent internal surveys have highlighted significant improvement in customer focus and in employees having clarity about what they need to do to help the region meet its goals and objectives.

Customer satisfaction has risen due to the Group s commitment to improving the customer experience in the front line through branch refurbishment and service improvement.

The focus is now on rebuilding the business to help our customers fulfil their aspirations and to deliver the service, relationships and innovation that customers value.

Four key themes will guide this rebuilding phase:

being a customer-centric organisation and supporting employees in delivery of a superior customer experience;

ensuring cost competitiveness through simplification of core processes and increasing quality;

rebuilding critical infrastructure; and

taking a portfolio view of the business to ensure a balance of current profit producers and future growth options.

Total Australia consists of the following divisions:

Business and Private Banking

The Business and Private Banking operation is a market leader in the provision of lending, deposit, transaction and merchant services to businesses and high net worth individuals in Australia. Its success is based on trusted relationships with its over 800,000 customers built on an understanding of their financial needs and banking teams with specialist knowledge. It also provides wealth management products and services to customers.

The Company is Australia s largest business lender with a market share of 18.6% (source: RBA financial system, company data, September 2005), and largest business deposit-taker with a market share of over 26.0% (source: APRA banking system, company data, September 2005).

Business sales campaigns during the year have, so far, shown improved retention rates and boosted customer product holdings. Also a wealth management campaign during 2005 has substantially increased the number of financial planners.

Growth has been driven by an increased awareness of specialist value creation and a change in performance management frameworks to maximise cross-selling opportunities.

Significant effort has been expended in process and systems improvements and ensuring that front-line staff have the right tools to focus on sustainable growth. This effort will continue during the 2006 year.

Improvement of the service and support offered to business customers continues with the development of a new internet banking platform. The business plus line and decision tools for commercial security have been rolled out to enable more on the spot decision making. Ongoing innovation in transaction banking products continues to attract and retain new clients.

Other key focus areas include a redesign of the relationship management model, reinforcing sales capability, customer retention, growing deposits, cross-sales and industry specialisation.

Retail Banking

Retail Banking provides lending, deposit and transaction services to approximately 3.2 million retail customers through an extensive physical distribution and virtual distribution network.

Product initiatives continue to be developed to enhance the Group s product offerings and boost sales through targeted campaigns, including:

expansion of low document home lending;

addressing deposit product gaps with the introduction of a high-yield internet account in September 2005;

introduction of low rate and Commonwealth Games credit cards; and

risk-based pricing for non-standard mortgage lending.

Key focus areas have included the establishment of an enhanced local market operating model, revitalising branches, improved support for front-line staff in sales and service delivery, and improving key processes essential to the customer experience.

Wealth Management (including Financial Planning and Third Party)

Under the MLC brand, Wealth Management provides investment, superannuation and insurance solutions to 1.9 million retail and corporate customers in Australia and Asia. As at September 30, 2005, Wealth Management managed approximately $85 billion on behalf of its customers.

The Financial Planning and Third Party division manages Wealth Management s relationship with its network of salaried, self-employed aligned and external financial planners, as well as mortgage brokers. The division provides a range of tools and support services to financial planners and mortgage brokers including practice management support, financial planning software, and business growth and efficiency support.

Wealth Management has more than 3,000 aligned and salaried advisers and relationships with more than 3,000 external advisers in Australia and Asia at September 30, 2005. At the same time, it has relationships with approximately 11,000 brokers.

In its core Australian market, as at June 30, 2005, MLC held the largest share of total individual risk business with a 15.4% share of inforce annual premiums (source: DEXX&R Life Analysis Report, date: June 30, 2005). At the same time, it was ranked number one in market share of master trusts, with a 16.7% market share of funds under management (source: Plan for Life Australian Retail & Wholesale Investments Market Share & Dynamics Report, date: June 30, 2005).

MLC s name has become synonymous with its multi-manager investment approach and in 2005 MLC celebrated its 20th anniversary as a multi-manager. MLC is the fourth largest manager of managers operation in the world (source: Cerulli Associates Global Multi-manager Products Quantitative Update, 2005).

In 2005, principal activities shifted from integration restructuring to utilisation of the regional model to promote business strategies and deliver improved outcomes for customers. Major achievements in 2005 included completing the roll-out of Adviser Central (a new integrated advice platform for financial advisers) and the launch of a number of new products on the MasterKey Custom platforms to provide greater flexibility for customers as they near retirement.

Wealth Management has also made significant progress on the Australian Securities and Investments Commission (ASIC) and Australian Prudential Regulation Authority (APRA) regulatory undertakings and has largely completed the compensation program for investors in a number of products that were adversely affected by October 2001 unit pricing reductions, as well as two associated historical unit pricing errors.

Asia

Total Australia is also responsible for the Group s wealth management activities in Asia and from October 1, 2005 will also be responsible for the Group s retail banking in Asia.

During the year, the Group consolidated its Asian footprint, using Hong Kong as its main base and established an Asian Management Board to oversee operations and consider emerging opportunities in the region.

The focus in Asia is now on operating in a way that better utilises capital and reduces risk, developing liability and investment opportunities, and supporting Australian customers doing business in Asia.

Refer to page 35 for detailed information of the financial performance of Total Australia.

Total United Kingdom

Total United Kingdom, consisting of UK Banking and Wealth Management UK, is the retailing arm of the Group that provides financial solutions to approximately 2.7 million customers in the UK. At September 30, 2005, UK Banking and Wealth Management UK had 9,480 full-time equivalent employees.

The Group s retail activities in the UK operate under two brands, Clydesdale Bank and Yorkshire Bank. Clydesdale Bank has also opened a network of Financial Solutions Centres in the south of England.

Clydesdale Bank was established in 1838 in Glasgow, has a long history of support for Scottish industries and communities, and has been part of the Group since 1987. With 203 branches at September 30, 2005, 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 business capability. Yorkshire Bank was acquired by the Group in 1990 and had 222 branches at September 30, 2005.

Each bank offers a broad range of financial products and services to both retail and business customers. Complimenting this are the products and services provided by Wealth Management and Institutional Markets & Services, offering customers a further range of financial solutions.

In December 2004, the Group completed the legal entity merger of Clydesdale and Yorkshire Banks in order to reduce associated corporate and support infrastructure costs.

Northern Bank Limited and National Irish Bank Limited were sold on February 28, 2005, to Danske Bank A/S *(refer to other on page 14 for further information).* The Group is providing 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 are being provided at cost and are expected to be in place for up to 18 months from the date of sale.

At September 30, 2005, the Group s UK distribution network comprised 425 branches and 78 Financial Solutions Centres, supported by two customer contact centres, internet banking, telephone banking and 923 ATMs.

On March 30, 2005, the Group announced a provision of $266 million to cover costs of restructuring initiatives including the streamlining of operations, reductions in staffing levels and the reconfiguration of its distribution networks. The restructuring will lead to a total reduction of approximately 1,700 positions across the UK over a 12-to-18 month period, together with the closure of approximately 60 Clydesdale Bank branches and 40 Yorkshire Bank branches, of which 22 have been closed at September 30, 2005. This decision reflected the changing needs of customers and the different ways in which they are banking. Other initiatives that resulted from the review included:

the realignment of the Total UK high street branch presence to reflect changing customer usage and needs, including the establishment of over 50 flagship branches in key centres, which will also offer banking services to the micro-business segment. By September 30, 2005, 57 of these flagship branches had opened;

investment to upgrade the internet banking platform with migration to the new platform commencing in late 2005;

investment to upgrade ATM software as well as continued expansion of the ATM network which has seen over 50 ATMs added;

upgraded telephone banking services with a drive to complete call sweeping for all branches; and

the provision of account access at any of the UK s approximately 14,000 Post Offices outlets.

During the year, the Financial Solutions Centre concept was extended into Scotland and Northern England and, as at September 30, 2005, 46 centres were operating in this area, the remaining 32 having been opened across the south of England. Financial Solutions Centres offer integrated business and private banking services to small-medium sized business customers.

Expansion into the mortgage intermediary market continued with the marketing of Clydesdale Bank branded mortgage products through third party distributors. As at September 30, 2005, more than 300 relationships have been established, including with many of the UK s leading brokers.

Work continued to improve productivity and the standardisation of processes and business operating models. Further 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 an offset mortgage product. Another area of focus is the rationalisation of suppliers to deliver enhanced purchasing power.

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.

Refer to page 37 for detailed information of the financial performance of Total United Kingdom.

Total New Zealand

Total New Zealand consists of New Zealand Banking and Wealth Management New Zealand, and at September 30, 2005 had 4,645 full-time equivalent employees.

New Zealand Banking includes Custom Fleet s New Zealand operations and the retail banking arm of the Group in New Zealand, which operates under the Bank of New Zealand (BNZ) brand. The retail banking operation which provides financial solutions for the Group s 1.1 million customers in New Zealand at September 30, 2005, is the primary component of the Total New Zealand financial result. Wealth Management New Zealand had approximately 300,000 customers based on accounts and policies at September 30, 2005.

The Group acquired BNZ in 1992. BNZ is one of the largest financial service providers in New Zealand and has an increasingly strong brand position with comprehensive coverage in a very competitive New Zealand market.

BNZ has strong market share positions in business, agribusiness and cards. A major component of BNZ s longer-term strategy is to drive growth in key personal market segments of housing, small-medium enterprises (SMEs) and youth. During the year, BNZ had success growing housing market share with its Unbeatable home loan campaigns and launched innovative new products for the SME market.

The 2005 year saw BNZ reinvest further in its people, products and infrastructure. This continued investment in the franchise has seen gains in customer satisfaction, brand awareness and BNZ winning numerous awards for its Customer Contact Centres in recent times. As a principal partner of the New Zealand 2006 Commonwealth Games team in Melbourne, BNZ has further enhanced its brand awareness and reinforced its values of leadership, empowerment and performance.

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. This, together with the strategic decision to discontinue the broker distribution channel, reflects BNZ s vision to empower its customers with a range of convenient and cost-effective channels.

The distribution network at September 30, 2005 comprised of 179 outlets, 398 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 250,000 registered users as at September 30, 2005.

Refer to page 38 for detailed information of the financial performance of Total New Zealand.

Institutional Markets & Services

Institutional Markets & Services (IMS) provides debt financing, financial risk management and investor services and products to the Group s customers, and is responsible for relationship management of financial institutions on a global basis and selected corporate relationships.

IMS has operations in Australia, the UK, New Zealand, US and Asia. At September 30, 2005, IMS had 1,993 full-time equivalent employees.

The business has made considerable progress in addressing risk systems and procedures in accordance with APRA s remedial actions and the ASIC enforceable undertaking. A key outcome was the re-opening in May 2005 of the foreign currency options trading desk. The Group is also progressing with its internal model re-accreditation. The business continues to focus on a proactive approach to risk management and regulatory compliance.

In line with the broader group, the IMS cultural change agenda was underpinned by a range of initiatives, including the implementation of a leadership development program and a new incentive compensation scheme.

IMS is undertaking a comprehensive transformation of its leadership, structure, culture, product offering, systems and processes. It includes a realignment of IMS global presence and significant investment back into the business. This program will drive the way IMS does business.

A key part of the transformation program involved re-basing the business to create a platform for growth by focusing on key segments in core markets. In May 2005, IMS announced plans to realign its activities in Asia to release capital in assets that were generating low returns, and focus on markets where the Group can build long-term, sustainable growth. This involved consolidating operations in South Korea, Malaysia, Japan and Singapore to a regional hub in Hong Kong. In August 2005, IMS aligned its UK large and mid-size corporate banking segments to focus on core corporate and middle market client relationships.

IMS has a number of initiatives underway to streamline and improve its operational platform. These include the centralisation of service functions, the automation of manual processes and the introduction of One Name Trading, where trades can be booked in one name globally.

The Group achieved a number of accolades and awards during the year, including: number one mandated arranger of Australasian project finance loans for the nine months to September 30, 2005 (Dealogic Project Finance Review, date: October 2005); number one for Australian loan syndications to June 30, 2005 (source: Thomson Financial, date: second quarter 2005); best provider of domestic foreign exchange services in Australia in 2005, for both the corporate and financial institutions categories (source: Asiamoney, date: September 2005); and Vanilla Bond House of the year (source: Insto Magazine, date: January 2005).

IMS consists of the following divisions:

Global Markets

Focuses on traded products and financial risk management solutions. Provides foreign exchange, money market, commodities and derivatives products globally through a dedicated 24-hour dealing capability.

Portfolio Management & Syndications

Acts as a manager and arranger of loan syndications which provide debt facilities for clients seeking funding for various transactions. It is also responsible for managing the return on capital used to support loan transactions.

Credit Products

Provides clients with a range of short-term working capital and medium-to long-term facilities across a range of currencies.

Structured Products

Comprises global structured finance, securitisation, structured property, alternative investment products and strategic transactions businesses.

Financial Institutions

Manages the Group s relationships with banks, investment banks, insurance companies, fund managers, governments and supranational borrowers and diversified finance companies.

Services

Responsible for the management of the IMS platform, including technology, operations, quantitative support, marketing and corporate affairs.

Refer to page 39 for detailed information of the financial performance of Institutional Markets & Services.

Other

The Group s Other business segment includes streamlined functions that support all the regional businesses and comprises Group Funding and Corporate Centre activities. Group Funding acts as the central vehicle for movements of capital and structural funding to support the Group s operations. Corporate Centre activities include the following non-operating units Financial & Risk Management, People & Culture, and Group Development.

Sale of Northern Bank Limited and National Irish Bank Limited

On February 28, 2005, the Group sold the shares of National Europe Holdings (Ireland) Limited, the immediate parent entity of Northern Bank Limited and National Irish Bank Limited (Irish Banks), to Danske Bank A/S for $2,493 million in cash, generating a profit on sale after all disposal costs, including taxation, of $1,043 million.

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 including insurance, investments and superannuation (pensions).

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 margin 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.

Regulation of the financial services system

Australia

APRA is the prudential regulator of the Australian financial services industry, including authorised deposit-taking institutions (ADIs), life and general insurance companies, reinsurance companies, friendly societies and most members of the superannuation industry. ADIs are bodies corporate such as banks, credit unions and building societies that are authorised by APRA to conduct banking business in Australia.

The Reserve Bank of Australia (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 and consumer protection in superannuation, insurance and deposit taking.

ASIC has granted the Group its 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. *For a discussion of enforceable undertakings given by the Company to ASIC, refer to the report of the directors on page 105.*

The Australian Competition and Consumers Commission (ACCC) administers the *Trade Practices Act* 1974 (Cth). The ACCC promotes competition and fair trade in the market place 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.

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). The *Banking Act* 1959 (Cth) also provides for the disqualification and removal of certain persons from acting as a director or senior manager of an ADI.

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, business continuity management, funds management and securitisation, and risk management of credit card activities. APRA has issued draft prudential standards covering governance and fit and proper requirements with the latter including proposals for a definition of responsible persons . These draft prudential standards, when finalised, will provide a range of minimum corporate governance standards and director and senior manager probity requirements to be applied by APRA regulated institutions. Further, APRA is in the process of fully updating its suite of capital adequacy standards to reflect the introduction of the Basel II Capital Accord framework (*refer to further discussion under changing regulatory environment on page 16*).

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 48 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 risk management systems established to monitor and manage the key risks facing the ADI group.

Under APRA s prudential framework, 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 workout situation. Further, under section 63 of the *Banking Act* 1959 (Cth), 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 and responsible entities of managed investment schemes. As with ADIs, APRA undertakes both off-site and on-site assessment of this activity at both a Wealth Management group and individual entity/business line level. APRA s industry focus over the past year has been on the re-licensing of approved trustees.

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 the UK are subject to supervision by the Financial Services Authority (FSA). The Group s banking subsidiary in New Zealand is subject to supervision by the Reserve Bank of New Zealand (RBNZ). In other offshore areas of banking and wealth management activity, the Group is subject to the operating requirements of relevant local regulatory authorities.

The local UK regulatory frameworks are broadly similar to those in force in Australia, which incorporate risk-based capital adequacy guidelines in accordance with the framework developed by the Basel Committee on Banking Supervision. The FSA also regulates the Group s UK wealth management operations, and is responsible for maintaining market confidence, promoting public awareness, protecting customers and reducing financial crime. The FSA has also introduced over the past year, comprehensive frameworks addressing the provision of mortgage and general insurance.

In New Zealand, 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 branch in the Asian region is in Hong Kong. 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. The Group also conducts wealth management operations in Hong Kong, and is regulated by the Hong Kong Insurance Authority and the Securities Futures Commission.

In the United States (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.

Anti-money laundering

In most countries in which the Group operates, measures have been adopted to combat use of the financial system for money laundering, as well as to restrict the financing capacity of terrorists and their organisations. 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.

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.

***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, all of the disclosure requirements introduced by CLERP 9 have taken effect for the Group in 2005.

APRA fit and proper and governance standards

APRA s draft fit and proper prudential standard requires ADIs to have in place a board approved fit and proper policy. Assessments of fitness and proprietary against a number of criteria must be applied to persons prior to their appointment to a responsible person position. The draft standard also requires material or strategically important subsidiaries of ADIs to comply with these requirements.

APRA s draft governance standard is intended to ensure that board members have access to appropriate independent expertise and that the composition of the boards of ADIs reflects the need for both appropriate independent oversight and industry experience. The draft governance standard stipulates specific requirements for the composition of ADI boards with respect to size, independence and board renewal. ADIs must also establish board audit and board risk committees, and have an independent internal audit function. In addition, the standards also contain provisions regulating the independence of external auditors.

Basel II Capital Accord

In 1988, the Bank for International Settlements (BIS) developed the Basel Capital Accord that set 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 is expected to commence in Australia at the start of calendar year 2008.

The new framework proposes changes to the measurement of banks minimum regulatory 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).

APRA has released draft prudential standards in conformity with Basel II. The draft standards released contain the framework for determining capital requirements for credit risk and operational risk using either standardised regulatory methods, or more sophisticated internal model based approaches. APRA is expected to issue further draft Basel II prudential standards in relation to market risk, interest rate risk in the banking book, securitisation, supervisory review process and market discipline.

Consistent with APRA requirements, the Group has submitted its application for Basel II accreditation. This forms part of an accreditation process that will continue through to calendar year 2007.

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 equivalents 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 has evaluated the impacts of the relevant AIFRS. *Refer to note 2 in the financial report for information on the impact of the adoption of AIFRS by the Group*.

Payment system reforms in Australia

In February 2005, the RBA released a consultation document for EFTPOS and Visa that contains a draft standard that significantly reduces interchange fees for both these payment instruments.

Members of the Australian Payments Clearing Association have also been working with the RBA on revised access arrangements to the EFTPOS system for some time. This work has now moved to a phase of engagement between organisations that will become access providers, and between existing access providers and the RBA, with a view to finalising the access code and other elements of the access regime.

RBNZ outsourcing policy

Following its consultation paper released in November 2004, the RBNZ subsequently released a draft outsourcing policy in October 2005. Discussions are underway with the RBNZ to determine the practical effect of the draft policy s requirements on the present configuration of outsourced services. It is anticipated that the outsourcing policy will be finalised in the final quarter of 2005.

UK domestic reforms to retail financial services regulation

There have been substantial policy reforms underway in the UK initiated by the UK Government and the UK FSA. These include depolarisation (easing restrictions on the alignment between financial advisers and product issuers), reforming soft commission rules and extending regulation to general insurance and mortgage business.

Mortgages have been subject to FSA regulation since October 2004. The Group has re-engineered its platforms in the UK to streamline compliance with pre-sale and post-sale regulation of mortgages that came into effect at that time.

General insurance has also come within the ambit of the FSA 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.

UK **Consumer Credit Act 1974**

The provision of credit to personal consumers in the UK has been regulated since 1974 by the *Consumer Credit Act* 1974 (CCA). The CCA regulates all aspects of lending to consumers including advertising, documentation and default procedures. The CCA regulations were updated in October 2004 and May 2005, the objectives being to introduce clearer and fairer advertising, to provide borrowers with more comprehensive information about the credit for which they are applying and to introduce more equitable ways of charging customers who wish to settle loans early. To ensure compliance with the regulations, the Group has updated all its consumer credit advertising material and re-engineered its systems and procedures to introduce new forms of documentation and a revised method of calculating early settlement amounts on fixed rate loans.

Further changes to consumer lending legislation are planned with the enactment of the *Consumer Credit Bill* in 2006 or 2007.

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

Taking effect in the 2006 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 management s assessment of the effectiveness of internal control over financial reporting and must be audited. The Group has a 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 2005, 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. In December 2004, the Group completed the legal entity merger of Clydesdale and Yorkshire Banks in order to reduce associated corporate and support infrastructure costs.

On February 28, 2005, the Company completed the sale of 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 page 30.*

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

Description of property

The Group operates around 1,828 outlets and offices worldwide, of which 55% are in Australia, with the largest proportion of the remainder being in the UK. Approximately 14% of the 1,828 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 2006 year.

On February 26, 2004, the Company announced that it had received a document request from the US 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 auditor 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 unauthorised trading matter and HomeSide US.

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 information on the in principle heads of agreement settlement by the Company with the Australian Taxation Office of a tax dispute in relation to the TrUEPrS^{SM} capital raising transaction, refer to note 5(a) in the financial report. For further information on contingent liabilities of the Group including disputes with the Australian Taxation Office and the New Zealand Inland Revenue Department, 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 US SEC.

From time to time, the Company has engaged major accounting firms to furnish employees to supplement its own staff in performing services for the Group. The Company has no centralised method to identify such employees; however, during 2003 and prior years, KPMG employees performed non-audit services for the Group, including loan reviews in the Credit Restructuring unit in Australia and in the tax and internal audit functions, while on secondment to entities within the Group. KPMG was the external auditor of the Company until January 31, 2005. All KPMG internal audit secondments were terminated by the end of the 2002 year and all KPMG secondments ceased from around the end of the 2003 year. 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.

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 Company and KPMG have also provided information about these services to Australian regulators and the SEC.

The Company has received a 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.

KPMG has also informed the Company and the SEC that during the 2004 year, 12 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 reperformance 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, and legal services provided to the Group by a UK law firm formerly affiliated with KPMG.

Effective for the Company s 2005 year, Ernst & Young became the Company s external auditor.

The SEC Division of Enforcement has also requested information about the Company s investment in HomeSide US, which resulted in the recognition of a $1,323 million (after tax) impairment loss on mortgage servicing rights (MSRs), $1,436 million provision for changes in valuation assumptions to reduce the carrying value of the MSRs to an estimated market sale value and a $858 million goodwill write-down 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 unauthorised foreign currency options trading announced in January 2004. *For a discussion of the foreign currency options trading losses, refer to the report of the directors on page 105 and disclosure controls and procedures and internal control over financial reporting on pages 65 to 66*. 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 timeframes. 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 of financial performance

	Group		
	2005 $m	**2004 $m**	**2003 $m**
Net profit attributable to members of the Company	**4,132**	3,177	3,955
Adjust for significant items:			
Significant revenue	**(2,493)**	(993)	
Significant expenses	**2,209**	1,675	
Attributable income tax benefit	**(87)**	(298)	
Significant items after tax	**(371)**	384	
Net profit attributable to members of the Company before significant items	**3,761**	3,561	3,955
Net profit attributable to members of the Company	**4,132**	3,177	3,955
Adjust for:			
Distributions on other equity instruments	**(204)**	(187)	(183)
Significant items after tax	**(371)**	384	
Movement in the excess of net market value over net assets of life insurance controlled entities	**(335)**	137	160
Attributable income tax (benefit)/expense	**(10)**	(153)	40
Amortisation of goodwill	**98**	103	98
Cash earnings before significant items	**3,310**	3,461	4,070

Year ended September 30, 2005 compared with year ended September 30, 2004

Net profit attributable to members of the Company of $4,132 million in 2005, increased $955 million or 30.1% compared with 2004. Net profit of $4,742 million in 2005, increased $1,191 million or 33.5% compared with 2004.

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

net profit of $1,043 million on the sale of Northern Bank Limited and National Irish Bank Limited (Irish Banks) on February 28, 2005;

restructuring costs of $606 million;

provision for settlement of tax dispute on TrUEPrS^{SM} of $97 million;

reversal of a provision in relation to foreign currency options trading losses, of $24 million; and

reversal of prior year restructuring provisions of $7 million.

The 2004 result included $384 million (after tax) of net significant expenses.

Net profit attributable to members of the Company before significant items of $3,761 million in 2005, increased $200 million or 5.6% compared with 2004. Cash earnings (before significant items) of $3,310 million in 2005, decreased $151 million or 4.4% compared with 2004.

Net interest income of $7,082 million in 2005, was $109 million or 1.5% lower than 2004. This result reflects the loss of net interest income from the sale of the Irish Banks and a decrease in the net interest margin from 2.35% to 2.20%, partly offset by growth in housing lending and improved business lending. The fall in margin largely resulted from the continued strong growth in lower margin mortgages and fixed rate lending within the retail banking business in all regions, as well as a reduction in contribution from the Markets division of Institutional Markets & Services, reflecting a flat yield curve environment.

Net life insurance income increased by $660 million from $1,012 million in 2004 to $1,672 million in 2005. This was driven by an increase in investment earnings resulting from the continued strong performance in global equity markets and favourable claims experience, partly offset by a decrease in premium revenue and an increase in policy liabilities.

Other banking and financial services income of $5,102 million in 2005, was $271 million or 5.6% higher than 2004. This outcome reflects:

profit from the sale of UK property transactions in September 2005;

growth in loan fees from banking, reflecting bill fee growth in Australia and the impact of growth from introduction of third party distribution channels and expansion of the integrated financial solutions centres in the UK;

growth in trading income reflecting an improved trading environment, resulting in increased activity in foreign exchange and interest rate derivatives;

growth in fees and commissions reflecting higher activity in the master custody and cards businesses;

growth in other income relating to transitional service income from Danske Bank A/S connected to the sale of the Irish Banks;

growth in management fee income in wealth management products, partly offset by:

lower dividend income following the sale of investments in 2004; and

the impact of the sale of the UK custodian business to the Bank of New York in September 2004.

The movement in the excess of net market value over net assets of life insurance controlled entities was a profit of $335 million in 2005, an increase of $472 million as compared to a loss of $137 million in 2004. This has been impacted by the effect of assumption and experience changes underlying the valuation.

Personnel, occupancy-related and general expenses of $7,304 million in 2005, were $492 million or 7.2% higher than 2004. This outcome reflects:

growth in personnel expenses (excluding superannuation) reflecting higher annual salaries net of a reduction in average staff numbers, and higher performance-based remuneration in the 2005 year;

higher superannuation expenses due to a superannuation contribution holiday in Australia reducing the prior year superannuation expense;

higher occupancy-related costs as a result of annual rent increases and the full occupation of the second Docklands building in Melbourne;

costs of $56 million associated with the Northern Bank Limited robbery in December 2004;

costs of $49 million awarded against the Group associated with the outcome of a legal action in South Korea;

growth in general expenses relating to the provision of transitional services to Danske Bank A/S connected to the sale of the Irish Banks; and

an increase in non-lending losses, primarily reflecting costs associated with customer overcharging for the Choice package, BAD tax and fixed rate interest-only loans.

The charge to provide for doubtful debts of $534 million in 2005, was $25 million or 4.5% lower than 2004, due to reduced statistical provision charges arising from the exiting of low-yielding assets in Institutional Markets & Services, partly offset by strong volume growth.

Income tax expense relating to ordinary activities of $1,797 million in 2005, was $607 million or 51.0% higher than 2004, reflecting higher profits before tax and increased tax expense attributable to the statutory funds of the life insurance business. In addition, in 2005, income tax expense has been impacted by a one-off tax benefit of $289 million in relation to the non-assessable profit on the sale of the Irish Banks and non-assessable income of $110 million relating to wealth management revaluation income. This was partly offset by the significant income tax item in respect of the provision for the settlement of a tax dispute with the Australian Taxation Office of $97 million in respect of the TrUEPrS[SM] tax matter. Income tax expense is also impacted by wealth management products and international activities, to which a wide range of tax rates are applied.

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.

The 2004 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 Institutional Markets & Services.

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 reflected:

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 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 election to consolidate under the Australian tax consolidation regime.

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

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 Capital Accord and International Financial Reporting Standards;

higher occupancy-related 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

$26 million write-off of development work associated with the Integrated Systems Implementation program.

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 was 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 was 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.

Adjusted to accord with US GAAP

Adjusted to accord with US GAAP, consolidated net income for the year to September 30, 2005 was $3,908 million compared to $2,781 million in 2004 and $3,667 million in 2003. *Refer to note 56 in the financial report for additional information on the reconciliation with US GAAP and other US GAAP disclosures.*

Summary of financial position

	Group		
	2005 $m	**2004 $m**	**2003 $m**
Assets			
Cash and liquid assets	**8,430**	8,080	8,405
Due from other financial institutions	**15,477**	23,494	29,234
Due from customers on acceptances	**27,627**	16,344	19,562
Trading derivatives	**13,959**	17,939	23,644
Trading, available for sale and investment securities	**27,280**	40,371	38,884
Life insurance business investments	**50,500**	41,013	35,846
Loans and advances	**260,053**	247,836	225,735
All other assets	**16,262**	16,232	16,161
Total assets	**419,588**	411,309	397,471
Liabilities			
Due to other financial institutions	**36,322**	43,768	55,241
Liability on acceptances	**27,627**	16,344	19,562
Trading derivatives	**12,407**	16,150	21,479
Deposits and other borrowings	**209,079**	219,028	198,483
Life insurance policy liabilities	**42,123**	36,134	32,457
Bonds, notes and subordinated debt	**39,238**	32,573	24,257
Other debt issues	**1,559**	1,612	1,743
All other liabilities	**16,953**	15,934	17,038
Total liabilities	**385,308**	381,543	370,260
Total equity	**34,280**	29,766	27,211
Total liabilities and equity	**419,588**	411,309	397,471

September 30, 2005 compared with September 30, 2004

Total assets at September 30, 2005 increased to $419,588 million from $411,309 million at September 30, 2004. The sale of the Irish Banks on February 28, 2005 removed $16,374 million from the September 30, 2004 statement of financial position. Excluding this and the impact of exchange rate movements, total assets (in Australian dollar terms) grew $34,796 million or 9.0% during the year.

Excluding the Irish Banks, the growth in total assets was primarily driven by the growth in loans and advances, due from customers on acceptances, and life insurance business investments. This was partly offset by declines in due from other financial institutions, trading derivatives, trading securities, available for sale securities and investment securities.

Net loans and advances (excluding the impact of the sale of the Irish Banks) increased $25,299 million or 10.8% to $260,053 million at September 30, 2005. This increase primarily reflects strong growth in housing lending across all regions and solid business term lending growth, particularly in Australia.

Due from customers on acceptances increased $11,283 million or 69.0% from $16,344 million at September 30, 2004 to $27,627 million at September 30, 2005, and are offset by a corresponding increase in liabilities from acceptances. Excluding the impact of the buy-back of the Company s accepted bills, volumes have grown 15.1% from September 30, 2004. Bill acceptances continue to be a preferred product for business customers as a result of favourable pricing arrangements and flexibility.

Investments relating to life insurance business increased by $9,487 million or 23.1% to $50,500 million at September 30, 2005; however, this was largely offset by an increase in life insurance policy liabilities, which increased $5,989 million or 16.6% to $42,123 million at September 30, 2005. This growth resulted from continued strong market conditions increasing asset values.

Amounts due from other financial institutions decreased by $6,858 million or 30.7% (excluding the impact of the sale of the Irish Banks) to $15,477 million at September 30, 2005. This was driven by a reduction in reverse repurchase agreements, as well as certificate of deposits and loans held, following the Group s strategic decision to release capital invested in low-yielding assets in the Institutional Markets & Services business.

Marketable debt securities (trading securities, available for sale securities and investment securities) decreased $13,091 million or 32.4% to $27,280 million at September 30, 2005. The decrease in these securities follows the Group s strategic decision to release capital invested in low yielding assets so as to improve returns in the Institutional Markets & Services business.

Trading derivative assets decreased by $3,980 million or 22.2% to $13,959 million; however, this was offset by a decrease in trading derivative liabilities, which decreased $3,743 million or 23.2% to $12,407 million.

Total liabilities at September 30, 2005 increased to $385,308 million from $381,543 million at September 30, 2004. The sale of the Irish Banks on February 28, 2005, removed $15,272 million from the September 30, 2004 statement of financial position. Excluding this and the impact of exchange rate movements, total liabilities (in Australian dollar terms) grew $27,177 million or 7.6% during the year.

The growth in total liabilities was primarily driven by the growth in liability on acceptances (refer above), life insurance policy liabilities (refer above), and bonds, notes and subordinated debt. This offset declines in due to other financial institutions and trading derivatives (refer above).

Bonds, notes and subordinated debt increased by $6,665 million or 20.5% to $39,238 million at September 30, 2005. The Group has a number of funding programs available, and the increase reflects further issues of the Group s Euro and Domestic medium-term notes programs undertaken to fund asset growth and re-finance of maturing short-term and long-term debt. The increase also reflects the Group s current strategy of lengthening the maturity profile of the Group s debt issues.

Due to other financial institutions (excluding the impact of the Irish Banks sale) declined $5,672 million or 13.5% to $36,322 million at September 30, 2005. This decrease was driven by a reduction in repurchase agreements activity and deposits held, and is consistent with the Group s strategic decision to release capital invested in low yielding assets in the Institutional Markets & Services business, which has reduced funding requirements.

Total equity in the Group increased from $29,766 million at September 30, 2004 to $34,280 million at September 30, 2005. Total parent entity interest in equity increased by $2,156 million from $25,900 million at September 30, 2004 to $28,056 million at September 30, 2005. This reflects an increase in contributed equity of $1,295 million to $11,486 million, primarily reflecting the US$800 million ($1,014 million net of costs) issue of Trust Preferred Securities II on March 23, 2005. The movement in total equity also included an increase in retained profits of $1,388 million to $15,903 million, and an increase in outside equity interest of $2,358 million following consolidation of additional trusts and growth in life insurance assets reflecting continued strong market conditions.

September 30, 2004 compared with September 30, 2003

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 and investments relating to the life insurance business, which offsets declines in due from other financial institutions, due from customers on acceptances and trading derivatives.

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. This increase primarily reflects strong growth in housing lending across all regions and solid other term lending growth.

Investments relating to life insurance business increased by $5,167 million or 14.4% to $41,013 million at September 30, 2004; however, this was largely offset by an increase in life insurance policy liabilities, which increased $3,677 million or 11.3% to $36,134 million at September 30, 2004. This growth resulted from the consolidation of certain managed investment schemes and improved market conditions increasing asset values.

The $5,740 million decrease in due from other financial institutions primarily reflected the reduction in activity in reverse repurchase agreements.

Due from customers on acceptances decreased $3,218 million or 16.5% to $16,344 million at September 30, 2004, and was offset by a corresponding decrease in liabilities on acceptances. This decrease reflected the impact of the buy-back of the Company s accepted bills.

Trading derivative assets decreased by $5,705 million or 24.1% to $17,939 million; however, this was offset by a decrease in trading derivative liabilities, which decreased $5,329 million or 24.8% to $16,150 million.

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 (refer above) and trading derivatives (refer above).

Deposits and other borrowings increased by $20,545 million or 10.4% to $219,028 million at September 30, 2004, compared with $198,483 million at September 30, 2003. The increase primarily related 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 reflected an increase in the issue of Euro and subordinated medium-term notes, as a result of the Group s increased capital requirements.

The $11,473 million decrease in due to other financial institutions primarily reflected the reduction in activity in repurchase agreements and lower funding 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. This reflected an increase in contributed equity of $463 million to $10,191 million (2003: $9,728 million), reflecting ordinary 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. 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 following consolidation of the registered schemes of the Group s life insurance statutory funds.

Adjusted to accord with US GAAP

Adjusted to accord with US GAAP, consolidated total assets increased to $425,958 million at September 30, 2005 from $417,758 million at September 30, 2004 and $398,448 million at September 30, 2003. Consolidated net assets increased to $24,486 million at September 30, 2005 from $23,311 million at September 30, 2004 and $22,297 million at September 30, 2003. *Refer to note 56 in the financial report for additional information on the reconciliation with US GAAP and other US GAAP disclosures.*

Economic outlook

This section contains forward-looking statements. *Refer to forward-looking statements on page 4.*

Global economic conditions have moderated somewhat in 2005 but are still strong in the US, China and more generally in developing Asian economies, but remains sluggish in the Euro-zone and Japan.

Business conditions in the countries that contain the bulk of the Group s assets remain varied, with New Zealand and Australia slowing, but continuing to outperform the UK. As with elsewhere in the global economy, the main drivers of the slowdown are moderating consumer spending and weaker business investment in line with softer industrial orders, capacity utilisation and industrial production.

The global outlook is for a further slight moderation in growth during the 2006 year. Higher interest rates particularly in the US and to a lesser extent higher oil prices, are expected to continue to slow the pace of the global expansion underway. Growth is also expected to be sustained, albeit at lower levels, in the Group s main operating regions. In Australia, some moderation in household spending is expected to be offset by

gains in exports. In both the UK and New Zealand, growth is expected to slow down, mainly in response to slower domestic spending and export growth. Slower immigration may also continue to weigh on New Zealand growth.

The Group s main areas of operation continue to face similar economic risks and vulnerabilities. Sustained higher oil prices would slow the global expansion and already stretched fiscal positions especially in the US and Europe might limit any response to any increased geopolitical tensions. Finally, after rising strongly in recent years, house prices have flattened out over the past year, and are not expected to materially increase over the next year. This will mean wealth effects continue to lower consumer spending.

Net interest income

2005	$	7,082 million
2004	$	7,191 million
2003	$	7,419 million

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

Net interest income decreased by $109 million or 1.5% to $7,082 million in 2005, after a decrease of 3.1% in 2004 and an increase of 2.7% in 2003. During 2005, movements in exchange rates decreased net interest income by $19 million, after a decrease of $199 million in 2004 and $124 million in 2003. Excluding the impact of exchange rate movements, the decrease in net interest income in 2005 was 1.3%, compared with a decrease of 0.4% in 2004 and an increase of 4.4% in 2003. The decrease in 2005 reflects a decline in the average net interest margin from 2.35% to 2.20% and the impact of the sale of the Irish Banks on February 28, 2005 (the Irish Banks contributed $197 million of net interest income in 2005 compared to $506 million in 2004). These factors were partly offset by lending growth. Consistent with the 2004 year, the fall in margin was largely due to the strong growth in lower margin mortgages and fixed rate lending, continued competitive pressures, a reduction in contribution from the Markets division of Institutional Markets & Services, and an increased reliance on wholesale funding.

Volume and rate analysis

The following table allocates movements 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.

	2005 over 2004 Increase/(decrease) due to change in			**2004 over 2003 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	**32**	**25**	**57**	(10)	(3)	(13)
Overseas	**(59)**	**119**	**60**	(200)	(82)	(282)
Marketable debt securities						
Australia	**(100)**	**22**	**(78)**	255	94	349
Overseas	**84**	**80**	**164**	(122)		(122)
Loans and advances						
Australia	**1,033**	**260**	**1,293**	1,210	214	1,424
Overseas	**58**	**596**	**654**	35	(5)	30
Regulatory deposits						
Overseas		**(1)**	**(1)**			
Other interest-earning assets *(1)*	**62**	**11**	**73**	9	233	242
Change in interest income	**1,110**	**1,112**	**2,222**	1,177	451	1,628

(1) Includes interest-earning off-balance sheet derivatives.

	Average balance $m	2005 over 2004 Increase/(decrease) due to change in Average rate $m	Total $m	Average balance $m	2004 over 2003 Increase/(decrease) due to change in Average rate $m	Total $m
Interest-bearing liabilities						
Due to other financial institutions						
Australia	**58**	**15**	**73**	(75)	126	51
Overseas	**(92)**	**212**	**120**	(229)	(90)	(319)
Savings (short-term) deposits						
Australia	**8**	**46**	**54**	3	31	34
Overseas	**(52)**	**126**	**74**	(12)	12	
Other on-demand deposits						
Australia	**67**	**153**	**220**	82	30	112
Overseas	**(9)**	**87**	**78**	(12)	14	2
Term deposits and certificates of deposit						
Australia	**354**	**120**	**474**	365	313	678
Overseas	**(147)**	**603**	**456**	(17)	19	2
Government and official institution deposits						
Australia	**(14)**	**(15)**	**(29)**	1	4	5
Overseas	**(7)**	**9**	**2**	(8)	(2)	(10)
Short-term borrowings						
Australia	**18**	**48**	**66**	207		207
Overseas	**57**	**126**	**183**	31	9	40
Long-term borrowings						
Australia	**385**	**29**	**414**	148	74	222
Overseas	**(1)**	**4**	**3**	32	7	39
Other debt issues						
Australia	**(1)**	**(1)**	**(2)**	(3)	(2)	(5)
Overseas	**(30)**	**24**	**(6)**	6	(23)	(17)
Other interest-bearing liabilities *(1)*	**(638)**	**789**	**151**	(1,222)	2,037	815
Change in interest expense	**(44)**	**2,375**	**2,331**	(703)	2,559	1,856
Change in net interest income	**1,154**	**(1,263)**	**(109)**	1,880	(2,108)	(228)

(1) *Includes interest-bearing off-balance sheet derivatives.*

Average interest-earning assets for 2005 increased by $15.9 billion or 5.2% to $322.4 billion, from $306.5 billion in 2004 and $293.3 billion in 2003. *(Refer to volumes below for information.)* The impact of the volume growth on interest income was an increase of $1,110 million in 2005, after an increase of $1,177 million in 2004. This reflects a continued environment of housing lending-driven volume growth, primarily in Australia. The movement in rates over the same period resulted in an increase in interest income of $1,112 million in 2005, after an increase of $451 million in 2004. The increases in 2005 and 2004 reflect an environment of rising interest rates in Australia and the UK, with interest rates also increasing in New Zealand in the 2005 year.

Average interest-bearing liabilities increased by $12.8 billion in 2005, after increases of $11.4 billion in 2004 and $15.6 billion in 2003. The impact of the increasing volumes on interest expense was a decrease of $44 million in 2005, after a decrease of $703 million in 2004. The movement in rates over the same period resulted in an increase in interest expense of $2,375 million in 2005, after an increase of $2,559 million in 2004. The increase in interest expense reflects an increase in long-term borrowings, in Australia, reflecting the Group s current strategy of lengthening the maturity profile of the Group s debt issues, a continued increase in term deposits (primarily in Australia and New Zealand) due to more competitive pricing in 2005, an increase in certificates of deposit in Australia, and rising interest rates in all regions during the year.

Interest spreads and margins (geographical region basis)

	2005 $m	2004 $m	2003 $m
Australia			
Net interest income	**3,979**	3,822	3,792
Average interest-earning assets	**186,852**	173,071	151,225
Interest spread adjusted for interest foregone on non-accrual and restructured loans (%)	**1.75**	1.89	2.37
Interest foregone on non-accrual and restructured loans (%)	**(0.02)**	(0.02)	(0.04)
Net interest spread (%) *(1)*	**1.73**	1.87	2.33
Benefit of net free liabilities, provisions and equity (%)	**0.40**	0.34	0.18
Net interest margin (%) *(2)*	**2.13**	2.21	2.51
Overseas			
Net interest income	**3,103**	3,369	3,627
Average interest-earning assets	**142,760**	149,051	160,169
Interest spread adjusted for interest foregone on non-accrual and restructured loans (%)	**1.66**	1.91	1.86
Interest foregone on non-accrual and restructured loans (%)	**(0.01)**	(0.01)	(0.02)
Net interest spread (%) *(1)*	**1.65**	1.90	1.84
Benefit of net free liabilities, provisions and equity (%)	**0.52**	0.36	0.43
Net interest margin (%) *(2)*	**2.17**	2.26	2.27
Group			
Net interest income	**7,082**	7,191	7,419
Average interest-earning assets	**322,393**	306,500	293,318
Interest spread adjusted for interest foregone on non-accrual and restructured loans (%)	**1.73**	1.96	2.21
Interest foregone on non-accrual and restructured loans (%)	**(0.02)**	(0.02)	(0.03)
Net interest spread (%) *(1)*	**1.71**	1.94	2.18
Benefit of net free liabilities, provisions and equity (%)	**0.49**	0.41	0.35
Net interest margin (%) *(2)*	**2.20**	2.35	2.53

(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 $109 million to $7,082 million in 2005, driven by a 15 basis point decline in net interest margin to 2.20% and the impact of the sale of the Irish Banks on February 28, 2005, partly offset by a 5.2% growth in average interest-earning assets to $322.4 billion. Australian net interest income increased 4.1% to $3,979 million, with average interest-earning assets growing 8.0% to $186.9 billion and net interest margin declining 8 basis points to 2.13%. Overseas net interest income decreased by 7.9% to $3,103 million, with average interest earning-assets declining by 4.2% to $142.8 billion, and the net interest margin decreasing 9 basis points to 2.17%. The sale of the Irish Banks has been a significant driver of the decline in overseas net interest income and 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%.

Volumes

Average interest-earning assets for 2005 increased by $15.9 billion or 5.2% to $322.4 billion, from $306.5 billion in 2004 and $293.3 billion in 2003. Growth in 2005 and 2004 was primarily driven by growth in loans and advances in Australia, which increased by $14.7 billion or 10.2% (2004: $17.5 billion or 13.9%). Loan growth in 2005 and 2004 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 15 basis points to 2.20% in 2005, from 2.35% in 2004 and 2.53% in 2003. The decrease during 2005, as with the 18 basis point decrease in 2004, was primarily driven by the mixed effect of the strong growth in lower margin mortgage and fixed rate lending, an increased reliance on more expensive wholesale funding, and a reduced contribution from the Institutional Markets & Services Market s division due to the impact of a flatter yield curve environment. The 2005 year was also impacted by competitive pressure on lending margins, whereas capitalised interest on a large exposure that was classified as a non-accrual loan, was reversed in the 2004 year.

The interest rate on Australian interest-earning assets increased by 17 basis points to 6.85% in 2005, from 6.68% in 2004 and 6.33% in 2003, while the interest rate on interest-bearing liabilities increased by 31 basis points to 5.12% from 4.81% in 2004 and 4.00% in 2003. The decline in net interest margin in Australia of 8 basis points in 2005 and 30 basis points in 2004 resulted primarily from the shift in the balance sheet to lower margin lending (primarily home loans and fixed rate lending), an increased reliance on wholesale funding and a reduced contribution from the Institutional Markets & Services Market s division. The 2005 year was also impacted by competitive pressure on lending margins, whereas capitalised interest on a large exposure that was classified as a non-accrual loan, was reversed in the 2004 year.

The interest rate on overseas interest-earning assets increased by 74 basis points to 5.78% in 2005 compared to 5.04% in 2004 and 5.04% in 2003, while the interest rate on interest-bearing liabilities increased by 99 basis points to 4.13% in 2005, compared to 3.14% in 2004 and 3.20% in 2003. Overseas net interest margin decreased by 9 basis points to 2.17% in 2005, following a 1 basis point decline in 2004, and primarily reflects the continued shift in product mix towards lower margin lending products, reduced lending margins due to competition and an increased reliance on wholesale funding, for both the UK and New Zealand.

Net life insurance income

2005	$	1,672	million
2004	$	1,012	million
2003	$	444	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 insurers 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 disclosure in relation to the Group s life insurance business).*

Net life insurance income increased by $660 million to $1,672 million income in 2005, from $1,012 million in 2004 and from $444 million in 2003.

Life insurance revenue increased by $2,757 million to $8,604 million in 2005 from $5,847 million in 2004 and $3,708 million in 2003. This result was impacted by an increase in investment revenue (increase of $2,856 million in 2005 and $2,083 million in 2004) reflecting continued strong improvement in the performance of global equity markets in the 2005 and 2004 years. This was offset by a corresponding increase in the

change in policy liabilities of $2,202 million to $5,570 million in 2005 from $3,368 million in 2004 and $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 decreased $99 million or 9.9% to $906 million in 2005 from $1,005 million in 2004 primarily reflecting lower annuity sales following changes in legislation which reduced the benefits of annuities taken after September 2004.

In 2004, 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.

Life insurance expenses increased by $2,097 million to $6,932 million in 2005 from $4,835 million in 2004 and $3,264 million in 2003. 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 2005 and 2004. Claims expense decreased by $112 million or 16.0% to $590 million in 2005, reflecting favourable claims expense across all products and the impact of new annuity rules in 2005. In 2004, claims expense decreased by $256 million or 26.7% due to the sale of National Australia Life Company Limited in December 2003, and a decrease in claims driven by significant surrenders in 2003 in the closed traditional life business.

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 in the 2005 and 2004 years.

Other banking and financial services income

2005	$	5,102	million
2004	$	4,831	million
2003	$	5,010	million

Other banking and financial services income includes loan fees from banking, money transfer fees, fees and commissions, trading 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 increased by $271 million or 5.6% to $5,102 million in 2005, after decreases of 3.6% in 2004 and 28.5% in 2003. Refer below for a detailed analysis of the main categories of other banking and financial services income:

Loan fees from banking

2005	$	1,506	million
2004	$	1,447	million
2003	$	1,441	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 $59 million or 4.1% to $1,506 million in 2005, after increases of 0.4% in 2004 and 5.9% in 2003. The growth in 2005 primarily reflects volume growth, bill fee growth in Australia and the impact of growth from the introduction of third party distribution channels and expansion of the Integrated Financial Solutions business model in the UK, partly offset by the impact of the sale of the Irish Banks on February 28, 2005. The flat loan fees in 2004 reflected solid bill fee income growth in Australia, offset by the impact of changing customer behaviour to avoid fees and competitive pricing across all regions.

Money transfer fees

2005	$	930	million
2004	$	983	million
2003	$	1,026	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 $53 million or 5.4% to $930 million in 2005, after a decrease of 4.2% in 2004 and an increase of 1.2% in 2003. This decrease primarily reflects the impact of the sale of the Irish Banks on February 28, 2005, as well as customers continuing to move to lower-cost transaction channels. The $43 million decrease in 2004 reflected customers moving to lower cost channels and a reduction in fees as a result of competition.

Fees and commissions

2005	$	1,224	million
2004	$	1,198	million
2003	$	1,134	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 $26 million or 2.2% to $1,224 million in 2005, after an increase of 5.6% in 2004 and 1.4% in 2003. The increase in 2005 primarily reflects higher activity in master custody fees largely driven by growth in new and existing portfolios, customer growth and increased activity in the cards businesses, partly offset by the impact of the sale of the Irish Banks on February 28, 2005 and the sale of the UK Custody Business. The increase in 2004 was 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.

Trading income

2005	$ 656	million
2004	$ 575	million
2003	$ 625	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 increased by $81 million or 14.1% to $656 million in 2005, after a decrease of 8.0% in 2004 and an increase of 11.0% in 2003. The increase in the 2005 year was driven by an improved trading environment and rising interest rates, resulting in increased activity in foreign exchange-related products and interest rate derivatives.

The decrease in 2004 reflected the 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 Institutional Markets & Services 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.

Investment management fees

2005	$ 349	million
2004	$ 321	million
2003	$ 303	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 $28 million or 8.7% to $349 million in 2005, after a increase of 5.9% in 2004 and a increase of 2.0% in 2003. The increase in both 2005 and 2004 reflects an increase in funds under management, increased trading volumes and higher sales of investment products.

Fleet management fees

2005	$ 148	million
2004	$ 131	million

2003	$ 109	million

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

Fleet management fees increased by $17 million or 13.0% to $148 million in 2005, after an increase of 20.2% in 2004 and 94.6% in 2003. The increase in 2005 and 2004 primarily reflects continued growth in the Custom Fleet businesses following acquisitions during the 2003 year. The increase in 2004 also reflected a change in the accounting treatment for vehicle registrations income during that year, with a corresponding increase in expenses.

Other income

2005	$ 289	million
2004	$ 176	million
2003	$ 372	million

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

Other income increased by $113 million or 64.2% to $289 million in 2005, after a decrease of 52.7% in 2004 and a decrease of 85.7% in 2003. The increase in 2005 reflects the profit on UK property transactions, income relating to transitional services provided to Danske Bank A/S connected to the sale of the Irish Banks and increased foreign exchange income, partly offset by lower dividend income following the sale of investments in 2004. The decrease in 2004 reflected lower dividend income as a result of the sale of shareholdings in St George Bank Limited in January 2004, and a reduction in proceeds from the sale of property, plant and equipment. In addition, the 2003 result included a one-off gain on the restructure of hedging swaps in connection with the TrUEPrS^{SM} preference shares, not repeated in 2004.

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

2005	$	335 million
2004	$	(137) million
2003	$	(160) million

Australian Accounting Standard AASB 1038 Life Insurance Business requires life insurance entities of the Group to value their investments in controlled entities at 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 profit of $335 million before tax, reflecting the movement in the excess of the net market value over the net assets of entities controlled by National Australia Financial Management Limited (NAFiM), adjusted for capital. Values shown are directors market valuations. The valuations are based on discounted cash flow valuations prepared by Tillinghast, 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	Market value $m
Net market value at September 30, 2004	1,605	2,411	4,016	2,493	6,509
Operating profit after tax *(3)*	418		418		418
Net capital transfers *(4)*	(226)	22	(204)		(204)
Increase in shareholders net assets	192	22	214		214
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		321	321		321
Change in assumptions and experience		114	114	(58)	56
Tax consolidation transfer of franking credits to the Group		(42)	(42)		(42)
Movement in the excess of net market value over net assets of life insurance controlled entities before tax *(5)*		**393**	**393**	**(58)**	**335**
Excess movements *(6)*	42	(42)			
Net market value at September 30, 2005	**1,839**	**2,784**	**4,623**	**2,435**	**7,058**

(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 (ie. it excludes the operating profit after tax from NAFiM s own business, and other entities not controlled 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 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.

(6) Excess movements represents foreign exchange impacts on the net assets of international subsidiaries and market value of intra-group debt.

The components that contributed to the $335 million profit ($345 million profit after tax) arising from the movement in the excess of net market value over net assets of the life insurance entities comprised:

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

the effect of assumption and experience changes since the previous valuation reflecting the positive impact from higher than expected investment earnings and ongoing expense control, partly offset by the impact of lower assumed margins for retail and corporate funds management products; and

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

The components that contributed to the $137 million loss ($16 million profit after tax) in 2004 arising from the movement in the excess of net market value over net assets 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 the 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 negative impact from the transfer of franking credits from NAFiM s subsidiaries.

Significant revenue

Sale of National Europe Holdings (Ireland) Limited

On December 14, 2004, the Group entered into an agreement with Danske Bank A/S in respect of the sale of all of the share capital of National Europe Holdings (Ireland) Limited. National Europe Holdings (Ireland) Limited is the immediate parent entity of Northern Bank Limited and National Irish Bank Limited (Irish Banks). The transaction settled on February 28, 2005. The profit arising from the sale was as follows:

	Proceeds from sale $m	Cost of assets sold $m	Profit on sale (before tax) $m	Income tax benefit $m	Profit on sale (after tax) $m
National Europe Holdings (Ireland) Limited	2,493	(1,416)	1,077	(34)	1,043

Under the sale agreement, warranties, primarily in relation to the businesses, were given. These warranties are of a kind usual in transactions of this nature and size. Danske Bank A/S was also given indemnities in respect of certain specified risks associated with the businesses of Northern Bank Limited and National Irish Bank Limited. Transitional services are being provided to Danske Bank A/S in respect of the Irish Banks to assist in the smooth transition of ownership of those businesses. These transitional services are being provided at cost and are expected to be in place for up to 18 months from the date of sale.

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 carrying value of $678 million, resulting in a profit on sale of $315 million (after tax).

Operating expenses

Personnel expenses

2005	$ 3,736 million
2004	$ 3,616 million
2003	$ 3,416 million

Personnel expenses increased by $120 million or 3.3% to $3,736 million in 2005, after an increase of 5.9% in 2004 and an increase of 1.1% in 2003. The increase in 2005 reflected higher annual salaries (net of a reduction in average staff numbers) from the enterprise bargaining agreement on January 1, 2005 as well as higher performance-based remuneration. The increase also reflects higher superannuation costs due to a superannuation holiday in Australia reducing the prior year superannuation expense. This has been partly offset by the reduction in staff

numbers resulting from the impact of the sale of the Irish Banks on February 28, 2005, as well as the reduction in staff numbers resulting from the restructuring initiatives undertaken by the Group during the 2005 year.

The increase in 2004 reflected market-based salary increases across regions and growth in staffing (full-time equivalent employee) levels, 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.

Occupancy-related expenses

2005	$	622 million
2004	$	591 million
2003	$	556 million

Occupancy-related expenses increased by $31 million or 5.2% to $622 million in 2005, after an increase of 6.3% in 2004 and a decrease of 0.5% in 2003. The increase in 2005 reflects appreciating rental rates as a result of annual market-based rent reviews and costs associated with the full occupation of the second Docklands building in Melbourne and a resulting increase in depreciation expense. This was partly offset by a decrease in occupancy costs resulting from the sale of the Irish Banks.

The $35 million increase in 2004 reflected appreciating rental rates as a result of annual market-based rent reviews and costs associated with the move of staff to the Australian operation s new headquarters at Docklands, Melbourne, which commenced in March 2004.

General expenses

2005	$	2,946 million
2004	$	2,605 million
2003	$	2,382 million

General expenses increased by $341 million or 13.1% to $2,946 million in 2005, after an increase of 9.4% in 2004 and an increase of 6.5% in 2003. The increase in 2005 reflects costs of $56 million associated with the Northern Bank Limited robbery in December 2004, costs of $49 million associated with the outcome of a legal action in South Korea, and an increase in non-lending losses relating to customer overcharging for Choice package, BAD tax and fixed rate interest-only loans. The increase in general expenses also reflects costs of transitional services provided to Danske Bank A/S from the sale of the Irish Banks. This was partly offset by a decrease in general expenses resulting from the sale of the Irish Banks on February 28, 2005.

The 9.4% increase in 2004 reflected the large growth in advertising costs, including costs associated with the sponsorship of the 2006 Commonwealth Games in Melbourne and new product launches. It was also impacted by higher professional fees and other expenses associated with industry-wide regulatory reforms such as Basel II Capital Accord, International Financial Reporting Standards, *Financial Services Reform Act* 2001 (Cth), and the US *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.

Charge to provide for doubtful debts

2005	$	534 million
2004	$	559 million
2003	$	633 million

The total charge to provide for doubtful debts decreased by $25 million or 4.5% to $534 million in 2005, after a decrease of 11.7% in 2004 (before significant items) and 9.2% in 2003. *(The nature of general and specific provisioning is explained in note 1(p)(i) in the financial report.)*

The charge in Australia increased by $76 million or 31.1% to $320 million in 2005, after a decrease of 24.0% in 2004 and an increase of 197.2% in 2003. The increase in 2005 is largely attributable to a higher statistical provisioning charge driven by growth in lending outstandings. In addition, the 2004 year included positive impacts of statistical provisioning write-backs, which did not occur in the 2005 year. The decrease in the charge in the 2004 year compared to the 2003 year resulted due to the positive impact of statistical provisioning write-backs in the Cards and Business portfolios and reflected the unfavourable impact of a small number of large corporate exposures in Total Australia and Institutional Markets & Services in the 2003 year, which were not experienced in the 2004 year.

The charge in Europe decreased by $93 million or 33.8% to $182 million in 2005, after decreases of 0.7% in 2004 and 28.1% in 2003. Excluding the Irish Banks, which were sold on February 28, 2005, the charge to provide for doubtful debts decreased by 31.8% in 2005. The reduced charge was driven by lower charges in Institutional Markets & Services, reflecting a high level of specific provisions taken on historical exposures in the 2004 year, and by statistical provision write-backs in 2005 mainly due to the strategy to reduce low-yielding assets. The charge to provide for doubtful debts in the 2004 year remained consistent with the charge to provide for doubtful debts in the 2003 year.

The charge in New Zealand increased by $14 million to $34 million in 2005, compared with a charge of $20 million in 2004 and $11 million in 2003. The increase in 2005 was primarily caused by a single large exposure. The $9 million increase in the 2004 year compared to the 2003 year, reflected a charge in relation to a large Agribusiness exposure.

The charge in the US decreased by $12 million or 63.2% to $7 million in 2005, after a decrease of 44.1% in 2004 and a decrease of 84.2% in 2003. The decrease in 2005 resulted from the exiting of low yielding assets in the Institutional Markets & Services business and improvement in credit quality. The decrease in 2004 resulted from a review of the portfolio favourably impacting the charge to provide for doubtful debts.

The charge in Asia decreased by $10 million to a $9 million credit in 2005 compared with a $1 million charge in 2004 and a credit of $10 million in 2003. The 2005 provisioning write-back resulted from the rationalisation of the Institutional Markets & Services operations in Asia, including net improvements in credit ratings across the portfolio.

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

	2005 $m	2004 $m	2003 $m
Australia	**320**	244	321
Europe	**182**	275	277
New Zealand	**34**	20	11
United States	**7**	19	34
Asia	**(9)**	1	(10)
Total charge to provide for doubtful debts	**534**	559	633

Net write-offs (bad debts written off less recoveries) in 2005 were $404 million compared with $605 million in 2004 and $798 million in 2003. As a percentage of risk-weighted assets, net write-offs were 0.14% in 2005, 0.21% in 2004 and 0.31% in 2003.

Percentage of risk-weighted assets

	2005 %	2004 %	2003 %
Australia *(1)*			
Charge	**0.18**	0.15	0.22
Net write-offs	**0.09**	0.19	0.28
Europe *(1)*			
Charge	**0.27**	0.33	0.42
Net write-offs	**0.35**	0.27	0.50
New Zealand *(1)*			
Charge	**0.10**	0.07	0.04
Net write-offs	**0.04**	0.07	0.05
United States *(1)*			
Charge	**0.10**	0.21	0.35
Net write-offs	**(0.07)**	0.48	0.34
Asia *(1)*			
Charge	**(0.31)**	0.02	(0.23)
Net write-offs	**0.07**	0.02	0.05
Group			
Charge	**0.18**	0.19	0.25
Net write-offs	**0.14**	0.21	0.31

(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 59.*

Significant expenses

Restructuring costs

During the 2005 year, the Group recognised restructuring expenses and provisions amounting to $838 million ($606 million after tax). These costs are expected to be recovered through ongoing efficiency and productivity enhancements, streamlined functions and ongoing cost reductions. The restructuring initiatives comprise a fundamental reorganisation of the management and organisational structure of the Group to a regional model, including the integration of the retail banking, corporate banking and wealth management businesses in Australia, the

streamlining of operations and reconfiguration of distribution networks in the United Kingdom, the refocusing of the Institutional Markets & Services business, as well as other streamlining and business efficiency programs, property rationalisation and decommissioning systems in all business segments.

The details of this amount are set out as follows:

Business segment	Personnel $m	Occupancy $m	Other $m	Total $m
Total Australia	198	54	157	409
Total United Kingdom	181	62	23	266
Total New Zealand	3	11		14
Institutional Markets & Services	74	10	37	121
Other	28			28
Total Group	**484**	**137**	**217**	**838**

The personnel costs of $484 million relate to termination benefit expenses for 4,662 positions in management, support and customer-facing roles in the business segments. In 2005, payments of $191 million were made in respect of 1,834 positions made redundant. Future payments for personnel termination benefits are expected to occur during the 2006 and 2007 years.

Occupancy costs of $137 million primarily relate to provisions for surplus lease space and make good costs. The future payments for occupancy costs will be made in periods corresponding with the relevant lease terms. Other costs of $217 million include the reconfiguration of distribution networks, reorganisation of new management teams, management of the integration process, as well as writing off the asset values of decommissioned systems.

In addition, during the 2002 year, the Group recognised significant restructuring costs of $580 million resulting from the Positioning for Growth initiatives. In 2005, excess provisions totalling $11 million ($7 million after tax) were written back to the profit and loss account.

Provision for the settlement of Australian Taxation Office tax dispute in relation to TrUEPrS℠

In November 2005, the Company reached an in-principle heads of agreement with the Australian Taxation Office (ATO) in respect of a settlement of amounts in dispute in relation to the TrUEPrS℠ capital raising transaction.

An amount of $97 million has been recognised as a significant tax item for the 2005 year. The dispute had previously been disclosed to the Australian Stock Exchange and in the US annual report on Form 20-F for the 2004 year. The total potential claim was approximately $210 million including accrued interest and penalties. In accordance with the ATO practice on disputed assessments, the Company had previously paid to the ATO 50% of the amounts owing under relevant amended assessments. This amount paid to the ATO of approximately $96 million was recognised by the Company at the time as an other asset on the statement of financial position. This amount has been written off reflecting the in-principle heads of agreement reached with the ATO.

Foreign currency options trading losses and reversal of residual risk provision

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 recognised a total loss of $360 million before tax ($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.

In the 2005 year, following a detailed review of the residual risk in the remaining portfolio, $34 million ($24 million after tax) was written back to the profit and loss account.

Refer to the report of the directors for further information on the foreign currency options trading losses, including the ASIC enforceable undertaking.

Write-down of impaired application software

During the 2004 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 in the 2004 year.

General provision for doubtful debts **revision of accounting estimate**

During the 2004 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) in the 2004 year.

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 the 2004 year, $64 million of this provision was written back as a revision to the accounting estimate.

Income tax expense relating to ordinary activities

2005	$	1,797 million
2004	$	1,190 million
2003	$	1,681 million

Income tax expense relating to ordinary activities of $1,797 million in 2005, was $607 million or 51.0% higher than 2004. The effective tax rate in 2005 of 27.5% compares to 25.1% in 2004 and 29.9% in 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 increase in income tax expense reflects higher profits before tax in 2005 compared to the 2004 year. In addition, income tax expense was favourably impacted by a once-off tax benefit in relation to the non-assessable profit on sale of the Irish Banks of $289 million and non-assessable income of $110 million relating to Wealth Management revaluation income, partly offset by the significant income tax item of $97 million in respect of the provision for the settlement of a tax dispute with the ATO.

In 2004, income tax expense relating to ordinary activities of $1,190 million 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 ATO assessment.

Net profit by segment

During the 2005 year, the Group reorganised its business operating model into four operating segments. These are Total Australia, Total United Kingdom and Total New Zealand, which comprises both banking and wealth management products, as well as Institutional Markets & Services, which is managed globally. The Group s Other business segment includes Group Funding and Corporate Centre. Corporate Centre comprises Financial & Risk Management, People & Culture, and Group Development. The reorganisation of the Group aims to improve integration across divisions and build a more customer-focused organisation.

Previously, the Group s business was organised on a divisional basis into five major operating segments; namely Financial Services Australia, Financial Services Europe, Financial Services New Zealand, Corporate & Institutional Banking and Wealth Management. The Group s Other business segment was broadly consistent with the structure under the re-organisation.

For a detailed discussion of the Group s business operating model, refer to pages 10 to 14.

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

	2005 $m	2004 (1) $m	2003 (1) $m
Total Australia	**2,336**	2,194	2,041
Total United Kingdom	**1,310**	421	862
Total New Zealand	**314**	251	311
Institutional Markets & Services	**537**	266	840
Other	**(365)**	45	(99)
Net profit attributable to members of the Company	**4,132**	3,177	3,955

(1) Comparative information for the 2004 and 2003 years has been restated to reflect the new business operating model.

Total Australia

	2005 $m	2004 $m	2003 $m
Net interest income	**3,876**	3,699	3,626
Non-interest income	**11,748**	8,261	5,913
Net operating income	**15,624**	11,960	9,539
Operating expenses	**(10,726)**	(8,080)	(6,240)
Charge to provide for doubtful debts	**(257)**	(201)	(297)
Significant items	**(403)**	(192)	
Profit from ordinary activities before income tax	**4,238**	3,487	3,002
Income tax expense	**(1,292)**	(928)	(977)
Net (profit)/loss attributable to outside equity interest	**(610)**	(365)	16
Net profit attributable to members of the Company	**2,336**	2,194	2,041

Total Australia comprises the Australian Banking, and Australian and Asian Wealth Management businesses.

2005 compared with 2004

Total Australia increased its contribution to net profit attributable to members of the Company by $142 million or 6.5% to $2,336 million in 2005, from $2,194 million in 2004. The 2005 result included significant items of $284 million (after tax) in relation to restructuring expenses, compared to $135 million (after tax) in 2004. Excluding the 2005 and 2004 significant items, the net profit attributable to members of the Company increased by $291 million or 12.5% to $2,620 million in 2005. Details of this result (excluding significant items) are as follows.

Net operating income increased 30.6% to $15,624 million. Net interest income increased $177 million or 4.8% to $3,876 million, driven by continued strong growth in business lending in response to the business initiative to streamline risk processes, and in housing lending volume growth, particularly in lower margin fixed and variable home loan products following the restoration of certain risk settings. Initiatives were also introduced during the year to speed up processes, introduce streamlined products and provide a greater focus on customer service. Retail deposit volumes also grew, particularly in low interest-bearing transaction accounts following the launch of new transaction account offerings during the year. The volume increase was partially offset by a 14 basis point reduction in net interest margin to 2.51%, driven by product margin contraction during 2004 that flowed into 2005, adverse changes in product mix caused by the increased proportion of lower margin housing lending in the loan portfolio, higher wholesale funding costs and reduced income from balance sheet management activities arising from the more stable interest rate environment.

Non-interest income increased $3,487 million or 42.2% to $11,748 million. This increase primarily reflects growth in Wealth Management life insurance revenue of $2,769 million, from $5,804 million in 2004 to $8,573 million in 2005. This was impacted by an increase in investment revenue of $2,860 million (2005: $7,694 million, 2004: $4,834 million), reflecting the continued improvement in the performance of global equity markets, which is also consistent with the increase in the change in policy liabilities .

The increase in non-interest income also reflects the $472 million positive movement in the excess of net market value over net assets of the Wealth Management life insurance controlled entities, which increased from a negative movement in 2004 of $137 million to a positive movement of $335 million in 2005. Contributing to the $335 million positive movement in 2005 were the following:

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

the effect of assumption and experience changes since the previous valuation, reflecting the positive impact from higher than expected investment earnings and ongoing expense control, partly offset by the impact of lower assumed margins for retail and corporate funds management products.

For a more detailed discussion on the excess of net market value over net assets of life insurance controlled entities, refer to page 29.

In addition, non-interest income in banking grew as a result of strong growth in transaction and bill fees driven by lending growth.

Operating expenses increased $2,646 million or 32.7% to $10,726 million. This increase was largely driven by growth in Wealth Management life insurance expenses of $2,115 million, from $4,800 million in 2004 to $6,915 million in 2005. This reflects an increase in the change in policy liabilities of $2,197 million (2005: $5,571 million, 2004: $3,374 million) as a result of the improvement in the performance of global equity markets and is consistent with the increase in investment revenue. This was partly offset by a decrease in claims expense reflecting favourable claims expense across all products and higher surrenders in the closed traditional life business in the 2004 year. In addition, operating expense growth was impacted by certain issues identified in respect to customer overcharging. These included the overcharging of interest and fees for Choice package, interest on fixed rate interest only loans and personal residential fixed rate interest only loans and the over-collection of BAD tax. Increased personnel costs (excluding superannuation) reflected higher annual salaries and enterprise bargaining agreements, net of a reduction in average staff numbers, and higher performance-based remuneration. The increase also reflected higher superannuation costs due to a superannuation contribution holiday in Australia having reduced the prior year superannuation expense, higher occupancy-related costs as a result of the full occupation of the second Docklands building in Melbourne, and higher project expenditure reflecting the number of regulatory and compliance projects, such as Basel II Capital Accord and International Financial Reporting Standards. This was partly offset by benefits flowing through the current year as a result of restructuring initiatives and other productivity improvements.

The charge to provide for doubtful debts increased from $201 million in 2004 to $257 million in 2005. This was largely attributable to a higher statistically-based provision charge, driven by growth in lending outstandings, in particular business lending products.

For a discussion on the Group s significant revenue and expense items during the 2005 and 2004 years, refer to page 30, and pages 32 to 33. For a discussion on the Group s income tax expense, refer to page 34.

2004 compared with 2003

Total Australia increased its contribution to net profit attributable to members of the Company by $153 million or 7.5% to $2,194 million in 2004, from $2,041 million in 2003. Excluding the impact of the significant items incurred during the 2004 year of $135 million (after tax) in relation to the write-down of impaired application software and the charge to provide for doubtful debts, net profit attributable to members of the Company increased by $288 million or 14.1%. Details of this result (excluding significant items) are as follows.

Net operating income increased 25.4% to $11,960 million. Net interest income increased $73 million or 2.0% to $3,699 million, reflecting higher lending income, primarily driven by strong housing growth and growth in retail deposits. This was almost entirely offset by a 38 basis point reduction in net interest margin to 2.65%, 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 $2,348 million or 39.7% to $8,261 million. This increase primarily reflected growth in Wealth Management life insurance revenue of $2,191 million, from $3,613 million in 2003 to $5,804 million in 2004. This was impacted by an increase in investment revenue of $2,096 million (2004: $4,834 million, 2003: $2,738 million), reflecting improvement in the performance of global equity markets, which was consistent with the increase in the change in policy liabilities . It also reflected an increase in premium and related revenue of $95 million (2004: $970 million, 2003: $875 million) due to growth in average in force premiums for personal and group protection products and strong annuities sales. In addition, non-interest income increased as a result of strong growth in transaction and bill fees driven by lending growth. This was partly offset by lower merchant service fees resulting from the Reserve Bank of Australia credit card interchange fee reforms effective October 31, 2003.

Non-interest income also included the movement in the excess of net market value over net assets of Wealth Management s life insurance controlled entities, which decreased from a negative movement of $160 million in 2003 to a negative movement of $137 million in 2004. Contributing to the $137 million negative movement in 2004 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 then 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.

Operating expenses increased $1,840 million or 29.5% to $8,080 million. This increase primarily reflected growth in Wealth Management life insurance expenses of $1,616 million, from $3,184 million in 2003 to $4,800 million in 2004. This was primarily impacted by an increase in the change in policy liabilities of $1,742 million (2004: $3,374 million, 2003: $1,632 million) as a result of the improvement in the performance of global equity markets and was consistent with the increase in investment revenue, partially offset by a $126 million decrease in claims expense due to favourable claims experience in 2004 compared to 2003. In addition, the growth in operating expenses 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 including Basel II Capital Accord and International Financial Reporting Standards, higher occupancy-related costs reflecting increased market rentals, rising utility costs, and the cost of upgrading accommodation.

The charge to provide for doubtful debts decreased from $297 million in 2003 to $201 million in 2004. This was primarily a result of a provision for a single large exposure recorded in 2003.

For a discussion on the Group s significant revenue and expense items during the 2005 and 2004 years, refer to page 30, and pages 32 to 33. For a discussion on the Group s income tax expense, refer to page 34.

Total United Kingdom

	2005 $m	2004 $m	2003 $m
Net interest income	**1,837**	2,158	2,353
Non-interest income	**1,052**	1,075	1,204
Net operating income	**2,889**	3,233	3,557
Operating expenses	**(1,960)**	(2,200)	(2,039)
Charge to provide for doubtful debts	**(216)**	(224)	(248)
Significant items	**774**	(182)	
Profit from ordinary activities before income tax	**1,487**	627	1,270
Income tax expense	**(177)**	(206)	(408)
Net profit attributable to members of the Company	**1,310**	421	862

Total United Kingdom comprises the UK Banking and Wealth Management UK businesses. On February 28, 2005, the Group sold National Irish Bank Limited and Northern Bank Limited to Danske Bank A/S, generating a net profit on sale after all disposal costs, including taxation, of $1,043 million.

2005 compared with 2004

Total United Kingdom increased its contribution to net profit attributable to members of the Company by $889 million to $1,310 million in 2005, from $421 million in 2004. The 2005 result included significant items of $844 million profit (after tax) in relation to the profit on sale of the Irish Banks, partly offset by restructuring expenses and provisions, compared to $128 million loss (after tax) from significant items in 2004. In addition, the 2005 result included net profit attributable to members of the Company from the Irish Banks of $37 million, representing five months contribution up to the date of sale to Danske Bank A/S on February 28, 2005, compared to $96 million for the 2004 year. Excluding the 2005 and 2004 significant items and the profit contributed from the Irish Banks for both years, the net profit attributable to members of the Company decreased by $24 million or 5.3% from $453 million in 2004 to $429 million in 2005. Details of this result (excluding significant items) are as follows.

Net operating income decreased 10.6% to $2,889 million; however, excluding the Irish Banks (which contributed $259 million of revenue in 2005 up to the date of sale, compared to $661 million during the 2004 year), revenue increased by $58 million or 2.3%. Net interest income decreased $321 million or 14.9% to $1,837 million; however, excluding the Irish Banks, net interest income declined $27 million or 1.6%. This decrease reflects the adverse impacts of margin contraction and changing portfolio mix, partly offset by underlying volume growth. Net interest margin from ongoing operations declined 32 basis points to 3.84%. This decline reflects the continued shift to lower margin products across the lending and deposit portfolios, mortgage growth through the third party distribution channel and current account offerings, conscious deposit repricing and the impact of the yield curve on interest rate management activities. Lending growth was primarily in mortgage lending, reflecting the success of the brand program and the increased focus on the Integrated Financial Solutions business model and third party strategies to sell products to target markets, as well as in business lending in both fixed and variable products.

Non-interest income decreased $23 million or 2.1% to $1,052 million; however, excluding the Irish Banks, non-interest income increased $85 million or 9.5%. This increase reflects income from Danske Bank A/S in respect of the provision for transitional services (offset by an increase in expenses), increases in origination fees driven by the growth of the Integrated Financial Solutions centres and third party propositions, as well as higher income from funds under management and administration driven by investment market performance. In addition, the increase also reflects the profit on property transactions.

Operating expenses decreased $240 million or 10.9% to $1,960 million; however, excluding the Irish Banks, operating expenses increased $58 million or 3.4%. This increase has been driven by the costs associated with transitional services provided to Danske Bank A/S (offset by increase in revenue), costs associated with the transformation of the business, including costs of new staff in the Integrated Financial Solutions centres, additional property-associated costs, advertising and marketing costs, and additional brokerage commission costs associated with the strong increase in mortgage completions through the third party channels and increased incentive scheme costs aimed at rewarding strong performance. This has been partly offset by benefits flowing through the current year as a result of restructuring initiatives, including staff reductions and other productivity improvements.

The charge to provide for doubtful debts decreased from $224 million in 2004 to $216 million in 2005. Excluding the Irish Banks, the charge to provide for doubtful debts increased 5.0% or $10 million. This was driven by a market deterioration in credit cards and unsecured personal lending, together with additional statistical provision charges as a result of increased lending growth, partly offset by lower provisioning resulting from attracting higher net worth customers by the Integrated Financial Solutions centres.

For a discussion on the Group s significant revenue and expense items during the 2005 and 2004 years, refer to page 30, and pages 32 to 33. For a discussion on the Group s income tax expense, refer to page 34.

2004 compared with 2003

Total United Kingdom decreased its contribution to net profit attributable to members of the Company by $441 million or 51.2% to $421 million in 2004, from $862 million in 2003. Excluding the impact of the significant items incurred during the 2004 year of $128 million (after tax) in relation to the write-down of impaired application software and the charge to provide for doubtful debts, net profit attributable to members of the Company decreased by $313 million or 36.3%. Details of this result (excluding significant items) are as follows.

Net operating income decreased 9.1% to $3,233 million. Net interest income decreased $195 million or 8.3% to $2,158 million, primarily due to a decrease in net interest margin, partly offset by lending growth. Net interest margin declined to 3.96%, reflecting competition in the UK market and 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 lending, while higher margin personnel lending volumes declined.

Non-interest income decreased $129 million or 10.7% to $1,075 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.

Operating expenses increased $161 million or 7.9% to $2,200 million. 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 reflected 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 Capital Accord and International Financial Reporting Standards, as well higher occupancy-related 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 $248 million in 2003 to $224 million in 2004 and was mainly driven by a reduction in business provisions.

For a discussion on the Group s significant revenue and expense items during the 2005 and 2004 years, refer to page 30, and pages 32 to 33.
For a discussion on the Group s income tax expense, refer to page 34.

Total New Zealand

	2005 $m	2004 $m	2003 $m
Net interest income	**782**	720	669
Non-interest income	**407**	402	394
Net operating income	**1,189**	1,122	1,063
Operating expenses	**(672)**	(643)	(582)

Charge to provide for doubtful debts	**(37)**	(21)	(22)
Significant items	**(14)**	(68)	
Profit from ordinary activities before income tax	**466**	390	459
Income tax expense	**(152)**	(139)	(148)
Net profit attributable to members of the Company	**314**	251	311

Total New Zealand comprises the New Zealand Banking and Wealth Management New Zealand businesses.

2005 compared with 2004

Total New Zealand increased its contribution to net profit attributable to members of the Company by $63 million or 25.1% to $314 million in 2005, from $251 million in 2004. The 2005 result included significant expenses of $10 million (after tax) in relation to restructuring expenses, compared to $46 million (after tax) in 2004. Excluding the 2005 and 2004 significant items, the net profit attributable to members of the Company increased by $27 million or 9.1% to $324 million in 2005. Details of this result (excluding significant items) are as follows.

Net operating income increased 6.0% to $1,189 million. Net interest income increased $62 million or 8.6% to $782 million, reflecting strong volume growth in housing and business lending, and retail deposits, partly offset by increased downward pressure on the net interest margin, which declined by 18 basis points to 2.43%. Housing volume growth reflects the continuing success of the New Zealand business in implementing a consistent and targeted home loan strategy, which is delivering solid home loan growth. The decline in the net interest margin reflects heightened competition in the New Zealand market, combined with a change in product mix, as customers continue to move to lower margin fixed rate products in a low, but rising interest rate environment.

Non-interest income remained steady with only a small $5 million increase to $407 million. This reflects customers moving towards lower cost channels, fee structures and products, reflecting continuing focus by the business on making the customer proposition more attractive to drive sustainable and longer-term relationships, which is offset by a strong increase in volume-related fees.

Operating expenses in 2005 increased by $29 million or 4.5% to $672 million. This result primarily reflects increased personnel costs due to annual salary increases, higher pension costs, and higher technology and compliance costs. The increase also reflects growth in branding (eg. advertising and marketing costs associated with the Global Plus credit card re-launch and the Unbeatable housing campaigns), as well as an increase in network costs to improve service and customer satisfaction.

The charge to provide for doubtful debts increased from $21 million in 2004 to $37 million in 2005. This higher charge relates to a single large exposure and higher statistically-based provisioning due to volume growth.

For a discussion on the Group s significant revenue and expense items during the 2005 and 2004 years, refer to page 30, and pages 32 to 33.
For a discussion on the Group s income tax expense, refer to page 34.

2004 compared with 2003

Total New Zealand decreased its contribution to net profit attributable to members of the Company by $60 million or 19.3% to $251 million in 2004, from $311 million in 2003. Excluding the impact of the significant items incurred during the 2004 year of $46 million (after tax) in relation to the write-down of impaired application software and the charge to provide for doubtful debts, net profit attributable to members of the Company decreased by $14 million or 4.5%. Details of this result (excluding significant items) are as follows.

Net operating income increased 5.6% to $1,122 million. Net interest income increased $51 million or 7.6% to $720 million, reflecting strong volume growth in housing, business lending and retail deposits. This was partly offset by a 13 basis point decrease in the net interest margin to 2.61%, resulting from a change in product mix to lower fixed rate products in a low, but rising interest rate environment.

Non-interest income remained relatively flat, with income increasing by $8 million or 2.0% to $402 million. Growth from higher volumes and transaction levels were offset by the impact of simplified fee structures and a trend by customers to move towards lower cost channels.

Operating expenses in 2004 increased by $61 million or 10.5% to $643 million. This increase was primarily due to the timing of technology-related charges associated with the Integrated Systems Implementation (ISI), annual salary increases, higher pension costs and higher regulatory and compliance costs associated with Basel II Capital Accord, International Financial Reporting Standards and US Sarbanes-Oxley legislation.

For a discussion on the Group s significant revenue and expense items during the 2005 and 2004 years, refer to page 30, and pages 32 to 33.
For a discussion on the Group s income tax expense, refer to page 34.

Institutional Markets & Services

	2005 $m	2004 $m	2003 $m
Net interest income	**543**	618	812
Non-interest income	**919**	866	970
Net operating income	**1,462**	1,484	1,782
Operating expenses	**(735)**	(705)	(643)
Charge to provide for doubtful debts	**(24)**	(113)	(68)
Significant items	**(86)**	(416)	
Profit from ordinary activities before income tax	**617**	250	1,071
Income tax (expense)/benefit	**(80)**	25	(223)
Net profit attributable to outside equity interests		(9)	(8)
Net profit attributable to members of the Company	**537**	266	840

Institutional Markets & Services comprises Markets, Corporate Loan Portfolio, Structured Products, Credit Products, Financial Institutions Group and a Support Services unit, to provide products across the Group s business base. With the exception of the Financial Institutions Group, the client relationships served by Institutional Markets & Services are maintained within the regional structures across the Group. Institutional Markets & Services operates through an international network of offices in Australia, Europe, New Zealand, the United States and Asia.

2005 compared with 2004

Institutional Markets & Services increased its contribution to net profit attributable to members of the Company by $271 million in 2005, from $266 million in 2004 to $537 million in 2005. The 2005 result included significant expenses of $76 million (after tax) relating to restructuring expenses partially offset by the reversal of the provision for foreign currency options trading losses, compared to $292 million (after tax) in 2004. Excluding the 2005 and 2004 significant items, the net profit attributable to members of the Company increased by $55 million or 9.9% to $613 million in 2005. Details of this result (excluding significant items) are as follows.

The financial performance for the 2004 year was dominated by the impact of the currency options incident, a reduced risk profile and the diversion of senior staff to addressing remediation actions. During 2005, whilst considerable effort has been applied to remedial actions and an improved control framework, management focus has returned to building a portfolio of businesses to deliver sustainable client income streams and improved return on equity. As part of this program, Institutional Markets & Services has undergone significant rebasing of its businesses in Asia and the US, and is transforming to a lower capital base business by reducing capital in low yielding risk-weighted assets, increasing capital velocity and the number of product lines to improve the level of cross sales into the Group franchise. In addition, earnings were impacted due to the sale of the Irish Banks on February 28, 2005.

In 2005, net operating income decreased 1.5% to $1,462 million, with net interest income down $75 million or 12.1% to $543 million, and non-interest income up $53 million or 6.1% to $919 million. Key movements were due to net interest income from the Markets division being negatively impacted by rising US interest rates during the 2005 year. This was partly offset by an increase in net interest income in the Credit Products division as the 2004 year included a reversal of capitalised interest on a large project finance exposure that was classified as a non-accrual loan.

Non-interest income increased due to an improved performance from the Markets division arising from a strong client appetite for interest rate products and new business initiatives in Credit Products. This was partly offset by reduced Structured Products income due to legislative changes in Europe and lower fee income from the Corporate Loan Portfolio following the strategy to exit low yielding assets.

Operating expenses in 2005 increased by $30 million or 4.3% to $735 million. The increase in operating expenses was due to increased staffing costs reflecting the full year impact of the investment in creating an enhanced control environment in 2004 and enterprise bargaining agreement salary increases in 2005. However, at year end, the number of full-time equivalent employees has reduced reflecting the transformation initiatives which have been undertaken in Institutional Markets & Services, including the rebasing of the Asian and US operations.

The charge to provide for doubtful debts decreased from $113 million in 2004 to $24 million in 2005. This reflects a high level of specific provisions taken on historical exposures during the 2004 year, with current year statistically-based provision write-backs mainly due to the strategy to reduce low yielding assets to improve return on equity. Improvements in the credit quality of Institutional Markets & Services assets have also contributed.

For a discussion on the Group s significant revenue and expense items during the 2005 and 2004 years, refer to page 30, and pages 32 to 33.
For a discussion on the Group s income tax expense, refer to page 34.

2004 compared with 2003

Institutional Markets & Services decreased its contribution to net profit attributable to members of the Company by 68.3% to $266 million in 2004, from $840 million in 2003. Excluding the impact of the significant items incurred during the 2004 year of $292 million (after tax) in relation to the foreign currency option trading losses, write-down of impaired application software and the charge to provide for doubtful debts, net profit attributable to members of the Company decreased by 33.6%. Details of this result (excluding significant items) are as follows.

Net operating income decreased 16.7% to $1,484 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 Markets 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 23.9% to $618 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 $38 million on a large project finance exposure, which was reclassified as a non-accrual loan.

Non-interest income decreased by $104 million or 10.7% to $866 million, as a result of the factors that impacted net interest income as discussed above. In addition, the result also reflected reduced Structured Products and Credit Products income due to a slowdown in overall deal flow.

Operating expenses in 2004 increased by $62 million or 9.6% to $705 million. This reflected strategies implemented to support client revenues, increased personnel costs as a result of higher employee numbers to address APRA remedial work, increased investment in the control environment following the foreign currency option trading losses incident, increased rental costs and higher regulatory costs for Basel II and International Financial Reporting Standards.

The charge to provide for doubtful debts increased from $68 million in 2003 to $113 million in 2004. This higher charge reflected specific provisions taken on US project finance exposures and other exposures.

For a discussion on the Group s significant revenue and expense items during the 2005 and 2004 years, refer to page 30, and pages 32 to 33. For a discussion on the Group s income tax expense, refer to page 34.

Other

	2005 $m	2004 $m	2003 $m
Net operating income (excluding significant items)	**192**	171	183
Operating expenses (excluding significant items)	**(474)**	(360)	(357)
Significant items	**13**	176	
Loss from ordinary activities before income tax	**(269)**	(13)	(174)
Income tax (expense)/benefit (including significant tax item)	**(96)**	58	75
Net profit/(loss) attributable to members of the Company	**(365)**	45	(99)

The Group s Other business segment includes Group Funding and Corporate Centre. Group Funding acts as the central vehicle for movements of capital and structural funding to support the Group s operations. Corporate Centre comprises the following non-operating units Financial & Risk Management, People & Culture, and Group Development.

2005 compared with 2004

The Other segment decreased its contribution to net profit attributable to members of the Company by $410 million to a $365 million net loss in 2005, from a $45 million net profit in 2004. The 2005 result included significant expenses of $103 million (after tax) in relation to restructuring expenses, and provision for settlement of a tax dispute with the Australian Taxation Office, compared to $217 million profit (after tax) from significant items in 2004. Excluding significant items, the net loss attributable to members of the Company increased by $90 million or 52.3%, from a net loss of $172 million in 2004 to a net loss of $262 million in 2005.

The main factors impacting the $90 million increased net loss (excluding significant items) in the Other segment during the 2005 year, were:

costs associated with a Northern Bank Limited robbery in December 2004;

costs associated with the outcome of a legal action in South Korea awarded against the Group;

increased costs associated with compliance and regulatory projects, such as Basel II Capital Accord, Sarbanes-Oxley and International Financial Reporting Standards, and the creation of new functions to address regulatory and structural changes; partly offset by

a higher capital benefit paid to operating divisions as a result of higher economic capital being attributed to those divisions resulting in a change in capital allocation.

For a discussion on the Group s significant revenue and expense items during the 2005 and 2004 years, refer to page 30, and pages 32 to 33. For a discussion on the Group s income tax expense, refer to page 34.

2004 compared with 2003

During the 2004 year, net profit attributable to members of the Company contributed by the Other segment increased by $144 million to a net profit of $45 million, after a net loss of $99 million in 2003. The 2004 result included significant items of $217 million profit (after tax) in relation to the profit on sale of strategic shareholdings and on the write-back of a provision relating to the sale of SR Investment, Inc., offset by the write-down of impaired application software and the charge to provide for doubtful debts. Excluding these significant items, the net loss attributable to members of the Company increased by $73 million, from a net loss of $99 million in 2003 to a net loss of $172 million in 2004.

The main factors impacting the $73 million increased net loss (excluding significant items) in the Other segment during the 2004 year, were:

lower dividend income as a result of the sale of shareholdings in St George Bank Limited in January 2004;

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

growth in compliance-related costs for activities such as Sarbanes-Oxley and taxation-related matters;

the decision not to book a tax benefit of $33 million on the interest expense relating to the exchangeable capital units following the receipt of an Australian Taxation Office assessment; and

the inclusion in the 2003 year of a one-off benefit on the restructure of hedging swaps in connection with the TrUEPrS^{SM} preference shares.

For a discussion on the Group s significant revenue and expense items during the 2005 and 2004 years, refer to page 30, and pages 32 to 33. For a discussion on the Group s income tax expense, refer to page 34.

Employees

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

	2005 Number	2004 Number	2003 Number
By region			
Australia	**23,554**	24,567	23,880
Europe	**9,868**	13,324	13,104
New Zealand	**4,814**	4,766	4,688
United States	**114**	141	136
Asia	**583**	719	732
Total full-time equivalents *(1)*	**38,933**	43,517	42,540

	2005 Number	2004 (2) Number	2003 (2) Number
By line of business			
Total Australia	**22,136**	23,128	22,623
Total United Kingdom	**9,480**	12,865	12,693
Total New Zealand	**4,645**	4,596	4,528
Institutional Markets & Services	**1,993**	2,073	1,904
Other	**679**	855	792
Total full-time equivalents *(1)*	**38,933**	43,517	42,540

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

(2) Divisional FTEs in relation to 2004 and 2003 have been restated to reflect the new business operating model.

The Group s full-time equivalent (FTE) employee numbers decreased 4,584 or 10.5% to 38,933 during the 2005 year. This decrease primarily reflects the following:

the sale of Northern Bank Limited and National Irish Bank Limited, which had 2,712 FTE at September 30, 2004; and

the significant restructure, reorganisation and integration of all of the Group s businesses, particularly in the Australia, United Kingdom and Institutional Markets & Services segments, amounting to a reduction of 1,834 FTE. This significant restructuring program is expected to reduce FTE numbers by a further 2,828 by the end of the 2007 year.

Refer to page 32 for further information on the Group s restructuring expenses and provisions recorded by the Company during the 2005 year.

The increase in FTE during the 2004 year compared to the 2003 year of 977 or 2.3% to 43,517, resulted from an increase in employees on major compliance and regulatory projects, such as Basel II Capital Accord, International Financial Reporting Standards and Sarbanes-Oxley, as well as growth in customer-facing staff in Australia and in the United Kingdom.

The Group continues to work professionally and constructively with the unions in Australia, United Kingdom, New Zealand and in other countries where the Group operates, recognising both the unions and their members as key stakeholders in the organisation. The Group has a number of industrial instruments including collective agreements that are negotiated or renewed regularly with the relevant trade unions in each region.

In Australia, there are two primary enterprise agreements which detail terms and conditions for all employees. These enterprise agreements were developed and negotiated with the Finance Sector Union. The current Enterprise Bargaining Agreement expired in October 2005 and the Wealth Management Enterprise Agreement expires in December 2005. Both agreements are currently under negotiation with the Finance Sector Union. A pay increase of 4.5% was paid to some management and all non-management employees in January 2005.

Bank of New Zealand has a collective agreement covering the branch network, contact centres and back-office locations. The agreement expires on October 31 each year, with negotiations commencing during the months of September and October annually. A pay increase of 3.75% was paid to staff as a result of the 2004 negotiations.

Three separate pay negotiations occur annually during October and November in the United Kingdom. At the 2004 negotiations, pay increases between 3.25% and 3.80% were paid.

Shares, performance options and performance rights are used by the Group to provide employees with short-term and long-term incentives and are an integral part of the Group s remuneration strategy in rewarding an employee s contribution to the Group s performance. *For further information on the remuneration and reward policies offered by the Group to employees, refer to the remuneration report on pages 81 to 100 of this annual financial report and note 38 shares, performance options and performance rights in the financial report.* The Group also provides superannuation (pension) plans for employees in Australia, United Kingdom, New Zealand and in certain other countries in which the Group operates, which entitle plan members to benefits on retirement, resignation, permanent disability or death. *For further information, refer to note 47 superannuation commitments in the financial report.*

Return on average equity

	2005 $m	2004 $m	2003 $m	2002 $m	2001 $m
Weighted average equity *(1)*	**23,639**	21,341	20,579	21,104	20,685
Return on average equity (%) *(1) (2)*	**16.6**	14.0	18.3	15.1	9.0
Return (before significant items) on average equity (%) *(1) (2)*	**15.0**	15.8	18.3	17.0	18.6

(1) Based on average ordinary shareholder funds (refer to page 8 for a reconciliation of average ordinary shareholder funds).

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

Profitability is measured by return on average equity, which increased to 16.6% in 2005 from 14.0% in 2004, after a decrease from 18.3% in 2003. However, excluding the impact of significant items, return on average equity decreased to 15.0% in 2005 from 15.8% in 2004 and 18.3% in 2003.

The decrease in the return on average equity before significant items in the 2005 year compared to the 2004 year has been impacted by the 10.8% increase in weighted average equity, which has more than offset the improvement in the net profit attributable to members of the Company, excluding significant items, and after deducting distributions on other equity instruments. The 10.8% increase in weighted average equity is due to the increase in average ordinary share capital reflecting the impact of the full underwriting of the Group s dividend reinvestment plan in respect of the 2004 interim dividend, the issue of Trust Preferred Securities II in March 2005, along with the increase in average retained profits.

The decrease in the return on average equity before significant items in the 2004 year compared to the 2003 year was impacted by the deterioration in underlying operating performance in the major areas of the business, including Total Australia, Total United Kingdom and Institutional Markets & Services segments. Weighted average equity increased by 3.7% in 2004 compared to the 2003 year, primarily due to the increase in average retained profits.

Refer to pages 19 to 20 for a detailed discussion on the Group s operating performance for the 2005 and 2004 years.

Earnings and dividends per share

	2005 Cents	2004 Cents	2003 Cents	2002 Cents	2001 Cents

Earnings per share					
Basic	**251.9**	197.3	248.8	205.7	121.5
Diluted *(1)*	**248.1**	196.1	243.6	202.5	122.8
Earnings per share before significant items					
Basic	**228.1**	222.7	248.8	231.9	247.4
Diluted *(1)*	**225.2**	220.4	243.6	227.4	243.2
Cash earnings per share					
Basic	**236.1**	203.1	268.5	222.0	110.7
Diluted *(1)*	**232.9**	201.7	262.3	218.2	112.4
Cash earnings per share before significant items					
Basic	**212.3**	228.5	268.5	248.2	236.6
Diluted *(1)*	**210.1**	226.0	262.3	243.0	233.0
Dividends per share	**166.0**	166.0	163.0	147.0	135.0

(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.

Cash earnings is a key performance measure and financial target used by the investment community. The potential conversion of exchangeable capital units, performance options, performance rights and partly paid shares into fully paid ordinary equity may have a dilutive impact on earnings per share, which varies from year to year depending on conversion. Diluted cash earnings per share assumes full conversion, exercise and paying up of the exchangeable capital units, performance options, performance rights and partly paid shares, and provides a consistent basis for year-on-year comparison. Management uses growth in diluted cash earnings per share before significant items as a key indicator of performance. *Refer to non-GAAP financial measures for a more detailed discussion on page 70.*

Diluted earnings per share increased 26.5% in 2005 to 248.1 cents, from 196.1 cents in 2004 and 243.6 cents in 2003. Excluding the impact of significant items, diluted earnings per share increased 2.2% for 2005 to 225.2 cents, from 220.4 cents in 2004, after a decrease from 243.6 cents in 2003. The increase in diluted earnings per share before significant items in the 2005 year compared to the 2004 year, reflects the improvement in underlying operating performance for wealth management products and increased revaluation profit, improved performance in the Total New Zealand and Institutional Markets & Services segments, offset by reduced earnings in Total Australia Banking division, Total United Kingdom and Other segments.

Diluted cash earnings per share increased 15.5% in 2005 to 232.9 cents, from 201.7 cents in 2004 and 262.3 cents in 2003. Excluding the impact of significant items, diluted cash earnings per share decreased 7.0% in 2005 to 210.1 cents, from 226.0 cents in 2004 and 262.3 cents in 2003. The continued decrease in diluted cash earnings per share before significant items reflects the reduced earnings in Total Australia Banking division, Total United Kingdom and Other segments, partly offset by improved performance in wealth management products, as well as improved performance in the Total New Zealand and Institutional Markets & Services segments. The decrease also reflects one-off costs incurred in relation to the Northern Bank Limited robbery in December 2004, and in relation to the legal action in South Korea, as well as the overcharging of interest and fees for Choice package, interest on fixed rate interest only loans and personal residential fixed rate interest only loans and the over-collection of BAD tax.

An interim dividend of 83 cents per fully paid ordinary share was paid during the year ended September 30, 2005, compared to an interim dividend of 83 cents and 80 cents per share in 2004 and 2003, respectively. The final dividend declared from the 2005 profit was 83 cents per share, which remained consistent with the 2004 and 2003 final dividends. The 2005 final dividend is payable on December 19, 2005.

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 2005 was equivalent to 78.2% 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 80% franked and the final dividend will be 80% franked. 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 for Australian tax purposes, the dividends will not be subject to Australian withholding tax. This is because Australian dividend withholding tax is not imposed on franked dividends, while the unfranked portion of the dividends are paid from the Company s foreign dividend account (or foreign income account in the event that relevant legislative changes are passed and receive Royal Assent prior to the date the final dividend is paid) which exempts the unfranked dividend from withholding tax.

Liquidity and funding

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due at acceptable cost. 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 United Kingdom, New Zealand, the United States, Hong Kong, and other geographies in which the Group operates as required. The Group s Wealth Management businesses also comply with the regulatory liquidity requirements of its Australian Financial Services Licences and the requirements of its various non-Australian regulators. 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 risk under risk management on page 63 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 deposits and other borrowings on-demand and short-term deposits, term deposits, and bank issued certificates of deposit. Of total liabilities at September 30, 2005 of $385,308 million (2004: $381,543 million), funding from customer deposits and certificates of deposit amounted to $186,027 million (2004: $196,972 million) or 48.3% (2004: 51.6%). Although a substantial portion of customer accounts are contractually repayable within one year, on-demand, or at short-notice, such 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 $36,322 million as at September 30, 2005 (2004: $43,768 million) 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, 2005, the Group had on issue $39,238 million (2004: $32,573 million) 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 National Australia Funding (Delaware) Inc. (unconditionally guaranteed by National Australia Bank Limited);

Global commercial paper and certificate of deposit program National Australia Bank Limited;

Global commercial paper program Bank of New Zealand; and

Euro-commercial paper program Clydesdale Bank PLC.

Long-term funding programs:

Global medium-term note program National Australia Bank Limited;

Debt issuance program National Australia Bank Limited;

Registered transferable deposits program Bank of New Zealand;

Yen shelf National Australia Bank Limited; and

US medium-term note program National Australia Bank Limited.

At September 30, 2005, the Company s credit ratings were as follows:

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

Ratings are not a recommendation to purchase, hold or sell securities, and may be changed, superseded or withdrawn at any time.

The ability to realise 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, 2005, the Group held $15,957 million (2004: $24,248 million) of trading securities and $3,857 million (2004: $4,610 million) of available for sale securities. In addition, the Group held $260,053 million (2004: $247,836 million) of net loans and advances to customers, of which $80,011 million (2004: $79,656 million) 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, 2005:

	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	4,964	16,040	11,944	6,290	39,238
Other debt issues undated				1,559	1,559
Operating leases	386	542	283	903	2,114
Total contractual cash obligations	5,350	16,582	12,227	8,752	42,911

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, 2005:

	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	2,997	292	33	178	3,500
Letters of credit	5,237	567	462	958	7,224
Performance-related contingencies	2,414	71	32	178	2,695
Other contingent liabilities	137	5			142
Other commercial commitments					
Other binding credit commitments *(1)*	86,288	11,263	8,988	6,010	112,549
Investment commitments *(2)*	742				742
Total commercial commitments	97,815	12,198	9,515	7,324	126,852

(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 .

Description of off-balance sheet arrangements (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. These SPEs do not have, or are not reasonably likely to have, a current or future effect on the Company s financial condition, revenue or expenses, and results of operations.

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, and exposure to the 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, 2005. 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.

No loans were securitised during the 2005 year. During the year ended September 30, 2004, the Group securitised Australian residential mortgage loans amounting to $2,483 million, and during the year ended September 30, 2001, the Group securitised Australian residential mortgage loans amounting to $1,924 million. Outstanding securitised loans of these programs totalled $1,919 million as at September 30, 2005 (2004: $2,788 million, 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 and Quasar Securitisation Limited. 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 $3,479 million at September 30, 2005 (2004: $2,510 million; 2003: $1,863 million), 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, 2005. 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 Limited (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, 2005.

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 known future commitments.

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 current approach in accordance with Basel I 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 involves 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), reserves (other than asset revaluation reserves), retained profits less goodwill and other intangible assets, and certain other deductions. 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 such investments, comprising embedded value, is deducted from the total capital base. The intangible component (being the difference between acquisition costs and the tangible component at acquisition) 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). 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.

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 16 for further information.*

Regulatory changes

On February 24, 2005, APRA issued a discussion paper that outlines how it proposes to address the prudential implications of a number of specific Australian equivalents of International Financial Reporting Standards-related changes. On November 29, 2005, APRA issued a revised version of these proposals. APRA s proposals have potential impacts for the capital position of the Group. The Company has submitted a detailed response to the paper. *Refer to note 2 transition to Australian equivalents to International Financial Reporting Standards in the financial report on page 126 for further information.*

On August 31, 2005, APRA released a discussion paper outlining its proposed approach to Tier 1 hybrid capital. The proposals introduce more restrictive rules relating to the volume and type of instruments that qualify as Tier 1 capital and will have a potential impact on the composition of the capital base of the Company and other Australian financial institutions. The Company has submitted a detailed response to the discussion paper. The APRA paper proposes a hybrid (or residual) Tier 1 limit of 25% of net Tier 1 capital. Previously, the hybrid limit of 25% applied to Tier 1 before deductions and hybrids, and could consist entirely of Innovative Tier 1 capital. Innovative Tier 1 capital includes any instrument which includes features such as an incentive for the issuer to call, such as a step-up in distribution rate, or is issued indirectly through a special purpose vehicle. The new rules propose that hybrid Tier 1 capital will be classified into two categories being Innovative Tier 1, which will be limited to 15% of net Tier 1 capital, and a new category of Non-Innovative Tier 1 representing 10% of net Tier 1 capital. Non-Innovative Tier 1 capital is described by APRA as consisting of pure preference shares being non-cumulative irredeemable preference shares without innovative capital features .

APRA proposes to introduce the capital framework for IFRS and hybrids rule changes from July 1, 2006. However the new limits for hybrid capital will not apply until January 1, 2008, coinciding with the implementation of the Basel II Framework. A further transitional period will apply for entities that are materially affected by the proposed changes. In this case, APRA intends to grant up to a further two-year transition period, until January 1, 2010, in respect of innovative capital instruments in excess of the proposed limits as at the date of the discussion paper.

Capital ratios

In addition to the Tier 1 and total capital regulatory capital ratios, the Group also uses the adjusted common equity (ACE) ratio to manage its capital position. The ACE ratio measures the core equity capital available to support banking operations and is generally calculated as Tier 1 capital less Tier 1 hybrid instruments and the tangible component of the investment in non-consolidated controlled entities, and any other items, deducted from total capital. The ACE ratio is a key measure used by analysts and rating agencies to assess a financial institution s capital strength.

Capital ratios are monitored against internal capital targets, which are set by reference to factors such as market, regulatory rating agencies expectations and the Group s risk profile. The Board-approved target capital ranges at September 30, 2005 are as follows:

ACE ratio	4.75% 5.25%;
Tier 1 ratio	7.00% 7.50%; and
Total capital ratio	10.00% 10.50%.

The total capital target range reflects the APRA imposed requirement in 2004 for the Group s internal target for total capital to rise to 10.0% of risk-weighted assets. Previously, the Group s internal target capital ratio was 9.0% to 9.5%.

	2005 %	2004 %	2003 %
Adjusted common equity	**5.5**	5.3	4.9
Tier 1	**7.9**	7.3	7.7
Tier 2	**3.6**	4.3	3.3
Deductions	**(1.0)**	(1.0)	(1.4)
Total capital	**10.5**	10.6	9.6

During the 2005 year, the Group s ACE and Tier 1 capital ratios increased, and are at or above the Group s stated target ranges at September 30, 2005. This principally reflects the sale of Northern Bank Limited and National Irish Bank Limited, which occurred on February 28, 2005, generating a net profit after all disposal costs, including taxation, of $1,043 million. In addition to the profit component, the sale also increased the capital ratios as a result of the reduction in risk-weighted assets of approximately $12,450 million. The increase in the Tier 1 and total capital ratios also reflects the growth in contributed equity as a result of the issue of Trust Preferred Securities II on March 23, 2005. The Group raised US$800 million ($1,014 million net of issue costs) through the issue of the 800,000 Trust Preferred Securities of US$1,000 each. These securities qualify as Tier 1 capital. *Refer to note 33 in the financial report for further detail*.

The capital position also increased due to the reinvestment of dividends under the Company s dividend reinvestment plan (DRP), bonus share plan (BSP), and employee share and option plans. During the years ended September 30, 2005, 2004 and 2003, 11.5 million, 47.5 million and 10.8 million fully paid ordinary shares respectively, were issued under the DRP and BSP to shareholders at varying prices.

The capital ratios have also been impacted by the change in methodology of the calculation of the market risk component of risk-weighted assets from an Internal Model Method to the Standard Method as directed by APRA in 2004. 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 effect of using the Standard Method was an increase in risk-weighted assets of $10,076 million at September 30, 2005 ($10,206 million at September 30, 2004).

Regulatory capital

	2005 $m	2004 $m	2003 $m
Tier 1			
Contributed equity	**11,486**	10,191	9,728
Reserves	**667**	1,194	893
Retained profits	**15,903**	14,515	13,786
Outside equity interest	**6,224**	3,866	2,804
Estimated reinvestment under the dividend reinvestment plan *(1)*	**152**	150	140
Deduct:			
Asset revaluation reserve	**(18)**	(86)	(16)
Goodwill	**(522)**	(632)	(740)
Intangible assets - Wealth Management	**(2,448)**	(2,448)	(2,448)
Estimated final dividend	**(1,304)**	(1,287)	(1,248)
Deconsolidation of Wealth Management profits (net of dividends)	**(799)**	(349)	(290)
Future income tax benefit (FITB) (excluding FITB on the general provision for doubtful debts) *(2)*	**(143)**		(66)
Non-qualifying outside equity interest *(3)*	**(6,224)**	(3,866)	(2,804)
Capitalised expenses	**(195)**	(200)	
Total Tier 1 capital	**22,779**	21,048	19,739
Tier 2			
Asset revaluation reserve	**18**	86	16
General provision for doubtful debts	**1,443**	1,480	1,248
Perpetual floating rate notes	**328**	350	367
Exchangeable capital units	**1,231**	1,262	1,262
Dated subordinated debt	**7,422**	9,044	5,390
Notional revaluation of investment securities to market	**(18)**	(3)	37
Total Tier 2 capital	**10,424**	12,219	8,320
Total Tier 1 and 2 capital	**33,203**	33,267	28,059
Deductions *(4)*	**(2,922)**	(2,922)	(3,591)
Total regulatory capital	**30,281**	30,345	24,468

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

(2) APRA requires that 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.

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

(4) Includes $2,922 million (2004: $2,922 million, 2003: $2,959 million) investment in non-consolidated controlled entities (net of intangible component deducted from Tier 1 capital).

	2005 $m	2004 $m	2003 $m
Adjusted common equity			
Total Tier 1 capital	**22,779**	21,048	19,739
Deduct:			
Tier 1 hybrid instruments within contributed equity *(1)*	**(3,934)**	(2,920)	(3,650)
Deductions *(2)*	**(2,922)**	(2,922)	(3,591)
Adjusted common equity	**15,923**	15,206	12,498

(1) This includes preference shares, National Income Securities, Trust Preferred Securities and Trust Preferred Securities II.

(2) Includes $2,922 million (2004: $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)		
	2005 $m	2004 $m	2003 $m	weights %	2005 $m	2004 $m	2003 $m
Assets							
Cash, claims on Reserve Bank of Australia, Australian Commonwealth and State Governments, OECD central governments and central banks *(2)*	**24,852**	23,383	29,867	0			
Claims on Australian banks, local governments and banks incorporated in OECD countries	**16,962**	31,214	32,361	20	**3,392**	6,243	6,472
Housing loans *(3)*	**128,790**	117,306	103,926	50	**64,395**	58,653	51,963
All other assets	**174,387**	171,200	158,135	100	**174,387**	171,200	158,135
Total assets *(4)*	**344,991**	343,103	324,289		**242,174**	236,096	216,570

	Contract or notional amount 2005 $m	Credit equivalent amount 2005 $m	Risk weights %	Risk-adjusted balance (1) 2005 $m	2004 $m	2003 $m
Off-balance sheet exposures						
Financial guarantees, standby letters of credit and other letters of credit	**13,673**	**12,797**	0 100	**9,226**	11,258	9,872
Performance-related guarantees, warranties and indemnities	**3,471**	**1,735**	0 100	**1,731**	1,584	1,319
Commitments to provide finance facilities with residual term to maturity of over 12 months and other commitments	**109,191**	**19,798**	0 100	**14,428**	15,364	12,750
Foreign exchange, interest rate and other market-related transactions *(5)*	**1,883,841**	**33,168**	0 50	**8,981**	8,887	9,698
Total off-balance sheet exposures	**2,010,176**	**67,498**		**34,366**	37,093	33,639
Total risk-adjusted assets				**242,174**	236,096	216,570
Total risk-adjusted assets and off-balance sheet exposures credit risk				**276,540**	273,189	250,209
Add: Risk-adjusted assets market risk *(6) (7)*				**13,293**	13,616	4,057
Total assessed risk exposure				**289,833**	286,805	254,266

(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 a residual term to maturity of greater than 12 months. Both categories held in the banking book attract a 0% risk weighting.

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

(7) The calculation to determine the market risk capital component of risk-weighted assets at September 30, 2005 and September 30, 2004 was carried out under the Standard Method as directed by APRA. Prior to March 2004, 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

	2005 $bn	2004 $bn	2003 $bn
Average gross loans and advances			
Australia	**157.8**	143.1	125.6
Overseas	**98.4**	97.4	96.9
Total average gross loans and advances	**256.2**	240.5	222.5

The diversification and size of the Group are 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 30.7% of the loans at September 30, 2005 maturing within one year, 21.9% maturing between one year and five years and 47.4% maturing after 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 2005 equated to 60.0% of the total average assets of the Group. This compares with 59.2% in 2004 and 56.4% in 2003.

The loan portfolio within Australia largely comprises real estate lending ($105.4 billion), which equates to 61.7% of the portfolio at September 30, 2005. The remainder of the portfolio primarily consists of instalment loans and other personal lending ($21.6 billion, or 12.7% of the portfolio) and other commercial and industrial lending ($16.1 billion, or 9.4% of the portfolio). The overseas loan portfolio primarily consists of real estate lending ($34.1 billion, or 36.3% of the portfolio), other commercial and industrial lending ($22.7 billion, or 24.2% of the portfolio) and instalment loans and other personal lending ($10.4 billion, or 11.1% of the portfolio) as at September 30, 2005. The nature of the Group s lending reflects the operations of the Group s business divisions, and the regional lending markets in which these divisions operate.

Average gross loans and advances increased $15.7 billion or 6.5%, to $256.2 billion in 2005, from $240.5 billion in 2004 and $222.5 billion in 2003. The increase in 2005 reflects continued strong growth in housing loans and improved business lending in all regions, partly offset by the impact of the sale of the Irish Banks on February 28, 2005.

Australian average gross loans and advances accounted for 61.6% of the total average gross loans and advances in 2005, compared with 59.5% in 2004 and 56.5% in 2003. Australian average gross loans and advances increased $14.7 billion or 10.2%, to $157.8 billion in 2005, from $143.1 billion in 2004 and $125.6 billion in 2003. The increase mainly reflects continued strong growth in housing lending, fixed rate term lending and leasing.

Overseas average gross loans and advances increased $1.0 billion or 1.0%, to $98.4 billion in 2005, from $97.4 billion in 2004 and $96.9 billion in 2003. The increase has been driven by continued strong growth in underlying housing and business term lending in both the UK and New Zealand, partly offset by the impacts of the sale of the Irish Banks and the exit from a number of Institutional Markets & Services activities in Asia and the US.

Loans by industry for the Group as at September 30, 2005 *(1)*

	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total $m
Government and public authorities	607	84	257	26		974
Agriculture, forestry, fishing and mining	4,430	1,460	4,633		32	10,555
Financial, investment and insurance	5,093	3,352	1,411	1,065	279	11,200
Real estate construction	5,587	1,516	219	206	200	7,728
Manufacturing	2,417	3,586	1,271	389	227	7,890
Real estate mortgage	105,419	17,175	16,393		494	139,481
Instalment loans to individuals and other personal lending (including credit cards)	21,642	8,700	1,710			32,052
Lease financing	9,508	6,372	29		17	15,926
Other commercial and industrial	16,058	12,920	8,800	555	465	38,798
Total gross loans and advances	170,761	55,165	34,723	2,241	1,714	264,604
Deduct: Unearned income	(1,319)	(811)	(3)			(2,133)
Provisions for doubtful debts	(1,476)	(700)	(196)	(41)	(5)	(2,418)
Total net loans and advances	167,966	53,654	34,524	2,200	1,709	260,053

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

In Australia, net loans and advances grew by $22.0 billion or 15.1%, to $168.0 billion at September 30, 2005, after an increase of $12.1 billion in the year to September 30, 2004. The increase reflects continued strong growth in mortgages and instalment loans and other personal lending. Housing loans have increased by $14.2 billion or 15.5%, to $105.4 billion in 2005, reflecting continued strong housing market growth. Instalment loans to individuals and other personal lending increased by $8.1 billion or 60.0%, during 2005 to $21.6 billion.

In Europe, net loans and advances decreased by $10.5 billion or 16.4%, to $53.7 billion at September 30, 2005, after an increase of $6.6 billion in the year to September 30, 2004. However, excluding the Irish Banks and the impact of exchange rate movements, net loans and advances grew by 14.6%. Underlying growth in 2005, consistent with the 2004 year, primarily related to an increase in the housing loans book of $2.5 billion or 16.7%, reflecting growth across the third party distribution channel, branch network and Integrated Financial Solutions channel. Underlying growth in other commercial and industrial lending also continued in 2005.

In New Zealand, net loans and advances increased by $2.6 billion or 8.2%, to $34.5 billion at September 30, 2005, after an increase of $4.3 billion in the year to September 30, 2004. Excluding the impact of exchange rate movements, net loans and advances grew by 11.2% in 2005, after an increase of 8.1% in 2004. In both years, growth was principally driven by an increase in housing lending, which were up 14.4% in 2005, reflecting solid growth and the Unbeatable housing campaign targeted at growing market share. Other commercial and industrial lending increased by $1.0 billion during 2005.

In the US, net loans and advances decreased by $0.3 billion or 10.2%, to $2.2 billion at September 30, 2005, after a decrease of $0.8 billion in the year to September 30, 2004. Excluding the impact of exchange rate movements, net loans and advances decreased by 4.4% in 2005, reflecting a combination of strategic initiatives implemented by Institutional Markets & Services to release capital invested in low yielding assets and also to exit non-core operations in the US market.

In Asia, net loans and advances decreased by $1.6 billion or 48.6%, to $1.7 billion at September 30, 2005, after a decrease of $0.1 billion in the year to September 30, 2004. Excluding the impact of exchange rate movements, net loans and advances decreased by 46.8% in 2005, primarily reflecting Institutional Markets & Services consolidation of the Asian business which saw them exit activities in Seoul, Singapore, Tokyo and Malaysia.

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

Non-accrual loans

	2005			2004		
	Gross $m	Specific provision $m (1)	Net $m	Gross $m	Specific provision $m (1)	Net $m
Australia	**756**	**201**	**555**	700	164	536
Europe	**137**	**68**	**69**	333	159	174
New Zealand	**103**	**33**	**70**	86	19	67
United States	**25**	**13**	**12**	109	32	77
Asia	**1**	**1**		2	1	1
Total	**1,022**	**316**	**706**	1,230	375	855
Percentage of risk-weighted assets	**0.35%**	**0.11%**	**0.24%**	0.43%	0.13%	0.30%

	2005 $m	2004 $m	2003 $m
Net non-accrual loans	**706**	855	1,211
Equity (parent entity interest)	**28,056**	25,900	24,407

Percentage of non-accrual loans to equity	**2.5%**	3.3%	5.0%

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

Total non-accrual loans less specific provision for doubtful debts at September 30, 2005 were $706 million, a decrease of $149 million or 17.4% from the 2004 balance of $855 million, which decreased $356 million or 29.4% from the 2003 balance of $1,211 million. This decrease reflects the Group s continued focus on asset quality in a benign credit environment.

Gross non-accrual loans (being non-accrual loans before specific provision for doubtful debts) at September 30, 2005 were $1,022 million, a decrease of $208 million or 16.9% from the balance at September 30, 2004, which decreased $403 million or 24.7% from the balance at September 30, 2003.

The Group s gross non-accrual loans to risk-weighted assets were 0.35% at September 30, 2005, which decreased from 0.43% at September 30, 2004, largely the result of reductions in non-accrual loans in Europe and the US, as well as the continued focus on asset quality. The Australian component of the gross non-accrual loans at September 30, 2005 was $756 million, which increased $56 million or 8.0% from 2004. In Europe, gross non-accrual loans decreased by $196 million or 58.9%, to $137 million. Excluding the impact of exchange rate movements and the sale of the Irish Banks on February 28, 2005, gross non-accrual loans decreased by 40.2%. In New Zealand, gross non-accrual loans increased by $17 million or 19.8%, to $103 million. Excluding the impact of exchange rate movements, non-accrual loans increased by 22.7%, reflecting the status of a large exposure in the New Zealand banking business. In the US, gross non-accrual loans decreased by $84 million to $25 million. This decrease reflects the reduction in exposures in relation to the Institutional Markets & Services business and the continued exit of non-core operations in the US market.

The Group has specialised business service units operating in each region, which continue to result in the early identification and workout of problem loans.

Provisions for doubtful debts (closing balance by region)

	2005 $m	2004 $m	2003 $m	2002 $m	2001 $m
Australia					
General	**1,258**	1,136	955	972	1,140
Specific *(1)*	**217**	180	248	219	266
	1,475	1,316	1,203	1,191	1,406
Europe					
General	**613**	765	641	808	803
Specific *(1)*	**88**	170	141	169	222
	701	935	782	977	1,025
New Zealand					
General	**160**	158	130	135	154
Specific *(1)*	**35**	21	14	10	10
	195	179	144	145	164
United States					
General	**29**	41	56	75	85
Specific *(1)*	**13**	30	39	48	5
	42	71	95	123	90
Asia					
General	**4**	16	11	32	25
Specific *(1)*	**1**	1	5	2	5
	5	17	16	34	30
Group					
General	**2,064**	2,116	1,793	2,022	2,207
Specific *(1)*	**354**	402	447	448	508
Total provisions for doubtful debts	**2,418**	2,518	2,240	2,470	2,715
Percentage of risk-weighted assets	**0.83%**	0.88%	0.88%	0.98%	1.05%

(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, 2005 were $2,418 million or 0.83% of risk-weighted assets, compared with $2,518 million or 0.88% of risk-weighted assets at September 30, 2004 and $2,240 million or 0.88% of risk weighted assets at September 30, 2003. Of the total provisions for doubtful debts at September 30, 2005, the general provision represented $2,064 million or 0.71% of risk-weighted assets, which remained consistent with the 2004 and 2003 years.

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 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 by the exposure to the customer. 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.

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.

	2005 $m	2004 $m	2003 $m	2002 $m	2001 $m
Provisions for doubtful debts					
Specific (excluding off-balance sheet credit exposures)	**354**	402	447	448	508
General	**2,064**	2,116	1,793	2,022	2,207
Gross non-accrual and restructured loans	**1,027**	1,271	1,633	1,817	1,943
Charge to profit and loss account ordinary	**534**	559	633	697	989
Charge to profit and loss account significant		292			

Ratios (1)	2005 %	2004 %	2003 %	2002 %	2001 %
Provisions for doubtful debts at year end as a percentage of year-end loans (before provisions)					
Specific	**0.13**	0.16	0.19	0.21	0.25
General	**0.78**	0.84	0.78	0.93	1.09
	0.91	1.00	0.97	1.14	1.34
Provisions for doubtful debts at year end as a percentage of year-end loans and acceptances (before provisions)					
Specific	**0.12**	0.15	0.18	0.19	0.23
General	**0.71**	0.79	0.72	0.85	0.99
	0.83	0.94	0.90	1.04	1.22
Provisions for doubtful debts at year end as a percentage of year-end risk-weighted assets					
Specific	**0.12**	0.14	0.18	0.18	0.20
General	**0.71**	0.74	0.71	0.80	0.86
	0.83	0.88	0.89	0.98	1.06
Non-accrual and restructured loans as a percentage of year-end loans (before provisions)	**0.39**	0.50	0.71	0.84	0.96
Charge to profit and loss account (ordinary and significant) as a percentage of					
Year-end loans	**0.20**	0.34	0.28	0.32	0.49
Year-end loans and acceptances	**0.18**	0.32	0.25	0.29	0.45
Average loans and acceptances	**0.19**	0.33	0.26	0.31	0.46
Year-end risk-weighted assets	**0.18**	0.30	0.25	0.28	0.38

(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 on impaired loans.

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 warrant raising of a provision are set out below:

	2005 %	2004 %	2003 %
Specific provision coverage *(1)*	**30.9**	29.4	25.9
Total provision coverage *(1)*	**235.8**	198.1	138.0

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

The general provision provides further coverage against these loans of 204.9% at September 30, 2005, bringing total effective coverage to 235.8%.

Deposits and other borrowings

Total deposits and other borrowings (net of set-offs) decreased by $9.9 billion or 4.5%, to $209.1 billion at September 30, 2005, compared with $219.0 billion at September 30, 2004 and $198.5 billion at September 30, 2003. Excluding the effect of exchange rate movements during 2005, deposits and other borrowings decreased by 1.5%. The decrease primarily reflects the impact of the sale of the Irish Banks on February 28, 2005. Excluding the Irish Banks and the impact of exchange rate movements, deposits and other borrowings increased by $8.0 billion or 4.0%. This underlying increase in deposits and other borrowings has been driven by sound growth in retail deposit volumes in all regions, reflecting more competitive pricing and new product offerings and initiatives, and increased funding requirements of the Group.

Non-interest-bearing deposits at September 30, 2005 represent 5.3% of total deposits compared to 6.2% at September 30, 2004 and 6.6% at September 30, 2003.

In Australia, deposits and other borrowings increased by $2.5 billion or 2.2%, to $118.8 billion reflecting strong growth in on-demand and short-term deposits and term deposits, partly offset by a decrease in certificates of deposit. In Europe, deposits and other borrowings decreased by $15.5 billion or 24.9%, to $46.6 billion. However, excluding the Irish Banks and the impact of exchange rate movements, deposits and other borrowings increased by 1.7%, primarily reflecting growth in on-demand and short-term deposits and securities sold under agreements to repurchase. In New Zealand, deposits and other borrowings increased by $0.5 billion or 2.1%, to $26.2 billion. However, excluding the impact of exchange rate movements the increase was 5.0%, driven by strong growth in retail term deposits. In the US, deposits and other borrowings increased by $2.1 billion or 18.6%, to $13.4 billion. However, excluding the impact of exchange rate movements the increase was 26.4%, reflecting an increase in the National Australia Funding Delaware commercial paper program. In Asia, deposits and other borrowings increased by $0.4 billion or 9.9%, to $4.0 billion. However, excluding the impact of exchange rate movements the increase was 17.1%, mainly due to an increase in on-demand and short-term deposits.

Deposits and other borrowings for the Group as at September 30, 2005 *(1)*

	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total $m
Deposits not bearing interest	6,544	3,248	595	592	2	10,981
On-demand and short-term deposits	51,694	22,529	7,485	2,247	747	84,702
Certificates of deposit	13,934	8,936	3,424	475		26,769
Term deposits	34,065	10,061	13,092	3,063	3,294	63,575
Securities sold under agreements to repurchase	2,429	1,874		805		5,108
Borrowings	10,160		1,576	6,208		17,944
Total deposits and other borrowings	118,826	46,648	26,172	13,390	4,043	209,079

(1) Refer to note 26 in the financial report for comparative information.

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 eg. 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. *(Refer to note 53 in the financial report for further detail.)*

A summary of the Group s assets under management and administration, is set out as follows:

	2005 $m	2004 $m	2003 $m
By type			
Assets under management	**71,012**	65,384	58,390
Assets under administration	**15,007**	10,520	9,414
Assets on trust	**4,856**	5,224	5,289
Total assets under management and administration	**90,875**	81,128	73,093
By region			
Australia	**84,155**	74,032	66,225
Europe	**3,752**	4,214	4,322
New Zealand	**2,304**	2,310	2,030
Asia	**664**	572	516
Total assets under management and administration	**90,875**	81,128	73,093
By investor			
Retail	**65,106**	59,361	56,554
Corporate	**25,769**	21,767	16,539
Total assets under management and administration	**90,875**	81,128	73,093

Total assets under management and administration increased by 12.0% to $90,875 million at September 30, 2005, compared with $81,128 million at September 30, 2004 and $73,093 million at September 30, 2003. The growth in total assets under management and administration is due primarily to increased investment earnings as a result of continued strong investment market conditions in the year to September 30, 2005. In 2004, the growth in total assets under management and administration reflected 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 factors

The following are certain risk factors that may impact the Group s future results. The factors discussed below should not be considered to be the complete list of all potential risks.

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-balance sheet 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 14.

Regulatory risk

The Group is subject to substantial regulation in the countries that it operates. The Group s businesses and earnings are affected by fiscal or other policies that are adopted by various regulatory authorities of the Australian Commonwealth Government, foreign governments and international agencies.

Changes or developments in regulations, including accounting standards, could impact the earnings performance of the Group. The nature and impact of future changes in such policies are not predictable and are beyond the Group s control.

For a discussion of the regulation of the financial services system and changing regulatory environment, refer to pages 14 to 17 in the business overview section. For a discussion of the critical accounting policies, refer to page 67.

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, NZ dollar 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 62.

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 18 in the business overview section.

For a discussion of the Group s risk management procedures, including the management of credit risk and country risk, refer to risk management on pages 60 and 63.

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 105.

For a discussion of the Group s risk management procedures, including the management of market risk, refer to risk management on page 61.

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 independent Operational Risk units, through 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 and compliance, refer to risk management on page 64.

Liquidity and funding risk

The Group is exposed to liquidity risk and its banking entities must comply with the relevant regulatory liquidity requirements of the banking and other regulators in the countries they operate in.

For a discussion of the Group s risk management procedures, including the management of liquidity and funding risk, refer to risk management on page 63.

Legal risk

The Group may be and is subject to certain legal proceedings, and is subject to certain tax disputes with the taxation authorities in Australia and

New Zealand. The outcome of these matters and proceedings could affect the earnings it reports.

For a discussion of certain legal proceedings, refer to page 17 in the business overview section. Refer to note 44 in the financial report for further information on the Group s contingent liabilities, including certain tax disputes.

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, and the co-operation of customers, or third party vendors.

Risk management

Effective management of risk is a key capability for a successful financial services provider, and is fundamental to the Group s strategy.

The Group s approach to risk management is based on an overriding principle that risk management capability must be embedded within the business front-line teams to be effective. This overriding principle embodies the following concepts:

all business decisions proactively consider risk;

business managers use the risk management framework which assists in the appropriate balancing of both risk and reward components;

all employees are responsible for risk management in their day-to-day activities; and

risk management is a core competency area for all employees.

The Group manages risk within an established three lines of defence framework. Control is exercised through clearly defined delegation of authority, with clear and rapid communication and escalation channels throughout the organisation. The first line of defence comprises the business units managing the risks associated with their activities. The second line encompasses dedicated risk functions at both a Group and regional level, which are accountable for independent monitoring and oversight. The third line of defence relates to Internal Audit

independently reviewing, monitoring, and testing business unit compliance with risk policies and procedures, and regularly assessing the overall effectiveness of the risk management framework.

Consistent with the move to a regional model announced in the 2004 year, the Group completed a review of its risk governance framework and the risk management function in January 2005 to improve risk management within the Group by benchmarking against best practice. This resulted in the Group restructuring its risk management functions to align them with the new regional operating model, and to provide clear accountabilities at both a regional and Group level. The revised framework was approved by the Board in April 2005.

At Group level, the Group Risk Management function supports the regions, executive management and the Board through the creation of Group-wide risk principles and policies, and provides aggregated reporting of risk issues, mitigation strategies, and policy changes to Group executive committees, the Principal Board Risk Committee, and ultimately the Principal Board.

There are now four regional risk management teams: Australia, United Kingdom, New Zealand, and Institutional Markets & Services (managed on a global basis). Regional teams independently monitor and systematically assess the risk profile within the regions against established risk appetite parameters. They also assist the front-line businesses in the design and implementation of appropriate risk management policies and strategies, and work with the businesses to promote awareness of the need to manage risk. Together with the Group Risk Management function, efforts continue to evolve the organisational culture and staff behaviours across the organisation globally.

As part of the alignment of the risk management structure to the new operating model, new risk professionals were recruited to fill many key positions, and a new risk leadership team was established comprising the Group Chief Risk Officer, Chief Risk Officers Australia, UK, New Zealand and Institutional Markets & Services, and other senior risk executives. This renewed risk leadership team has brought significant global perspective to the design of the revised risk management framework and effective management of risk throughout the Group.

A new executive Group Risk Management Committee has also been created. This committee is comprised of key senior executives, including the Managing Director and Group Chief Executive, the Director, Finance and Risk, the Group Chief Risk Officer, each of the regional Chief Executive Officers and Executive General Manager Institutional Markets & Services, and serves as the principal risk strategy and policy decision making body within the Group.

This committee is supported by the following four sub-committees, each with a specialised focus:

Group Credit Risk Committee;

Group Market Risk Committee;

Group Operational Risk and Compliance Committee; and

Group Asset and Liability Committee.

Each of the four major regions also has a regional Risk Management Committee comprised of senior regional executives, which serves to provide a leadership focus on key risk issues from a regional perspective.

The Risk Committee of the Board reviews in detail the Group s risk appetite, and oversees the Group s overall risk management framework. This committee focuses on key elements of risk, including regulatory compliance risk, operational risk, market risk, credit risk and balance sheet management.

Refer to page 75 for Risk Committee members, responsibilities and charter.

In response to the March 2004 APRA report on the foreign currency options trading losses, significant progress has been made to improve market risk systems, governance processes, and organisational culture. A key outcome was the reopening in May 2005 of the foreign currency options trading desk. The Group is also progressing with its internal market risk model re-accreditation. Similarly, significant progress has been made in addressing risk systems and procedures in accordance with remedial actions specified by APRA and ASIC in the enforceable undertaking entered into in October 2004.

Refer to the report of the directors on page 105 for further information.

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

Credit risk

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

Group Portfolio Management & Policy, a division of Group Risk Management, is responsible for the development and maintenance of credit policies and key credit risk systems.

The management of credit risk within the Group is achieved through a focus on approval and monitoring of individual transactions and asset quality, analysis of the performance of various credit risk portfolios and the independent oversight of credit portfolios across the Group. Portfolio monitoring techniques cover such areas as industry or geographic concentrations and delinquency trends. Roles and responsibilities between Group Portfolio Management & Policy and the regional credit risks are clearly defined.

Establishing an appropriate credit risk environment

Significant credit risk strategies and policies are approved, and reviewed annually, by the Risk Committee and the Board. Through such policies, the Board establishes the Group s tolerance for risk. These policies are delegated to, and administered under the guidance and control of, management.

The Group s credit policies, which are subject to ongoing review, are documented and published 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, Group Portfolio Management & Policy provides a policy framework 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 Principal 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. Key considerations include:

establishment of overall credit limits at the level of both individual counterparties and groups of connected counterparties for 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 considerations 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 focal 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, along with adequate control over back-office procedures (such as the monitoring of contractual requirements, documentation, legal covenants and collateral), are recognised as vitally important aspects of the end-to-end credit process.

The Group assigns these responsibilities to various business units, together with centralised units, which support the branch network and business bankers.

Monitoring the condition of individual credits in the business units principally rests with the customer-facing relationship managers, with overview by Risk Management credit executives.

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 Risk Committee and the Audit Committee.

Credit processes and policy compliance are subject to internal auditing. In addition, targeted credit reviews of specific business units or regions are undertaken by Risk Asset Review teams. Risk Asset Review is an independent unit reporting to the Group Chief Risk Officer. Credits found by this team to be outside agreed parameters are reported to the appropriate levels of authority for attention.

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

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.

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. The management of market risk is segregated between risk derived in the Group s trading activities and risk resulting from mainstream banking activities.

Trading risk management

Responsibility for the oversight of traded market risk devolves from the Board to the Managing Director and Group Chief Executive, to the Group Chief Risk Officer and then to the General Manager, Market Risk.

Traded market risk is primarily managed and controlled using Value at Risk (VaR) methodology. The global VaR limit is approved by the Board and delegated at the discretion of the Managing Director and Group Chief Executive. Approval of limits for specific businesses is at the joint discretion of the General Manager, Market Risk and the Executive General Manager, Institutional Markets & Services Markets.

VaR methodology

VaR is an estimate of potential losses resulting from shifts in interest rates, currency exchange rates, traded credit spreads, 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. This method involves multiple revaluations of the trading books using two years of historical pricing shifts. The results are ranked and the loss at the 99th percentile confidence interval identified. The calculation and rate shifts used assume a one-day holding period for all positions.

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. If market volatility or correlation conditions change significantly, losses may occur more frequently and to a greater magnitude than in the VaR measure;

VaR methodology assumes that positions are held for one day and may underestimate losses on positions that cannot be hedged or reversed inside that timeframe;

VaR is calculated on positions at the close of each trading day, and does not measure risk on positions taken and closed before the end of each trading session; and

the VaR measure does not describe the directional bias or size of the positions generating the risk.

Given these limitations of VaR methodology, the Group employs supplementary risk measures with appropriate limits and referral levels to manage and control risks, and communicate the specific nature of market exposures to executive management, Risk Committee and the Board. These supplementary measures include stress testing, foreign exchange positions limits, and various sensitivity and limits.

Relationship between risk measures

Given the variance in the levels of detail and differing valuation shifts used to calculate these measures, the Group recognises the need to harmonise the specific desk controls with VaR. To this end, Market Risk conducts a systematic calibration program supported by ongoing portfolio analysis, to maintain consistency across different risk controls.

Changes in VaR methodology

In previous years, the Group has used a global VaR, calculated as the sum of the VaR for each of the regions in which the Markets division operates. During the year, the Group revised the calculation methodology to take into account the benefits of risk offsets between the regions. In addition, the Group commenced integration of the calculation of VaR attributable to movements in spreads on credit products into the overall VaR analysis. This is an area which is subject to the remedial work (*refer to page 65*).

The following table shows the Group s VaR for all controlled banking entities trading portfolios, including both physical and derivative positions:

Value at risk at 99% confidence interval	**2005 (1) $m**	**2004 $m**
Average value for year ended September 30		
Foreign exchange risk	**3**	7
Interest rate risk	**13**	13
Volatility risk	**1**	5
Commodities risk		1
Credit risk *(3)*		
Diversification benefit	**(3)**	(6)
Total	**14**	20
Minimum value for year ended September 30 *(2)*		
Foreign exchange risk	**1**	1
Interest rate risk	**9**	7
Volatility risk	**1**	1
Commodities risk		
Credit risk *(3)*		
Diversification benefit		
Total	**11**	9
Maximum value for year ended September 30 *(2)*		
Foreign exchange risk	**7**	39
Interest rate risk	**18**	21
Volatility risk	**3**	20
Commodities risk	**1**	2
Credit risk *(3)*	**1**	
Diversification benefit	**(10)**	(27)
Total	**20**	55

(1) VaR in 2005 has been calculated on a global diversified basis. 2004 numbers have not been restated.

(2) VaR is measured individually according to foreign exchange risk, interest rate risk, volatility risk, commodities risk and credit risk. The individual risk categories do not sum up to the total risk number due to diversification benefit.

(3) As of June 1, 2005, market risk included credit VaR as part of the internal model calculation.

Balance sheet (non-trading) risk

Balance sheet market risk includes structural interest rate risk, foreign exchange risk, funding and liquidity and capital risk.

The primary objective for the management and oversight of balance sheet market risk is to maintain the risk profile within approved risk appetite and limits, while implementing strategies that optimise stable current and future earnings from the impact of market volatility.

Policies, inclusive of risk appetite and limits, are approved by the Board, with Group authority delegated to the Group Asset and Liability Management Committee (Group ALCO) and Regional Asset and Liability Management Committees (Regional ALCOs) for their subsequent implementation and monitoring.

The management of balance sheet market risk resides with Group Treasury, which was established in November 2004, with Regional Treasuries established within the regional businesses.

Risk oversight in this area is the responsibility of the Group Non-Traded Market Risk team. This team was established in January 2005, to strengthen the risk governance framework by introducing standards of independence and control resilience consistent with traded market risk, with teams in place across the regional businesses.

Group ALCO and the Regional ALCOs meet monthly, and report to the Group Risk Management Committee and the Principal Board Risk Committee.

Structural interest rate risk

Structural interest rate risk comprises the sensitivity of the Group s current and future net interest income to movements in market interest rates.

There are three major contributors to interest rate risk:

the investment of non-interest bearing deposits and equity into interest-bearing assets;

the mismatch between repricing dates of interest-bearing assets and liabilities; and

the inability of the pricing basis for asset and liability products sold to customers to be replicated in the financial markets (ie. basis risk).

Within the objective of securing stable and optimal net interest income over both a 12-month period and over the long term, mismatch risk can be minimised. The investment of equity and non-interest-bearing deposits targets the stability of net interest income.

Interest rate risk is principally managed through the use of interest rate swaps, forward rate agreements, overnight index swaps and futures. All products are used within approved mandates, with strategies subject to monthly reporting to Group ALCO and Regional ALCOs.

Interest rate risk management across the Group is directed by Group Treasury, with execution on a regional business basis. Group ALCO monitors risk to ensure it remains within approved policy and limits set by the Board.

Basis risk is more difficult to manage, given limited market liquidity in basis risk products. To mitigate this risk, Group Treasury and the Group Non-Traded Market Risk team closely monitor pricing strategies, product innovation and marketing, since these play an important role in reducing the mismatch attributable to repricing characteristics of assets and liabilities sold to customers.

As a further step in its commitment to strengthen the risk management and oversight framework, the Group has introduced VaR as one of its principal measures for interest rate risk, along with an Earnings at Risk (EaR) measure that calculates the impact on future net interest income over the next 12 months. These limit measures are calibrated to calculate structural interest rate risk and are complemented by sensitivity and scenario analysis.

These risk measures and the independence of Group Treasury and Non-Traded Market Risk management structures have contributed to a more transparent interest rate risk management framework within Board approved risk appetite and limits.

The table below presents a summary of the aggregated structural interest rate risk relating to non-trading assets and liabilities. The table contains forward-looking statements (*refer to forward-looking statements on page 4)*. Based on the structural interest rate risk position at balance date, the table shows the potential impact on net interest income, for the year ending September 30, 2006 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 controlled branches and controlled entities, excluding life insurance and fund management entities. Structural interest rate exposure in some countries may be biased towards rising interest rates, whilst in others may be biased towards declining interest rates, depending on different economic conditions or cycles.

	Forecast effect on net interest income 2006 (1)		Forecast effect on net interest income 2005 (2)	
	Rates up 1% $m	Rates down 1% $m	Rates up 1% $m	Rates down 1% $m
Australian operations	42	(42)	50	(50)
Non-Australian operations	10	(10)	43	(44)

(1) Represents the forecast effect on net interest income for the year ending September 30, 2006 as calculated by the EaR measure introduced during the 2005 year. 2004 numbers have not been restated on a comparable basis of measurement.

(2) Represents the comparative forecast effect on net interest income (as at September 30, 2004) for the year ended September 30, 2005.

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 is 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.

Transaction foreign exchange 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 risk

Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due at acceptable cost. 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 branches and banking entities comply with the regulatory liquidity requirements of the banking regulators in Australia, UK, New Zealand, US, Hong Kong, and other geographies as required. The Group s wealth management businesses also comply with the regulatory liquidity requirements of its Australian Financial Services Licences and equivalent non-Australian regulatory requirements.

Liquidity within the banking Group is managed in accordance with policies approved by the Board, with oversight from the regional bank s ALCO and the 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 Standard APS 210 Liquidity (APS 210). 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 44.

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, wherever possible, to 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 of the Group 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. These limits are reflective of the amount of economic capital the Group is prepared to place at risk through cross border exposures. The Board approves and reviews individual country limits periodically. Compliance monitoring occurs daily with reporting to the Risk Committee periodically.

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 and advances, 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, 2005						
Germany	5,819	4,511	364	13	10,707	2.6
US	458	5,123	3,188	208	8,977	2.1
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

In addition, as at September 30, 2005, the US had off-balance sheet commitments of $4,342 million (2004: $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. Comparative information for the 2003 year was restated to reflect these changes.

Operational risk and compliance

Operational risk is the risk of loss resulting from inadequate or failed processes, people or systems or from external events. This includes risk relating to the management of ongoing activities, regulatory compliance as well as to organisational changes such as project and change initiatives.

Compliance is the requirement to comply with external regulatory and legal obligations in addition to operating within Group and regional policies and standards. This includes risk relating to reputational impact, 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.

In response to several recent major operational risk events, the Group has placed significant focus on improving its operational risk management and compliance processes and systems. One area of improvement has been the governance process supporting operational risk management, including, in particular, revisions to the Risk Committee structures and the reporting and escalation of issues. The Group has formalised the operations of regional and Group Risk Committees which report to the Principal Board Risk Committee.

Various reports are produced at management, Board sub-committee and Board level to assist with their oversight and monitoring obligations. An enhanced, quarterly risk reporting process has recently been established, in which each business unit defines its major operational risks and risk mitigants. This process has generated greater visibility and understanding of the Group s overall operational risk profile.

During the year, the Board approved a new Operational Risk and Compliance Framework (ORCF). This is based on a set of core principles and defines the Group s standards for operational risk management and compliance. Its design recognises the importance of embedding operational risk and compliance into business-as-usual activities. It has particular focus on defining and implementing the right behaviours and incorporating risk considerations into the Group s systems and processes and is a key component of the Group s efforts to prepare for Basel II Capital Accord implementation.

The ORCF includes:

an established governance structure that is used to ensure consistent application, management and reporting of the operational risk management process. This element also includes the establishment and communication of the Group s operational risk appetite, an essential element in the business strategy and also underpins all operational risk management activities; and

a structured risk management process to facilitate the identification, quantification and management of risks.

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, along with actuarial assumptions underlying portfolio management, are independently 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 Group Chief Executive, and the Director, Finance and Risk must each review and evaluate the Company s disclosure controls and procedures, including internal control over financial reporting. Under that Act, the Managing Director and Group Chief Executive, and the Director, Finance and Risk 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, 2005, under the supervision of and with the participation of the Company s management, including the Managing Director and Group Chief Executive, and the Director, Finance and Risk. Based on that evaluation, the Company s Managing Director and Group Chief Executive, and Director, Finance and Risk concluded that as of the evaluation date such disclosure controls and procedures were not effective due to the following matters:

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. In the investigation of those losses it was found that, in the Institutional Markets & Services 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. It was also found that 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.

In March 2004, APRA conducted a review of the Company s market trading activities. The review identified specific actions required by the Company, and further conditions were imposed as follows:

the Company would remain under close supervision by APRA until these actions were implemented;

the Company s internal target total capital adequacy was to rise to 10%;

the Company s approval to use an internal model to determine market risk capital was withdrawn; and

the Company s currency options desk was to remain closed to corporate business and proprietary trading until substantial progress has been made to redress the issues raised by APRA in its report.

In response to the March 2004 APRA report on the foreign exchange options trading losses, significant progress has been made in addressing deficiencies in market risk systems, governance processes, and organisational culture. Controls over financial reporting processes have been improved with all relevant issues identified through the APRA review either fully remediated or alternative controls reviewed and relied upon for financial reporting.

A key outcome was the reopening, in May 2005, of the foreign currency options trading desk. The Company is also progressing with its internal market risk model re-accreditation. Similarly, significant progress has been made in addressing risk systems and procedures in accordance with the remedial actions specified by APRA and the ASIC enforceable undertaking.

While significant improvements have been made to the Company s risk management framework over the last 18 months, there is still work to complete in the following areas:

design and implementation of improved governance structures;

validation of complex models;

regular reconciliation of key data flows; and

improvements to the corporate culture.

Dedicated resources are deployed on all of these initiatives.

Organisational and cultural change: Since the discovery of the foreign currency options trading losses, as described above, the Company has embarked upon a journey to transform its culture across all levels of the organisation, including the Board and senior management. There was recognition that the Company s 2004 results, and its reputation, were adversely impacted by compliance issues, insufficient accountability, and the lack of a clear cultural framework. This had a direct impact on the effectiveness of disclosure practices throughout the Company.

As part of its cultural transformation work, the Company has:

restructured its finance and risk management functions to provide clear accountabilities at both a regional and group level;

continued to drive significant changes in the culture of the organisation, including the visibility and accountability of its leadership group;

continued to communicate and embed the Corporate Principles - with 2005 short term incentive payments for senior management specifically tied to the achievement of the behaviours outlined in those Principles; and

assembled a team of experts in the field of cultural transformation to bring more validity checks, discipline and measurement to this area.

The Company has continued to introduce processes and procedures to build integrity and honesty in all that it does. It has focused on equipping leaders to make informed decisions to grow the business and role model the Corporate Principles throughout the organisation.

In 2005 there has been a clear focus on embedding these changes and setting the direction for the future. While the indicators show a positive shift in the culture, further improvement is still required. Transformation initiatives will be progressed throughout 2006.

Reconciliation with US GAAP: During the year the Group has undertaken a review of its US GAAP reporting process. During this process, a number of specific errors in prior period reporting have been identified.

In order to ensure the controls and procedures were improved to support the financial statements at year-end, the Company made the following changes in the Company s internal control over financial reporting with regards to reconciling with US GAAP:

increased the focus and number of resources skilled in US GAAP; and

increased the amount of US GAAP reconciliation analysis and documentation.

These improvements have identified a number of adjustments that have been reflected in this annual financial report *(as set out in note 56 in the financial report).*

As at the date of this report, these matters have been addressed and the reconciliation with US GAAP is materially correct. Continued focus will be maintained on this area to ensure the quality of analysis and documentation remains at a high level.

Extent of manual processes necessary in order to compensate for the identified system deficiencies: While the core financial information systems of the Company are considered to be sound and controlled effectively, there remains scope for improvement to the Company s disclosure controls and procedures and internal controls over financial reporting due to the significant over-reliance on manual processes and key personnel to compensate for identified system deficiencies.

During the year, as part of projects such as the Sarbanes-Oxley 404 project *(refer below for further discussion on the Sarbanes-Oxley 404 project)*, management has started to take significant steps to address some of these issues, and will be upgrading key systems such as the company s consolidation system to reduce the reliance on manual processes and enable more timely reporting.

Changes in the Company s internal control over financial reporting that occurred during the 2005 year

In addition to the changes described above, changes were also made in the Company s internal control over financial reporting during the year in order to address the other issues previously referred to in the annual financial report 2004.

Specifically, the following changes were made:

Reporting of non-accrual loans and 90 days past due loans: The Company continued to implement procedures to improve its data collection procedures used to establish its 90 days past due exposures, as weaknesses in these

procedures had been identified in 2004. The disclosures in this annual financial report reflect those further improved procedures.

The improvements made in 2005 include:

the Company s accounting and credit risk policies being better aligned to APRA s guidelines particularly with respect to the classification of 90 days past due loans assessed on a portfolio basis to ensure a consistent application across the Company; and

improvements at the technical processing level, (principally in relation to the definition of default), and stronger controls installed to enhance accuracy in classifying the impaired status of lending assets.

The deficiencies previously identified have been addressed and the reporting of non-accrual loans and 90 days past due loans is correct in all material respects.

Cross border outstandings: The improved process established in 2004 for defining and collating cross border information for financial reporting purposes has continued to be applied in 2005. The cross border outstandings by industry category, including the 2004 and restated 2003 comparatives are now completed and disclosed on a consistent basis.

The deficiencies previously identified have been addressed and the reporting of cross border outstandings within the annual financial report is correct in all material respects. Work continues to be undertaken in respect of ensuring these improvements are also made in our regulatory reporting to APRA.

In addition, there are two adjustments included in the notes to the financial statements. These relate specifically to (1) certain balance sheet reclassifications following introduction of a Group wide chart of accounts *(refer to note 1(d))* and (2) disclosure of off-balance sheet credit related commitments *(refer to note 44)*. The matters identified giving rise to these adjustments have all been addressed during the reporting period.

Sarbanes Oxley Act of 2002 **Section 404 project**

During the financial year, the Company continued with the Sarbanes Oxley 404 project focusing on internal control over financial reporting. In summary, the project has:

reviewed the end to end control framework over financial reporting for all significant accounts;

documented key processes and controls supporting financial reporting;

developed a testing strategy for key controls;

performed key controls testing;

assessed the results of controls testing and any impact on the preparation of the financial statements;

reviewed progress of improvement activities identified and where appropriate ensured that there were sufficient compensating controls in place supporting the preparation of the financial statements; and

reported the outcomes of the project to senior management, the audit committee and the external auditor.

Transactions with related and other non-independent parties

In the year to September 30, 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.

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 loss in the event of default (taking into account 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 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 the 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 (ie. 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 twice yearly 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 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 in the statement of financial performance 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 in 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 plans 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 are 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 are 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.

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 has evaluated the impacts of the relevant AIFRS. *Refer to note 2 in the financial report for additional information on the impact of adoption of AIFRS by the Group.*

United States Generally Accepted Accounting Principles

Refer to note 56 in the financial report for additional information on the impact of changes in US GAAP on 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 interest 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, Trust Preferred Securities and Trust Preferred Securities II, 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 this 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 8 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.

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 (Group). Corporate governance is a matter of vital importance in the Group and is undertaken with due regard to all of the Group 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 2005 year, or in other periods as referred to below, are discussed in this section.

The 2004 year was one of transformation with the events of the year being a catalyst for cultural change and renewal in the Group. The Board Renewal Program was completed in December 2004, with the appointment of Mr Michael A Chaney as an independent non-executive director. Mr Chaney took over as Chairman of the Company in September 2005, following the resignation of Mr Graham J Kraehe, which had been foreshadowed in 2004 and confirmed at the 2005 annual general meeting. In addition, Mr T Kerry McDonald, Chairman of Bank of New Zealand, attended Board meetings during the year as a consultant to the Board. Both he and Mrs Patricia A Cross were appointed as non-executive directors of the Company on December 1, 2005.

The Board Renewal Program has brought about a change in the mix of skills and experience on the Board, adding additional skills and experience particularly in banking and finance. The Board has the mix of skills and experience required for an international financial services organisation of the size and complexity of 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 Managing Director and Group Chief Executive heads a Group Executive Committee comprising himself, the executive directors and certain of the executive general managers.

Integrated governance

The Board and the Group Executive Committee are committed to improving the effectiveness and efficiency of financial and risk management of the Group and a major restructure of the Group s capability in these areas commenced during the year. The overall objective has been to enhance performance and long term shareholder returns by strengthening financial and risk management, decision support and governance, improving the quality of risk reward trade-off analysis and, correspondingly, minimising costs associated with the mismanagement of risks. This has involved a review and closer alignment of the Group and regional management committees, particularly the management Risk Committees, focusing on operational, credit, market, balance sheet and interest rate risks. These developments are ongoing and are designed to identify, examine and escalate any 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;

serve in the interests of all stakeholders, being the shareholders, customers, regulators, staff and the commun

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;

clarify, formally articulate and from time to time review and approve adjustments to the risk appetite of the Group with the guidance of the Risk Committee;

clarify, formally articulate and from time to time review and approve adjustments to the risk appetite of the Gro

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 securities are listed; and

review and monitor the reporting to shareholders and regulators, providing objective, comprehensive, factual a

monitor and receive reports from the Audit Committee in relation to internal controls and internal and external audit reports;

monitor and receive reports from the Audit Committee in relation to internal controls and internal and external a

Risk management and compliance

establish, monitor and review the risk management processes with the guidance of the Risk Committee;

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 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;

review and monitor processes for the documentation and regular review and updating of the Group's risk prof

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 Group Chief Executive and senior management;

review and monitor the performance of the Managing Director and Group Chief Executive and senior manager

review and approve executive remuneration with the guidance of the Remuneration Committee;

approve all appointments of directors to the boards of controlled entities and appointments made by the Group to non-controlled entities; and

approve all appointments of directors to the boards of controlled entities and appointments made by the Group

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 Board composition, director selection, Board processes and performance with the guidance of the Nor

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

monitor and review the processes to assist directors in having sufficient time to devote to Board matters in ord

review the charter and its continuing adequacy from time to time.

The Board has delegated authority and responsibility to the Managing Director and Group Chief Executive to manage the day-to-day affairs of the Group. These delegated authorities are broad ranging and are subject to strict limits which may be sub-delegated. Such authorities and responsibilities include strategic development and the implementation of Board approved strategies, the achievement of operational plans within a comprehensive risk management framework and the corporate principles, the development of an appropriate corporate culture and sound relationship management with all of the Group s stakeholders.

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 Company to fulfil its goals and responsibilities to shareholders and other key stakeholders.

The composition of the Board is based on the following factors:

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 of the Board should be an independent non-executive director and shall be elected by the direct

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 should comprise directors with a broad range of expertise, skills and experience from a diverse rang

The Board is composed of a majority of independent non-executive directors. There are three executive directors and 11 independent non-executive directors. The role of Chairman and the role of Managing Director and Group Chief Executive are held by two separate individuals. The Chairman is an independent non-executive director and the Managing Director and Group Chief Executive is an executive director. The other executive directors are the Director, Finance and Risk and the Chief Executive Officer, Australia.

The skills, experience, expertise and commencement dates of the directors are set out in the report of the directors.

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 New York Stock Exchange, Inc. 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 Group Chief Executive, 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 of the directors.

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, through 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.

The Company has formal letters of appointment for each of its directors, setting out the key terms and conditions of the appointment.

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 Group Chief Executive 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 assesses the performance of each director due to stand for re-election and determines if the Board will recommend to the shareholders that they vote in favour of the re-election, or otherwise, of each such director.

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. *The commencement dates of the directors are set out in the report of the directors on pages 101 to 103*. 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 Group Chief Executive, 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 details.

Management conducts additional presentations and tutorial sessions for directors from time to time regarding the Group, and 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, including the impact of Basel II, risk appetite and the process of securing APRA s re-accreditation of the Group s internal risk models. 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 are set out in the report of the directors. 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 the United Kingdom, 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 periodic reviews and evaluation of the performance of the Board through the Nomination Committee. External experts are engaged as required to review many aspects of the Board s activities and to assist in a continuous improvement process to enhance the effectiveness of the Board. During the year, the Board conducted an assessment of its activities and of the performance of individual members of the Board. An external expert interviewed each member of the Board and members of senior management before preparing a report which was discussed by the Board as a whole.

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)*. As a large number of directors had been appointed to the Board before the last annual general meeting held in January 2005 and stood for election at that meeting, this annual review did not proceed in the year under review, other than in relation to a then continuing director, Mr Kraehe and a director Mr Tomlinson, the subject of a shareholder resolution seeking his termination. In both cases, the directors continuing appointment was endorsed. A review of the directors standing for re-election at the January 2006 annual general meeting was conducted after the close of the 2005 year. The Board has endorsed the re-election of these directors.

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 Remuneration 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 the remuneration report which forms part of the report of the directors, and in note 51 in 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 Remuneration Committee provides guidance to the Board in respect of these matters.

The remuneration policy for senior executives is set out in the remuneration report and in note 51 in 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.

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 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 and exercises no 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 directors under terms and conditions that would normally apply to the public. 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 in the financial report for further information.*

Access to management

Board members have complete and open access to members of management, with the Chairman, and the Managing Director and Group Chief Executive being informed.

The Company Secretary provides advice and support to the Board and is responsible for the day-to-day governance framework of the Group.

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 Company 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.

During the year under review, the Board and the members of the Principal Board Audit Committee received independent professional advice.

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 Group.

Further, directors, officers and certain 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 imposed by the laws of other jurisdictions that apply to the Company and its directors, officers and employees.

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 fully paid ordinary 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 shares, performance options and performance rights as approved by shareholders.

Details of all shareholdings by directors in the Company are set out in the report of the directors and note 51 in 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.

Clear guidelines have been 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
- Remuneration 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 are:

Mr Peter JB Duncan (Chairman);

Mr Robert G Elstone;

Mr Paul J Rizzo; and

Mr John M Stewart.

In December 2005, rotations will occur in the membership of the Risk Committee. The members of the Risk Committee after these changes will be: Mr Robert G Elstone (Chairman); Mrs Patricia A Cross; Mr Paul J Rizzo; and Ms Jillian S Segal.

It is appropriate that members of the Risk Committee have a range of different backgrounds, skills and experiences, having regard to the operational, 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 risks;

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 charters and modes of operation were developed for the Group Risk Management Committee, the Group Credit Risk Committee, the Group Market Risk Committee, Group Asset and Liability Committee and the Group Operational Risk and Compliance Committee. The charters of the regional Risk Committees have also been reviewed.

The Risk Committee met on 12 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 of the directors.

More comprehensive details on risk management appear on pages 59 to 64.

Audit Committee

Membership

The members of the Audit Committee are:

Mr John G Thorn (Chairman);

Mr Daniel T Gilbert;

Mr Paul J Rizzo; and

Ms Jillian S Segal (joined March 2005).

During the year, Mr Peter JB Duncan stood down as a member of the Audit Committee.

In December 2005, rotations will occur in the membership of the Audit Committee. The members of the Audit Committee after these changes will be: Mr John G Thorn (Chairman); Mr Daniel T Gilbert; Mr T Kerry McDonald; and Mr Paul J Rizzo.

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 those of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, the corporate governance standards of New York Stock Exchange, Inc. and the US *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.

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 of the directors.

Audit Committee financial expert

The Board has determined that Mr Thorn is an audit committee financial expert and is independent as defined in the listing standards of New York Stock Exchange, Inc. Although the Board has determined that Mr Thorn has the requisite attributes defined under the applicable rules of the US 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 12 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.

Access to the Committee

To draw appropriate matters to the attention of the Committee, the following individuals have direct access to the Committee: Managing Director and Group Chief Executive, Director, Finance and Risk, Deputy Group Chief Financial Officer, Group Financial Controller, Group Chief Risk Officer, Chief General Counsel, the external auditor, General Manager, Internal Audit and the consulting actuary. Direct access means that the person has the right to approach the Committee without having to proceed via normal reporting line protocols.

Other employees of the Group may have access to the Audit Committee through the Whistleblower Protection Program . *Refer to page 80 for further information on the Whistleblower Protection Program .*

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 ASX 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 specifically require that these responsibilities rest with the Audit Committee and not the Board.

Shareholders approved the appointment of Ernst & Young as the new external auditor at the Company s annual general meeting held on January 31, 2005. KPMG formally resigned as the Company s external auditor on that same date.

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 half yearly.

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 former external auditor, KPMG, 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 18 in the business overview section.

Internal audit

The Audit Committee is responsible for reviewing the scope of the annual internal audit plan with management and the external auditor and reviewing periodic reports on the effectiveness of the financial risk management review processes.

The Audit Committee is also responsible for assessing whether the Internal Audit function is independent of management and is adequately staffed and funded. The Committee also assesses the performance of the General Manager, Internal Audit and may recommend to the Board, the appointment and dismissal of this General Manager.

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 applies these 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 Ernst & Young and KPMG to the Group and the fees paid or due and payable for those services are set out in the report of the directors 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 80 for further information).*

Nomination Committee

Membership

The Nomination Committee s members are:

Mr Michael A Chaney (Chairman) (joined December 2004, appointed Chairman September 2005);
Mrs Patricia A Cross (joined December 2005)

Mr Peter JB Duncan;

Mr Robert G Elstone;

Mr Daniel T Gilbert;

Mr T Kerry McDonald (joined December 2005)

Mr Paul J Rizzo;

Ms Jillian S Segal;

Mr John G Thorn;

Mr Geoffrey A Tomlinson; and

Mr G Malcolm Williamson,

acting in committee.

During the year, Mr Kraehe retired as a member and Chairman of the Committee. All members of the Nomination Committee are independent directors.

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.

The number of meetings attended by each member during the year is set out in the report of the directors.

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 Group Chief Executive, Chief Executive Officer, Australia and Director, Finance and Risk;

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.

Succession planning

The Nomination Committee reviews the succession planning for the Board and senior management and reports to the Board on such issues.

Remuneration Committee

Membership

The Remuneration Committee s members are:

Mr Geoffrey A Tomlinson (Chairman);

Mr Peter JB Duncan (joined August 2005);
Ms Jillian S Segal; and

Mr John G Thorn.

The number of meetings attended by each member during the year is set out in the report of the directors.

In December 2005, rotations will occur in the membership of the Remuneration Committee. The members of the Remuneration Committee after these changes will be: Mr Peter JB Duncan (Chairman); Ms Jillian S Segal; Mr Geoffrey A Tomlinson; and Mr G Malcolm Williamson.

Responsibilities and Remuneration Committee charter

The Remuneration Committee s role, responsibilities, composition and membership requirements are documented in a Remuneration 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 Remuneration 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 Group Chief Executive and for senior executives who report directly to the Managing Director and Group Chief Executive;

the remuneration arrangements for non-executive directors on the Board;

the recruitment, retention and termination policies and procedures for senior executives; and

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.

Performance review

The Board reviews performance and sets the remuneration package applicable to the Managing Director and Group Chief Executive, the Chief Executive Officer, Australia and the Director, Finance and Risk, following recommendations from the Remuneration 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 the remuneration report.

Controlled entities

The activities of every company in the Group are overseen by its 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 describe the specific roles, duties, responsibilities and rights of the directors of controlled entities. Such guidelines describe 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.
Mr T Kerry McDonald is Chairman of Bank of New Zealand. Directors of controlled entities are normally selected from among the outstanding business people in the local market in which the entities operate. A 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. 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 and publications and online. These include:

the Company s annual general meeting, which will be held in Sydney on January 30, 2006;

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, Luxembourg, New York, New Zealand, Switzerland and Tokyo, and to ASIC and the SEC;

letters from the Managing Director and Group Chief Executive or the Chairman to specifically inform shareholders of key matters of interest; 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. Beneficial owners have the opportunity to take an active interest in the affairs of the Group by visiting the Group s website at www.nabgroup.com

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 disclosure policy in place, which is intended to maintain the market integrity and market efficiency of the Company s securities listed on international stock exchanges. The policy may be found on the Group s website www.nabgroup.com

The Company has established written guidelines and procedures to supplement the disclosure policy which are designed to manage the Company s compliance with the continuous disclosure obligations to the various stock exchanges on which the Company s securities are listed (including ASX) and to attribute accountability at a management level for that compliance.

ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations

The Company believes that throughout the 2005 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:

under Recommendation 7.2 of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, the Managing Director and Group Chief Executive and the Director, Finance and Risk are required to state to the Board in writing that the certification 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 Group Chief Executive and the Director, Finance and Risk for the year ended September 30, 2005 referred to matters arising from their evaluation of the Company s disclosure controls and procedures, being the discovery of unauthorised trading in foreign currency options, organisational and cultural change, reconciliation with US GAAP, and the extent of manual processes necessary in order to compensate for identified system deficiencies. As reported in the Company s half year consolidated financial statements, the certificates given for the six months to March 31, 2005 were qualified in a similar manner, except for reconciliation with US GAAP, which arose after the half year.

Comparison of the Company s practices with New York Stock Exchange, Inc. Corporate Governance Standards

In 2004, New York Stock Exchange, Inc. adopted 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 (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 a brief and general summary of the 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 during the year, the Nomination Committee was composed of both independent and non-independent directors. The Committee is currently 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 in 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

The Board has worked with management to develop a set of Corporate Principles, which are 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 Corporate Principles. Measures will also be introduced to monitor whether employees are living these Principles and behaving appropriately and consistently.

A reward strategy and a 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. Co-ordinated through the Learning Resource Centre on the intranet, all Australian employees are required to complete mandatory compliance training in a range of topics, including the Code of Conduct, the Code of Banking Practice, privacy, disability and trade practices.

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 Group Chief Executive, Director, Finance and Risk 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.

In addition, staff are urged to escalate issues which they believe could have a material impact on the Group s profitability, reputation, governance or compliance.

Remuneration report

Remuneration Committee

Role

The membership, responsibilities, authority and activities of the Remuneration Committee (formerly the Human Resources Committee) are set out in the Remuneration Committee charter, which has been approved by the Board. A full copy of the charter is available on the Group s website at www.nabgroup.com

The responsibilities of the Remuneration 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 Group Chief Executive and for senior executives (ie. those executives who report directly to the Managing Director and Group Chief Executive);

the remuneration arrangements for non-executive directors on the Board (as listed on page 98);

the recruitment, retention and termination policies and procedures for senior executives; and

key appointments and executive succession planning (including one or more reports and presentations to the Board each year);

oversee the Group s general remuneration strategy; and

monitor the Group s culture and reputation and review behavioural standards on a regular basis, and report and submit recommendations to the Board.

The Remuneration Committee has delegated authority from the Board to approve:

changes to the factors regarding the measurement of short-term performance, which impact incentives and the general employee share offer;

incentive pool amounts;

offers under existing share, performance 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 total number of securities approved by the Board); and

fees payable to non-executive directors of controlled entity boards.

Membership and meetings

The following outlines the member composition of the Remuneration Committee during the year:

Mr Geoffrey A Tomlinson (Chairman);

Mr Peter JB Duncan (joined August 2005);
Ms Jillian S Segal; and

Mr John G Thorn.

The Remuneration Committee met seven times during the year. *The number of meetings attended by each member during the year is set out in the report of the directors.*

The Chairman of the Board, the Managing Director and Group Chief Executive, the Executive General Manager, People & Culture and General Manager, Executive Programs attend the Remuneration Committee meetings by invitation and have assisted the Remuneration Committee in its deliberations, except on matters associated with their own remuneration.

Advisers

External specialist remuneration advice is sought in respect of remuneration arrangements for non-executive directors of the Board (and the Company s subsidiary boards in Australia and overseas) and senior executives of the Group. General reward advice is sought on an ad hoc basis. Principal advisers include Egan Associates, Mercer Consulting and PricewaterhouseCoopers, whose advice is sought on matters including the review of frameworks and concepts, market remuneration data, equity valuation, and performance hurdle measurement and testing.

Reward policy

The Company operates an integrated global reward strategy that covers all elements of performance and reward ie. performance management, talent management, fixed remuneration, short-term incentive (STI), and long-term incentive (LTI).

The following outlines the Group-wide philosophy and principles of that strategy.

The Remuneration Committee regularly reviews the reward philosophy and principles to ensure they remain contemporary and consistent with generally accepted market practice, both in Australia and within the global markets in which the Group operates.

Reward philosophy

The Company s overall philosophy is to manage a Total Reward framework designed to:

focus on creating value for shareholders by rewarding employees based on enhancement of sustainable shareholder value;

create an environment that will attract top talent, and where people can be motivated with energy and passion to deliver superior performance;

recognise capabilities and promote opportunities for career and professional development;

provide rewards, benefits and conditions that are competitive within the global markets in which the Group operates; and

provide fair and consistent rewards across the Group, which support corporate principles.

Reward principles

The Company s reward philosophy has been translated into a number of tangible reward principles. Central to this is that the highest performers and those showing greatest potential and future capability should receive the greatest rewards. The reward principles set out the manner in which performance should be assessed and recognised, and how performance should then impact the components of total reward.

Performance and Talent Management

The principles start with a robust Performance Management Framework that is used across the Group, including both financial and non-financial key performance indicators (KPIs). Non-financial measures may include management and development of talent and behaviour. This is followed

with a formal Executive Talent Process for senior management, which provides a forward-looking view of an individual s potential capability. Both of these frameworks are set out in more detail in the following sections.

Performance management and executive talent outcomes are designed to drive superior rewards for the best relative performance and potential. For those employees, this means:

- fixed remuneration levels set at a higher market percentile;
- a greater STI multiple (as described in *Individual performance outcomes* on page 84); and
- a larger amount of LTI reward.

Structure of Total Reward

The principles set out the relevant elements of remuneration to make up Total Reward. For the majority of employees, these are fixed remuneration, and at risk remuneration (comprising STI and LTI). An appropriate mix of these components is determined for each management level as shown in the *Target reward mix* section.

Fixed and at risk remuneration

The Group has a principle of targeting fixed remuneration at the market median (50th percentile) being paid in the finance industry in the global markets in which the Group operates and in other specialist markets where appropriate. For the best relative performers, higher market measures (55th to 60th percentiles) are used, as shown in the *Performance and Talent Management Framework* diagram below. Individual remuneration is set in a range around these percentiles as described in *Fixed Remuneration* on page 84.

At risk reward (STI and LTI) is a vital component of total reward for all employees, with the emphasis increasing with levels of responsibility and criticality of role (as set out in *Target reward mix* on page 83). STI and LTI targets are set between the median and the upper quartile of the relevant market, with actual individual outcomes determined within parameters approved by the Board and Remuneration Committee (such as the STI pool), and achievement of the individual s balanced performance scorecard (ie. the performance curve) and assessment of their talent and potential (talent matrix).

Employee ownership

The reward principles, and in particular the way in which rewards are delivered, aim to build a partnership between employees and other shareholders through employee ownership. This is promoted through awards in the form of Company shares, performance options and performance rights. In addition, amounts above target STI are primarily provided in restricted Company shares as described in *Deferral of short-term incentive rewards* on page 85.

Joining and retention awards

Commencement awards are only entered into with executive general manager approval, to enable buy-out of equity from previous employment for significant new hires. The amount and timing of any benefits must be based on evidentiary information. The awards are primarily provided in the form of Company shares, performance options and performance rights, subject to restrictions and certain forfeiture conditions, including forfeiture on resignation. Cash is only used in limited circumstances.

Similarly, the Company provides only limited retention awards with executive general manager approval, for key individuals in roles where retention is critical over a medium-term timeframe (two to three years). These are normally provided in the form of shares with a minimum two-year restriction period, subject to performance standards and certain forfeiture conditions, including staggered forfeiture on resignation before key milestones are achieved.

Linking performance, talent and Total Reward

The following sections describe how the reward principles are implemented, and how they link performance and talent management to all of the elements of Total Reward.

Performance and talent management

During 2005, the Group s enhanced Performance Management Framework was implemented for management employees and above (approximately 6,000 globally). The key elements of the framework are as follows (and as shown in the following diagram):

setting threshold quality gates , which are the threshold measures for compliance and behaviour, reflecting internal and external regulatory requirements and the Group s Corporate Principles. If an individual fails either gate, then no STI or LTI incentive can be provided. These quality gates must be met before the achievement of KPIs can be considered. Quality gates have been progressively implemented, for management and senior employees in 2005, and all other employees during 2006;

setting corporate KPIs for the Group at the commencement of the performance period, which roll down into individual KPIs for each employee via an individual scorecard. Each individual performance scorecard defines what is required to achieve individual performance ratings, as shown on the performance curve overleaf;

a peer review (round table) process where peer managers review, compare and calibrate the performance of their collective group reports. The peer review process allows for performance to be differentiated, and confirms individual performance ratings and the related reward outcomes (fixed remuneration percentile and STI multiple). The peer review also identifies those employees who require development and those who are poor performers; and

for management employees, the Talent Review follows on from the peer review process. The executive Talent Review has the dual aims of enabling succession planning for the Group (and management of business continuity risk) and career development for individuals. The Review identifies and tracks employees who contribute to the Group s high performance capability, through strong leadership behaviour as well as performance. In addition, potential for progression to roles of greater complexity is assessed. These elements in combination link directly into LTI outcomes.

Schematic representation of the Performance and Talent Management Framework (as described on previous page)

QUALITY GATES

Compliance
Behaviour

CORPORATE/INDIVIDUAL SCORECARD

Financial / Business Management

Customer and Community

Employees

Process, Quality and Capability Leverage

PEER REVIEW

Rating measured against peers
and final ranking determined

PERFORMANCE CURVE

(1). 5% developing; 5% poor performers

TALENT MATRIX

The structure of Total Reward

Total Reward encompasses three main components, which are described below. The target reward mix emphasises at risk rewards (STI and LTI) that increase with the level of responsibility and criticality of the role.

Overview of elements of remuneration

	Elements of remuneration	Executives	Non-executive directors
Fixed remuneration	Fees cash	ý	ü
	Fees shares	ý	ü
	Cash salary	ü	ý
	Superannuation *(1)*	ü	ü
	Other benefits	ü	ý
Short-term incentives	Cash	ü	ý
	Shares *(2)*	ü	ý
Long-term incentives	Performance rights	ü	ý
	Performance options	ü	ý
	Shares	ü*(3)*	ý
Post - employment	Termination payments *(4)*	ü	ý
	Retirement benefits *(5)*	ý	ý

(1) This relates to mandatory and personal contributions.

(2) At least one-half of STI remuneration for the Managing Director and Group Chief Executive and executive directors must be provided in the form of Company shares (subject to any required shareholder approval). All other executives are required to receive any STI payment amount in excess of $300 above their STI target in the form of

Company shares. These above target shares are subject to certain forfeiture conditions, including on resignation or failure to pass further quality gates for 12 months from the date of allocation. All executives in Australia can nominate to be provided their up-to-target STI reward in the form of shares, cash or superannuation contributions or a combination of these.

(3) Excluding the executive directors who are not able to participate in the general employee share plan.

(4) This relates to payments made in the event of early termination by the Group of an executive s employment agreement.

(5) Non-executive directors appointed after December 31, 2002 do not receive retirement allowance benefits. Accrued retirement benefits of directors of the Company and its controlled entities who were appointed prior to that date, were frozen as at December 31, 2003 (refer to footnote 3 on page 99).

Target Reward mix

The target Total Reward mix for the Managing Director and Group Chief Executive is 25 to 30% fixed remuneration, 30 to 35% STI, and 40 to 50% LTI. The target Total Reward mix for the senior executive team (executive general managers) is 30-50% fixed remuneration, 20 to 40% STI and 15 to 35% LTI.

The following graph shows the actual average percentage reward mix for each level for 2005 (although an individual s mix may vary in accordance with market relativity and appropriate management approval):

Fixed remuneration

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 taking into account the different geographic and employment markets (eg. financial services, support services) in which the Group competes for talent.

Fixed remuneration reflects the scope of the role and the level of skill and experience of the individual. It is generally referenced to the median (50th percentile) of the applicable remuneration market with higher market measures (55th to 60th percentile) for the top 25% of performers (ie. those ranked as Significant or Exemplary Contributors under the Performance Management Framework).

Further, the Group uses an 80% to 120% range around the selected fixed remuneration market percentile, so an individual s remuneration may normally vary from 80% to 100% of the percentile, with fixed remuneration between 100% and 120% intended to be limited to exceptional circumstances and performance only.

Short-term incentive

Pool funding for 2005

For the 2005 year, the Board reviewed the STI plan design and decided to replace economic value added (EVA®) as the determinant of STI reward pool funding (ie. the total amount determined as being available for distribution as STI rewards).

For 2005, the Remuneration Committee agreed that applying any single measure or a rigid formula for the incentive pool calculation would not adequately reflect the management effort undertaken to stabilise the business and initiate a sustainable turnaround. On this occasion, a combined quantitative and qualitative approach had the unanimous support of the Board.

As a result, the Remuneration Committee decided that the 2005 pool be determined by applying a mix of quantitative and qualitative measures. The quantitative measures focused predominantly on cash earnings for the Group, while qualitative measures covered a range of initiatives that helped stabilise the Group and start the turnaround.

The incentive pool calculation for the year ended September 30, 2005 was reviewed and approved by the Remuneration Committee and the Board. The amount distributed to executive directors and specified executives (those who participated on a permanent basis on the Group Executive Committee at any time during the year) was $13.7 million, (2004: $2.7 million). ***Refer to page 91 for a complete list of specified executives.***

The following graph shows the average of individual payments against target for executive directors and specified executives and how it relates to the Group s earnings (cash earnings before significant items) from 2001 to 2005:

Relationship between STI awards and Group performance

(1) Targets were not set for all specified executives at that time, therefore, Group average is reported.

The dollar amount and percentage of target STI awarded to each executive director and specified executive in respect of the 2005 year is shown in the table on page 95. To date, no executive directors or specified executives have forfeited deferred STI rewards in respect of this period.

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

Pool funding for 2006

From 2006, it is expected that the performance of the Group (and the size of the STI pool) will more directly be measured by the growth in cash earnings before significant items and return on equity (ROE), with consideration of the overarching focus on cultural change. The cash earnings before significant items and ROE targets which determine the size of the pool will be linked to the Group s Annual Operating Plan and will be approved by the Remuneration Committee and Board. The sensitivity of the STI pool is asymmetrical, ie. the STI pool is impacted on more than a one-for-one basis.

Individual performance outcomes

The performance of each executive is measured firstly against their individual scorecard and secondly relative to their peers. The relative outcome determines their share of the available pool. Individual scorecards include a balance of measures including financial, customer, community, employees, process improvements and quality. These measures have been selected based on their alignment to the Group s long-term direction. Through the scorecard approach and subsequent peer review, the STI program is structured to reward achievement against key individual, business and Group annual performance outcomes. Target incentive amounts are set relative to the applicable remuneration market (position, business, geographic).

For management employees and above, a threshold level of performance (Valued Contributor level) and the achievement of compliance and behavioural quality gates are required before any STI rewards are provided. Relative individual performance against peers may give rise to rewards anywhere between zero and two times the target incentive amount being earned (referred to as the STI multiple). The total for all employees is limited to the amount of the funded pool, and only the most outstanding performers (ie. Exemplary Contributors, who are 10% or less of employees) may receive amounts in the range of 1.6 to 2.0 times target (ie. the STI multiple).

Deferral of short-term incentive rewards

The Managing Director and Group Chief Executive and the executive directors (as listed on page 90) are required to receive at least half of any STI payment in the form of Company shares (subject to any required shareholder approval) in order to align their outcomes with shareholder interests. Specific terms apply to such shares as approved by shareholders where required.

From 2005, subject to practicalities and any legal or tax constraints, all other employees are required to receive any STI payment amount in excess of $300 **above their STI target** in the form of Company shares. These above-target shares are provided under the National Australia Bank Staff Share Ownership Plan and are generally held in trust with restrictions on trading for a minimum of one year.

Employees receive dividends in respect of these above-target shares while the shares are restricted. The shares are subject to forfeiture conditions, including forfeiture if the participant s employment is terminated due to serious misconduct, if the participant resigns or if they fail to pass the quality gates in the subsequent year. The Remuneration Committee believes that this will instil an appropriate focus on Group performance beyond the current year, make certain that quality gates are consistently achieved, and encourage an appropriate level of shareholding by employees. Employees in Australia may also nominate a longer restriction period in relation to above-target shares and, while restricted, the shares are forfeited on termination due to serious misconduct involving dishonesty.

Where practical (and subject to any legal or tax constraints), employees may also nominate to be provided any STI **up to target** in cash, superannuation contributions or Company shares, or a combination of these. The shares are also provided under the National Australia Bank Staff Share Ownership Plan and are generally held in trust for between one and 10 years (unless the employee leaves the Group earlier). Employees receive dividends in respect of these shares while they are held in trust. While restricted, the shares are forfeited if the employee s employment is terminated due to serious misconduct.

Long-term incentive

The structure of the LTI plan is reviewed annually by the Remuneration Committee with advice from external remuneration advisers and consideration of best practice in the Australian and international markets, market commentary, and consultation with stakeholders.

This year s review was designed to strengthen the alignment to shareholders, help drive appropriate management behaviour and to reinforce the ongoing cultural change agenda.

The Remuneration Committee has decided to further enhance several aspects of the LTI plan in order to ensure the correct alignment and line of sight between individual participants, other stakeholders and the achievement of performance hurdles. These changes will take effect during the 2006 year *(and are fully described in the following section Review of long-term incentive for 2006 on page 89).*

Delivery of long-term reward in Company shares

With respect to 2005, the Company made two offers of approximately $500 in Company shares with restrictions on trading for three years under the general employee share offer. Dividends are received by the employee while the shares are held in trust.

All employees (other than executive directors) participate in this LTI program (subject to minimum service criteria), the value of which is determined by the Remuneration Committee based on Group performance (measured by movement in EVA® for the 2001 to 2004 offer and a balanced scorecard of outcomes including cash earnings for the 2005 offer).

The following graph shows the approximate value of the share award from 2001 to 2005 compared with Group earnings (cash earnings before significant items).

Value of employee share offer against Group performance

Delivery of long-term reward in performance options and performance rights

LTIs in the form of performance options and performance rights have become a key mechanism for recognising executive potential and talent in the Group, and are primarily offered to two groups of employees: senior management (less than 1,000 individuals); and the top 5% of the Group s selling employees.

Linking talent management and long-term reward

The Executive Talent Review *(described in Performance and Talent Management on page 81)* and the resulting individual talent assessments, provide a solid, objective basis for determining appropriate long-term rewards delivered through performance options and performance rights. Through this process, individual LTI allocations transparently recognise current contribution, future capability and potential contribution to the Group s performance over coming years.

An executive s Talent Review outcome will determine both their eligibility for an LTI reward and the number of performance options and performance rights granted. Market relativity (to competitor organisations in the Australian market) drives the value of long-term reward for the median talent matrix outcome for each management level.

Performance options and performance rights program

Performance options and performance rights are rights granted by the Company to acquire Company 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 (as described below), and are, therefore, aligned to the outcomes experienced by other shareholders over a specified timeframe (this is generally three to five years). The value of any LTI

reward (if and when any securities vest) is also dependent on the market value of the Company s ordinary shares at the time of exercise.

The combination of performance options and performance rights is designed to reduce the number of securities issued and therefore reduce dilution (ie. fewer performance rights are issued as they have a higher financial value than traditional performance options). The financial value of performance options and performance rights is provided in a 50:50 ratio, and this equates to a ratio of 1:4 when it comes to the number of securities allocated. Under the LTI plan, the fair value of a performance right is approximately four times that of a performance option. This financial difference is predominantly due to the fact that while performance rights have the same hurdle as performance options, they have a nominal strike price ($1.00 per tranche).

The fair valuation model *(as detailed on page 96)* takes account of factors including the performance option or performance 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, the expected life of the option or performance right, and the probability of the performance hurdle being reached.

Performance rights also allow for continued motivation of employees in times when the Company outperforms its peers, but for reasons not related to performance, the share price may be below the strike price of the performance option.

Summary of all long-term equity instruments on issue

	Grant dates					
Terms and conditions	**March 2000 September 2001**	**June 2002**	**March 2003**	**June 2004**	**September 2004**	**July 2005**
Securities granted	Performance options		Performance options and performance rights			
Frequency of offers	One major annual allocation of LTI awards, with later, smaller grants (as required) generally for executives who have subsequently commenced employment with the Group.					
Basis for determining individual LTI allocation	Based on seniority and assessed future value of the individual		Based on the Talent Matrix placement *(refer to page 83)*.			
Restriction period	There is an initial restriction period of three years, when no performance testing is performed.		The restriction period may be less than three years (but greater than two and a half) where grants reference a previous performance hurdle date. Eg. grants on April 2005 and July 2005 have an effective date of February 2005, and refer back to the February 2005 performance hurdle for determination of vesting. The restriction periods are, therefore, less than three years in length for those grants.			
Performance testing period	The restriction period is followed by a performance testing period during which the performance hurdle is tested up until three months before the expiry date. The performance period for each grant is shown in the following *LTI performance testing period* diagram.					
Expiry date of securities	The securities lapse on the eighth anniversary of the grant date. Vested securities may be exercised		Where an effective date is used, and the		The securities will generally lapse on the	

	until the expiry date. Any securities that do not vest by the end of the performance period will lapse.	restriction period is shorter than three years (as above), then the expiry date will also be correspondingly earlier than eight years.	fifth anniversary of the date of grant (unless an effective date and shorter restriction period applies as above).
Definition of Total Shareholder Return (TSR)	TSR is the return received by a shareholder through dividends and any other distributions together with capital gains over the relevant period, calculated on the basis that all dividends and distributions are reinvested in Company shares.		
Reasons for the TSR performance hurdle	The TSR hurdle was selected as the measure most relevant for shareholders over the medium to long term.		
TSR performance hurdle peer group	The vesting (and exercise) of the securities is determined by growth in the Company s TSR from the grant date, compared with that of the top 50 companies in the S&P ASX100, excluding the Company and property trusts, determined as at the effective date of the grant.		Half of the performance options and half of the performance rights are tested as per earlier issues.
			The vesting (and exercise) of the remaining half of the securities is determined by the Company s TSR growth relative to the largest banks and financial services companies in the S&P ASX200, excluding the Company (generally about 12 organisations) determined as at the effective date of the grant.

Terms and conditions	Grant dates					
	March 2000 September 2001	June 2002	March 2003	June 2004	September 2004	July 2005
Rationale for peer group selection	Peer group selection attempts to approximate the types of companies that investors might choose as an alternative to investing in the Company. The size of the peer groups is an important consideration as a larger peer group helps to reduce the effects of volatility over time, and any changes in the peer group composition due to liquidations, etc, should have less of an impact.				The use of two peer groups in tandem prevents the possibility of all of the securities vesting if the Company performs poorly relative to other organisations in the financial services business sector.	
Measuring the TSR performance hurdle	Each TSR comparison to the relevant peer group data is averaged over five trading days to prevent vesting being based on any short-term spike in TSR results.		The TSR comparison is averaged over 30 trading days.		In addition to the 30-day averaging, the relevant TSR percentile must also be maintained by the Company for 30 consecutive trading days (ie. vesting only occurs where there is sustained TSR performance).	
Testing of performance measures	Performance is tested daily during the performance period, with sustained achievement of the TSR ranking required for vesting as described above. For practical reasons, performance tests are generally conducted quarterly.					
Vesting of securities	Vesting occurs to the extent that the performance hurdle is satisfied as shown below. Vesting does not occur during the restriction period (unless the maximum life of the securities has been shortened due to cessation of employment as described below).					
TSR performance hurdle vesting schedule	No vesting occurs below the 25th percentile performance of the peer group. A quarter of the securities vest at the 25th percentile with 1% further vesting per percentile up to 50% at the 50th percentile and 2% further vesting per percentile up to 100% at (and above) the 75th percentile.	No vesting occurs below the 50th percentile performance of the peer group. Half of the securities vest at the 50th percentile with 2% further vesting per percentile up to 100% at (and above) the 75th percentile.			No vesting occurs below the 51st percentile performance of each peer group. Half of the securities vest at the 51st percentile with 2% further vesting per percentile up to 100% at (and above) the 76th percentile.	
Lapsing of securities	Securities will lapse if unexercised on or before their expiry date as above. Securities 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 cases of retirement, redundancy, contract completion, death, or total and permanent disablement). For some grants, securities may be automatically retained in cases of death or total and permanent disablement. For some grants, securities may be exercised before the end of the restriction period and notwithstanding the performance hurdle (described above) where an executive ceases employment with the Group as the result of death or total and permanent disablement.				In addition to the terms for previous grants (as shown on the left), where the Board determines that securities may be retained on cessation of employment (generally only in cases of retirement, redundancy, contract completion, death, or total and permanent disablement) and where this occurs during the restriction period, then only	

	a pro-rated amount of securities may be retained, and for a maximum of two years from the date of cessation. This does not apply to securities provided on commencement.
Board discretion	The Board may also allow security holders to exercise the securities 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.

Life cycle of a long-term incentive equity instrument

Intrinsic value of performance options at vesting

The following table illustrates the link between long-term performance of the Group and individual reward. That is, vesting has only occurred where the Group has returned superior TSR performance against the selected peer group.

				Value on vesting				Shareholder wealth	
Year of allocation	**Start of test period**	**Vesting Relative TSR percentile ranking at initial test date**	**Percentage of options that vested at initial test date (1)**	**Closing share price at test date**	**Exercise price**	**Intrinsic value of each option at initial test date**	**Dividends from grant to initial test date**	**Share price movement from grant to initial test date**	**Three-year absolute TSR from grant to initial test date (2)**
2000	March 23, 2003	88th	100%	$ 30.90	$ 21.29	$ 9.61	$ 4.05	$ 9.61	65%
2001	March 23, 2004	50th	50%	$ 31.45	$ 27.85	$ 3.60	$ 4.45	$ 3.60	29%
2002	June 14, 2005	12th		$ 30.97	$ 36.14		$ 4.87	$ (5.17)	

Not yet in test period		**Theoretical Relative TSR percentile at Sep 30, 2005**		**Dividends from grant to Sep 30, 2005**	**Share price movement from grant to Sep 30, 2005**	**TSR result from grant to Sep 30, 2005**
2003	March 21, 2006	12th	$ 30.46	$ 4.12	$ 2.59	25%
2004	January 16, 2007	14th	$ 30.25	$ 2.49	$ 2.80	20%
2005	February 7, 2008	60th	$ 29.93	$ 0.83	$ 3.12	14%

(1) For each of the vested allocations shown in the table, vesting has only occurred on the initial test date as shown. No subsequent vesting has occurred.

(2) Absolute TSR movement from grant to vesting is calculated on the basis that all dividends and distributions are reinvested in Company shares.

Summary of the Group s annual TSR performance

	2001	**2002**	**2003**	**2004**	**2005**
Share price at year end	$ 25.66	$ 33.48	$ 30.80	$ 26.98	$ 33.05
Net dividends paid during year	$ 1.31	$ 1.40	$ 1.55	$ 1.66	$ 1.66

Annual TSR performance result	7.0%	38.6%	-1.8%	-5.2%	32.3%

5 year absolute TSR performance **Share price and dividends paid**

Review of long-term incentive for 2006

With the introduction of the Company s new regional business model, the Remuneration Committee has made a number of changes to the structure of the Group s LTI plans. These are designed to strengthen the alignment to shareholders, help drive appropriate management behaviour and reinforce the ongoing cultural change agenda.

The changes described below will be effective for the October 1, 2005 to September 30, 2006 performance year.

Delivery of long-term reward in performance options and performance rights

Details of the current performance options and performance rights programs are set out on pages 86 to 87.

The Remuneration Committee reviews the performance options and performance rights program on an annual basis to ensure that it reinforces the Group s long-term objectives and focus, delivers a competitive level of LTI reward, and reflects prevailing market and shareholder views. The Remuneration Committee initiated a number of changes to the program for 2005, which was set out in last year s annual report ***(and as summarised in Summary of all long-term equity instruments on issue on page 86).***

It is currently intended that key aspects of the 2006 program will be:

retention of the current mix of performance options and performance rights, where each comprises 50% of the LTI value delivered (based on fair values);

vesting under all relative performance hurdles to commence at the 51st percentile of the peer group but for the current 50% vesting to be reduced to 35% vesting at the 51st percentile;

vesting under all relative hurdles to increase on a scale up to maximum (100%) vesting above the 75th percentile;

achievement of relative TSR performance measures to be based on TSR results over the 30 days prior to any hurdle test;

elimination of multiple hurdle retesting with a new testing schedule to be introduced for all relative performance hurdles. One-third of each allocation will be tested at the three-year anniversary, one-third of each allocation at the four-year anniversary, and the final one-third at the five-year anniversary. Once a testing date has passed, any unvested securities in that one-third group may be retested once only (at the next test date) and if not then vested, will lapse immediately. The final one-third tranche will not be retested;

an increase in the maximum life of all securities from five years to five and one-half years, to enable time for exercise of any vested securities from the final hurdle test;

differentiation in the performance hurdles to apply to performance options and performance rights that are granted to senior executives and to regional and other executives. This will reinforce the Group s new regionally integrated model, and significantly increase the line of sight to performance outcomes for regional executives. The new hurdles will be:

for senior executives: half of the performance options and half of the performance rights to be tested on relative TSR performance against the existing top 50 ASX peer group (excluding property trusts). The other half of the performance options and the performance rights to be tested on the existing relative TSR performance against the selected financials peer group from ASX200;

for regional and other executives: performance rights to be tested on EPS performance against the selected financials peer group from ASX200 as above. Performance options to be tested against a new non-market factor-based measure where vesting is dependent on achievement of a cash earnings target for each region (eg. Australia, New Zealand, UK) with the target set in line with each operational business plan. Threshold vesting (35%) would commence where 90% of the cash earnings target is achieved, with maximum (100%) vesting occurring upon achievement of 120% of the regional target measure (and a straight-line scale in between). The timing of vesting will vary according to announcements of achievements against target. Vesting will only occur where regional ROE achieved is within 1% of business plan. The exercise price of the performance options will continue to be set at or around the time of allocation and will serve as an additional performance criterion.

Summary of remuneration for executive directors

The following table summarises the remuneration arrangements for executive directors. Arrangements for specified executives are shown on page 91 and arrangements for non-executive directors are shown on pages 99 to 100.

	Mr JM Stewart	**Mr A Fahour**	**Mr MJ Ullmer**
Position	Director (executive) appointed August 11, 2003 Managing Director and Group Chief Executive commenced February 2, 2004	Director (executive) commenced October 7, 2004 Chief Executive Officer, Australia commenced September 1, 2004	Director (executive) commenced October 7, 2004 Director, Finance and Risk commenced September 1, 2004
Term of employment agreement	3 years from February 2, 2004 May be extended for one further year by mutual agreement	4 years from September 1, 2004 May be extended for one further year by mutual agreement	4 years from September 1, 2004 May be extended for one further year by mutual agreement
Notice period	Employee six months Company six months notice plus 12 month termination payment	Employee 13 weeks Company 52 weeks	Employee 13 weeks Company 52 weeks
Total employment cost (TEC)	$2,250,000 (no increase) (TEC at September 30, 2005: $2,250,000)	$1,514,482 (no increase) (TEC at September 30, 2005: $1,514,482)	$1,060,000, an increase of $49,978 (5%) (TEC at September 30, 2005: $1,010,022)

TEC is reviewed annually in October, with the next review around October 2006. The increases above will be effective from January 12, 2006. A portion of TEC may be taken in the form of packaged benefits (such as a motor vehicle and parking), and is inclusive of fringe benefits tax and employer superannuation contributions *(1)*.

Short-term incentive	$1,402,500 in cash $1,402,500 in shares (represents 125% of 2005 target) Target STI 100% of TEC	Nil in cash $2,880,000 in shares (represents 146% of 2005 target) Target STI 130% of TEC	$640,500 in cash $640,500 in shares (represents 127% of 2005 target) Target STI 100% of TEC

STI remuneration is determined annually in accordance with the Group s STI plan. *Refer to page 84 for details*. The rewards above are in respect of performance for the period October 1, 2004 to

September 30, 2005. The cash portion was paid in November 2005. The issue of the shares is subject to any required shareholder approval at the Company s annual general meeting to be held on January 30, 2006 and it is intended that the shares will be granted in February 2006.

Each year, the Board agrees or determines reasonable performance measures and targets for use in assessing each executive director s performance. After the end of each financial year, the Board reviews each executive director s performance by reference to these measures and targets. STI targets (as a percentage of TEC) are determined annually by the Board for the coming year. TEC is base remuneration inclusive of superannuation and benefits, but excludes leave accrued not taken.

At least one-half of the STI remuneration must be provided in the form of Company shares (subject to any required shareholder approval). Shares are to be held in trust for each executive director under the terms of the National Australia Bank Staff Share Ownership Plan. While the shares are held in trust, the executive directors are entitled, through the trustee, to receive dividend payments and to exercise voting rights attaching to those shares. The shares may be forfeited in limited circumstances. The shares will be restricted from trading during the term of each executive director s employment agreement.

Long-term incentive	Nil *(2)*	Performance options and performance rights (estimated financial value $2,272,000)	Performance options and performance rights (estimated financial value $1,272,000)

The performance options and performance rights shown above are in respect of performance and potential assessments as at September 30, 2005. The granting of this LTI is subject to shareholder approval at the Company s annual general meeting to be held on January 30, 2006 and, if approved, the performance options and performance rights will be granted in February 2006.

The LTI component comprises each executive director s eligibility to participate in an offer of performance options and performance rights under the National Australia Bank Executive Share Option Plan No.2 and the National Australia Bank Performance Rights Plan, respectively, as amended from time to time. Continued LTI allocations are not guaranteed, as they are subject to annual assessments.

On the cessation of each executive director s employment with the Company, the retention of any performance options and performance rights granted to them during their employment with the Company will be determined in accordance with the terms of grant under the respective plans.

The method used to value the performance options and performance rights, as prescribed by AASB 1046A Director and Executive Disclosures by Disclosing Entities is set out on page 96. *The performance hurdle is detailed on page 87 in the remuneration report which forms part of the report of the directors.*

Other benefits

Executive directors are eligible to participate in other benefits that are normally provided to executives employed by the Company, subject to any overriding legislation prevailing at the time including the *Corporations Act* 2001 (Cth) and the United States *Sarbanes-Oxley Act of 2002*.

(1) The Company is not required by Australian law to provide superannuation contributions in connection with Mr Stewart s employment due to the type of Australian visa issued to him. However, under the employment agreement, the Company agrees to pay annual superannuation contributions to the National Australia Bank Group Superannuation Fund. Those contributions form part of Mr Stewart s annual fixed remuneration. Mr Stewart may, in lieu of receiving those Australian superannuation benefits, elect to participate in a pension or other scheme in the United Kingdom. Again, any such payments form part of Mr Stewart s fixed pay.

(2) Mr Stewart was offered an LTI allocation at the commencement of his three year employment agreement which was designed to cover his contract period, and to tie the value of any reward to the change in shareholder wealth over that agreement period. 900,000 performance options and 210,000 performance rights (combined estimated annualised value $0.917 million based on a grant date of January 31, 2005) were subsequently awarded in February 2005, following approval by shareholders at the January 31, 2005 annual general meeting. Should Mr Stewart resign before the end of his employment agreement on February 2, 2007, he will retain the performance options and performance rights on a pro-rated basis calculated from his appointment date of February 2, 2004 to the date of termination. Such performance options and performance rights will have two years from the date of his resignation to satisfy the performance conditions after which they will lapse if not exercised.

Specified executives employment agreements

Remuneration and other terms of employment for specified executives are formalised in individual employment agreements. Each of these agreements provides for performance-related cash bonuses, fringe benefits plus other benefits, including participation where eligible, in performance option and performance rights plans, and termination benefits. Termination benefits are generally calculated as the Company notice period multiplied by fixed pay. Details of the term of employment and the fixed remuneration and STI arrangements for specified executives as at September 30, 2005 are set out below.

Name	Position	Term of agreement/contract and date commenced, if during the year	Annual TEC $ (1)	STI % TEC (2)	Notice period Employee	Notice period Company (3)
Specified executives current						
Cameron A Clyne	Executive General Manager, Group Development	No fixed term.	551,100	65%	13 weeks	52 weeks
Michael J Hamar	Group Chief Risk Officer	4 years with option of renewal for one further year by mutual agreement. Contract commenced November 29, 2004.	682,122	80%	13 weeks	26 weeks
John E Hooper	Executive General Manager, Institutional Markets & Services	No fixed term. Current contract commenced July 1, 2005.	750,000	130%	13 weeks	52 weeks
Lynne M Peacock *(4)*	Chief Executive Officer, United Kingdom (from October 28, 2004) Executive General Manager, People & Culture	No fixed term. Current contract commenced October 28, 2004.	GBP 525,000	100%	Three months	12 months
Peter L Thodey *(4)*	Chief Executive Officer, Bank of New Zealand	No fixed term.	NZD 630,000	100%	One month	One month
Specified executives former						

Elizabeth C Hunter *(5)*	Executive General Manager, People & Culture	No fixed term. Commenced this position on October 28, 2004.	525,000	50%	13 weeks	52 weeks
Ian G MacDonald *(5) (6)*	Chief Information Officer	No fixed term.	731,100	100%	Four weeks	65 weeks
Ross E Pinney *(5) (7)*	Executive General Manager, Office of Chief Executive (from October 28, 2004) Chief Executive, Financial Services Europe	No fixed term. Current contract commenced October 28, 2004.	749,100	100%	13 weeks	78 weeks
Peter B Scott	Executive General Manager, Wealth Management	No fixed term. Contract ceased July 31, 2005.	771,000	100%	N/A	12 months
Gavin R Slater *(5)*	Group General Manager, Office of the CEO (to January 1, 2005)	No fixed term.	454,014	80%	Four weeks	65 weeks
Graeme D Willis *(5) (8)*	Group General Manager, Regulatory Affairs (from December 1, 2004) Acting Executive General Manager, Risk Management	No fixed term. Current contract commenced December 1, 2004.	501,100	50%	13 weeks	65 weeks

(1) TEC is base remuneration inclusive of superannuation, non-monetary benefits but excludes leave accrued not taken.

(2) Target STI as a percentage of TEC is subject to achievement of individual and Group performance goals and to passing the compliance and behavioural quality gates , with the target percentage (of fixed remuneration shown above) being earned for an on-target performance. The actual outcome may be nil to 200% based on the performance framework. Refer to page 95 for STI as a percentage of fixed remuneration, which measures remuneration inclusive of superannuation, non-monetary benefits and leave accrued not taken.

(3) Termination benefits vary depending upon the circumstances of termination. Termination benefits shown are payable where the Company terminates the specified executive s employment agreement on notice and without cause, and makes payment in lieu of notice. Generally, termination benefits are not payable on resignation,

summary termination or unsatisfactory performance. Performance options and performance rights generally lapse 30 days (or such shorter time as determined at the time of grant) after cessation of employment unless otherwise determined by the Board. In certain circumstances and depending on the terms of grant, in cases such as contract completion, death, retirement, retrenchment, redundancy or total and permanent disablement, the Board may consider each case on its individual merits and may allow the executive to retain some or all of their performance options and/or performance rights for a period of time no later than the relevant expiry date of the securities. Vesting and exercise of the securities generally remain subject to the applicable performance hurdle. Certain shares held in trust are forfeited in certain circumstances depending on the relevant program, including on termination for serious misconduct involving dishonesty, on resignation, on failure to meet compliance gates in the 12 months after allocation, on summary termination or on breach of the Company s Code of Conduct.

(4) For the purposes of this table, fixed pay is expressed in the currency agreed in the employment agreement. On average, A$1.00 bought GBP0.4141 and, A$1.00 bought NZD1.0847 for the year.

(5) Ms Hunter, Mr MacDonald, Mr Pinney and Mr Willis continued to hold positions with the Group at September 30, 2005 but ceased to act as specified executives on September 15, 2005 due to the changes made to the Group Executive Committee. Mr Slater continued to hold a position within the Group at September 30, 2005 but ceased to act as a specified executive on January 1, 2005 due to a change in employment position within the Group.

(6) In October 2005, the Group announced that Mr MacDonald would be leaving the Company s service in 2006.

(7) In September 2005, the Group announced that Mr Pinney would be leaving the Company s service in 2006.

(8) In November 2005, Mr Willis entered into a deed of settlement and release with the Company, which sets out the agreed settlement of the terms of the cessation of his employment with the Company on February 15, 2006 (refer shareholder information page 274 in the annual financial report).

Executive remuneration

The following tables shows details of the nature and amount of each element of the remuneration paid or payable with respect to services provided for the period as executive directors of the Company and specified executives of the Group during 2005. All executive directors and specified executives are paid in Australian dollars with the exception of Ms Peacock, who is paid in GBP (converted at a rate of A$1.00 = GBP 0.4141) and Mr Thodey who is paid in NZD (converted at a rate of A$1.00 = NZD 1.0847).

No performance options or performance rights have been granted to executive directors or specified executives since the end of 2005. No retirement benefits were paid or payable to executive directors or specified executives in 2005.

At least 50% of the value of bonus paid and payable to executive directors under STI rewards are paid in the form of Company shares. For the purposes of the remuneration tables below, all bonus entitlements are disclosed as primary benefits. *Separate disclosure of the nature of the STI rewards is disclosed in the following section Short-term and long-term incentive remuneration .*

Executive director remuneration (current executive directors at September 30, 2005)

		Primary				Post-employment	Equity		Other		
		Cash salary fixed $	Leave accrued not taken (1) fixed $	STI bonus (2) at risk $	Non-monetary benefits (3) fixed $	Super-annuation fixed $	Shares (4) at risk $	Performance options and rights (5) at risk $	Termination benefits (6) fixed $	Other fixed $	Total $
A Fahour	**2005**	**1,491,447**	**126,207**	**2,880,000**	**4,718**	**12,624**	**984,191**	**416,149**			**5,915,336**
	2004	121,785	11,063		141	1,023	6,017,937			4,211,881	10,363,830
JM Stewart*	**2005**	**2,086,213**	**37,500**	**2,805,000**	**82,742**	**78,768**		**842,442**			**5,932,665**
	2004	1,528,172	142,255	1,445,000	28,261	70,301		2,060,964			5,274,953
MJ Ullmer	**2005**	**986,159**		**1,281,000**	**7,595**	**12,624**		**209,375**			**2,496,753**
	2004	80,311	7,375		633	1,023					89,342
Total	**2005**	**4,563,819**	**163,707**	**6,966,000**	**95,055**	**104,016**	**984,191**	**1,467,966**			**14,344,754**
Total	2004	2,407,917	160,693	1,445,000	36,375	76,299	6,017,937	2,290,587	6,618,595	4,211,881	23,265,284

* Included within Mr. Stewart s remuneration for performance options and performance rights is an adjustment to reflect the valuation of 900,000 performance options and 210,000 performance rights using a fair valuation at the grant date of January 31, 2005, being the date of the 2005 annual general meeting. The valuation at January 31, 2005 revises the previous valuation estimated in 2004 at the promise date of February 2, 2004. The revision to correct the fair valuation from promise date has reduced Mr Stewart s remuneration from performance options and performance rights. Excluding this, Mr. Stewart s total 2005 remuneration would have been higher by $965,671.

Footnotes are disclosed below the executive remuneration table on page 93.

Mr A Fahour and Mr MJ Ullmer were appointed as executive directors on October 7, 2004 and, therefore, their remuneration for 2004 was reported as specified executive remuneration in 2004. The totals for 2004 have been reclassified as executive director remuneration above for comparability. Mr Fahour s and Mr Ullmer s remuneration for 2004 represents remuneration for the period from September 1, 2004 to September 30, 2004.

The table above discloses individuals who were specified executive directors in 2005. Therefore, Group totals in respect of 2004 do not equal the sum of the individuals disclosed as different individuals were specified in 2004. *Refer to page 99 for total remuneration for specified directors (executive and non-executive directors).*

Executive remuneration (current and former specified executives at September 30, 2005)

		Primary				Post-employment	Equity		Other		
Current		**Cash salary fixed $**	**Leave accrued not taken (1) fixed $**	**STI bonus (2) at risk $**	**Non-monetary benefits (3) fixed $**	**Super-annuation fixed $**	**Shares (4) at risk $**	**Performance options and rights (5) at risk $**	**Termination benefits (6) fixed $**	**Other fixed $**	**Total $**
CA Clyne	**2005**	**530,798**	**45,925**	**420,000**		**12,624**	**976**	**221,481**			**1,231,804**
	2004	74,217	6,732			1,808					82,757
MJ Hamar	**2005**	**481,626**	**28,209**	**493,323**	**28,391**	**62,818**	**269,571**	**70,892**			**1,434,830**
JE Hooper	**2005**	**739,929**	**18,750**	**1,141,000**	**5,245**	**87,968**	**81,338**	**297,702**			**2,371,932**
	2004	219,259	25,000	194,093	70,971	42,072	159,638	75,418			786,451
LM Peacock	**2005**	**1,242,525**	**34,003**	**1,775,312**	**47,708**	**2,070**	**976**	**561,624**			**3,664,218**
	2004	314,478	26,614	173,667	42,471			156,834			714,064
PL Thodey	**2005**	**537,766**	**29,040**	**726,958**	**24,098**		**976**	**945,217**			**2,264,055**
	2004	471,900	28,768	244,358	23,226			945,833			1,714,085
Former											
EC Hunter *(7)*	**2005**	**437,696**	**30,973**	**226,542**	**30,510**	**11,427**	**27,136**	**207,176**			**971,460**
IG MacDonald *(7)*	**2005**	**679,768**	**70,883**	**683,699**	**7,287**	**12,087**	**960**	**1,179,858**			**2,634,542**
	2004	694,465	113,099		6,338	12,015		1,421,448			2,247,365
RE Pinney *(7)*	**2005**	**654,936**	**59,860**	**700,959**	**100,944**	**77,039**	**960**	**759,938**	**1,033,241**		**3,387,877**
	2004	652,511	36,218		287,623	81,282		1,008,360			2,065,994
PB Scott *(8)*	**2005**	**230,727**		**250,575**	**3,958**	**31,116**	**26,737**	**419,154**	**1,076,398**		**2,038,665**
	2004	674,216	75,452	385,500	10,335	88,578	28,157	1,588,146			2,850,384
GR Slater *(7)*	**2005**	**85,496**	**5,733**	**127,072**	**6,222**	**8,685**	**86,192**	**38,027**			**357,427**
	2004	281,033	5,863	37,014	20,562	32,988	89,057	54,924			521,441
GD Willis *(7)*	**2005**	**429,793**	**17,351**	**210,822**	**34,717**	**12,087**	**120,247**	**338,445**			**1,163,462**
	2004	191,004	28,450	57,267	64,121	6,637	150,689	209,893			708,061
Total	**2005**	**6,051,060**	**340,727**	**6,756,262**	**289,080**	**317,921**	**616,069**	**5,039,514**	**2,109,639**		**21,520,272**
Total *(9)*	2004	6,780,952	498,514	1,229,899	577,717	353,371	427,541	10,678,953	6,761,890		27,308,837

(1) Annual leave and where applicable, long service and bank extended leave entitlements accrued but not taken during the year have been recognised as part of primary remuneration benefit.

(2) Reflects all short-term performance-based remuneration awarded in the year. Specified executives in Australia can nominate to be provided their up-to-target bonus in the form of cash, Company shares or additional superannuation or a combination of these. Above-target bonuses in excess of $300 are generally provided in Company shares only. For the purposes of the allocation above, the entire bonus has been included in Primary, bonus at risk.

(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 LTI amounts awarded as Commencement shares, shares received under a share ownership plan, or the value of deferred shares received as part of a LTI program. Mr Hamar received 13,388 Commencement shares on December 22, 2004 in connection with commencement of his employment as a specified executive. These shares vest over a period from July 1, 2005 to July 1, 2006 subject to performance conditions.

(5) Performance options and performance rights are issued as part of the Group s LTI program. Remuneration for former executives who continue to hold performance options and rights at September 30, 2005 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) Mr Pinney will leave the service of the Company in 2006. The termination benefit shown is payable in accordance with the terms of his agreement. Mr Scott left the service of the Group on July 31, 2005. No specified executives had post-employment benefits that required approval by members of the Company in accordance with the Corporations Act 2001 (Cth).

(7) Ms Hunter, Mr MacDonald, Mr Pinney, and Mr Willis continued to hold positions with the Group at September 30, 2005, but ceased to act as specified executives on September 15, 2005 due to the changes made to the Group Executive Committee. Remuneration disclosed above represents remuneration until September 15, 2005. Mr Slater continued to hold a position within the Group at September 30, 2005 but ceased to act as a specified executive on January 1, 2005 due to a change in employment position within the Group. Remuneration disclosed above represents remuneration until January 1, 2005.

(8) Mr Scott s remuneration as a specified executive is from October 1, 2004 to January 31, 2005.

(9) This is the total for specified executives disclosed in last year s annual financial report (adjusted to exclude Mr Fahour and Mr Ullmer who have been restated to executive directors in 2005). It differs from the sum of current specified executives 2004 remuneration totals due to changes in executives during the year. The 2004 total includes remuneration paid to Mr Richard McKinnon during his employment as a specified executive of the Group. Mr McKinnon ceased as a specified executive on August 31, 2004 and, as a result, no amounts have been included in the remuneration totals above for 2005. On September 30, 2005, Mr McKinnon ceased employment with the Group and received a severance payment, accrued annual leave and long service leave payments and defined incentive payments totalling $3,440,348. These termination payments were made to Mr McKinnon in accordance with the deed of settlement and release that was disclosed in the Company s annual financial report 2004.

2004 remuneration for certain specified executives represents remuneration for part of the 2004 financial year as follows: Mr Clyne (1.7 months); Mr Hooper (6.5 months); Ms Peacock (4.7 months); Mr Slater (5.9 months); Mr Willis (6.5 months).

In addition to remuneration benefits above, the Company paid a premium for a contract insuring all directors of the Company and specified executives of the Group as officers. It is not possible to allocate the benefit of this premium between individual directors or specified executives. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the premium paid under the contract.

The following table shows separately the full-year remuneration details of each of the five named Company executives (who may or may not be specified executives) and additional Group executives who received the highest remuneration for the year. Remuneration totals in the table below will differ from those disclosed above if the executive ceased their position as a specified executive during the year.

	Primary				Post-employment	Equity		Other		
	Cash salary fixed $	Leave accrued not taken fixed $	STI bonus at risk $	Non-monetary benefits fixed $	Super-annuation fixed $	Shares at risk $	Options and rights at risk $	Termination benefits fixed $	Other fixed $	Total $
Company current										
G Frazis	528,472	17,927	918,782		11,367	260,738	144,136			1,881,422
JE Hooper *(1)*	739,929	18,750	1,141,000	5,245	87,968	81,338	297,702			2,371,932
IG MacDonald *(1)*	708,936	72,120	713,000	7,595	12,624	976	1,229,135			2,744,386
RE Pinney *(1)*	683,744	62,425	731,000	101,252	78,674	976	792,382	1,033,241		3,483,694
SJ Tucker	534,646	50,092	857,244	3,897	70,545	976	369,141			1,886,541
Group - current										
LM Peacock	1,242,525	34,003	1,775,312	47,708	2,070	976	561,624			3,664,218
PL Thodey	537,766	27,225	726,958	24,098		976	945,217			2,262,240
Group former										
PB Scott	319,947		250,575	9,125	74,274	26,737	1,163,539	1,076,398		2,920,595

(1) In addition to being Company executives Mr Hooper, Mr MacDonald and Mr Pinney are Group executives who received the highest remuneration for the year.

Short-term and long-term incentive remuneration

Remuneration linked to Company performance

The following outlines percentage of total remuneration (executive directors and specified executives remuneration) linked to company performance in 2005.

		Performance related remuneration					
			Equity-based				
Remuneration not linked to Company performance(1) %	Cash-based STI bonus(2) %	Performance shares(3) %	Performance options %	Performance rights %	Total %	Total %

Executive directors							
A Fahour	28		65	3	4	72	100
JM Stewart	39	23	23	8	7	38	100
MJ Ullmer	40	26	26	4	4	34	100
Specified executives - current							
CA Clyne	48	29	5	8	10	23	100
MJ Hamar	42	34	19	2	3	24	100
JE Hooper	36	41	10	7	6	23	100
LM Peacock	36	33	15	7	9	31	100
PL Thodey	26	25	7	26	16	49	100
Specified executives - former							
EC Hunter	53	23	3	12	9	24	100
IG MacDonald	29	26		30	15	45	100
RE Pinney	57	21		13	9	22	100
PB Scott	67	12	1	14	6	21	100
GR Slater	30	28	32	7	3	42	100
GD Willis	43	18	10	18	11	39	100

(1) Remuneration not linked to Company performance consists of all fixed remuneration, inclusive of cash salary, leave accrued not taken, non-monetary benefits, superannuation and termination benefits.

Comparison of the Company s practices with New York Stock Exchange, Inc. Corporate Governance Standards

(2) Reflects all short-term performance-based remuneration awarded in the year that is to be paid in cash. Specified executives have nominated to be provided their up-to-target bonus in the form of cash or Company shares. The portion of short-term performance-based remuneration elected to be paid in Company shares has been included in the Equity based, Performance shares percentage.

(3) Performance shares as a percentage of total remuneration includes short-term performance-based remuneration awarded in the year in the form of Company shares plus any long-term Commencement or Recognition shares granted as part of remuneration during the year.

Percentage of target short-term incentive awarded during the year

The following table shows the percentage of each executive director s and specified executive s STI target that has been awarded in respect of their period as an executive director or specified executive for the year. A commencement date is shown where the STI award related to a partial year only (either due to the individual commencing employment with the Group or commencing as a specified executive position during the performance period):

				Short-term incentive awarded					
				Cash		Shares		Total cash and shares	
			STI awarded	2005				2005	2004
	Period as specified executive in 2005 (if not full year)	STI target as % of fixed remuneration (1)	as % of fixed remuneration	$	% of STI bonus	$	% of STI bonus	$	$
Executive directors									
A Fahour		120	176			2,880,000	100	2,880,000	
JM Stewart		98	123	1,402,500	50	1,402,500	50	2,805,000	1,445,000
MJ Ullmer		100	127	640,500	50	640,500	50	1,281,000	
Specified executives current									
CA Clyne		61	71	358,974	85	61,026	15	420,000	
MJ Hamar	from Nov 29, 2004	91	82	493,323	100			493,323	
JE Hooper		114	134	975,214	85	165,786	15	1,141,000	194,093
LM Peacock		92	134	1,213,889	68	561,423	32	1,775,312	173,667
PL Thodey		97	123	573,537	79	153,421	21	726,958	244,358
Specified executives former									
EC Hunter *(2)*	Oct 28, 2004 to Sep 15, 2005	45	44	226,542	100			226,542	
IG MacDonald	to Sep 15, 2005	91	89	683,699	100			683,699	
RE Pinney	to Sep 15, 2005	37	36	700,959	100			700,959	
PB Scott	to Jan 31, 2005	19	19	250,575				250,575	385,500
GR Slater	to Jan 1, 2005	92	120	98,912	78	28,160	22	127,072	37,014
GD Willis		49	43	210,822	100			210,822	57,267

to Sep 15, 2005	

(1) For the purposes of this calculation, fixed remuneration includes cash salary, annual leave accrued not taken, non-monetary benefits, superannuation and termination benefits. STI target as a percentage of fixed remuneration differs from STI target as a percentage of TEC, as described on page 91 as TEC excludes annual leave accrued not taken.

(2) Included within Ms Hunter s cash short-term incentive is an amount of $23,225 paid in the form of superannuation. The component paid in superannuation represents 10% of the short-term incentive paid to Ms Hunter as a specified executive.

Range of potential short-term and long-term incentive payments

The following table shows the composition and aggregate minimum and maximum values of STI and LTI payments earned as part of remuneration as executive directors or specified executives for 2005:

	Short-term incentives					Long-term incentives	
	Paid %	Forfeited %	Deferred (1) %	Minimum deferred value $	Maximum deferred value $	Minimum value (all deferred) $	Maximum value (all deferred) $
Executive directors							
A Fahour			100		2,880,000		1,400,340
JM Stewart	50		50		1,402,500		842,442
MJ Ullmer	50		50		640,500		209,375
Specified executives current							
CA Clyne	85		15		61,026		222,457
MJ Hamar	100						340,463
JE Hooper	85		15		165,786		379,040
LM Peacock	68		32		561,423		562,600
PL Thodey	79		21		153,421		946,193
Specified executives former							
EC Hunter	100						234,312
IG MacDonald	100						1,180,818
RE Pinney	100						760,898
PB Scott	100						445,891
GR Slater	78		22		28,160		124,219
GD Willis	100						458,692

(1) Deferred STI is provided in the form of Company shares, and are generally held in trust with restrictions on trading for a minimum of one year (or longer period) if nominated by the employee. Various forfeiture conditions apply as set out in deferral of STI rewards .

Fair value basis used to determine equity remuneration

The disclosure of the allocation of fair value of performance options and performance rights in the earlier 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 performance right.

Prior to October 1, 2002, the Company disclosed the fair value of performance options granted during the 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 remuneration 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 2005, are amounts related to unvested performance options granted in prior years that were disclosed as part of emoluments in the relevant prior years.

It should be noted, 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 were 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 remuneration 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 performance rights likely to vest. *For further details, refer to note 38 in the financial report.*

Value of performance options and performance rights granted

The following tables shows the value of performance options and performance rights issued to executive directors and specified executives as part of their remuneration that were granted, exercised or lapsed during the year. Footnotes are disclosed below the performance rights table below. *Further details regarding performance options and performance rights, including grant information and movements in holdings over the year is provided in note 51 in the financial report.*

	Number of performance options			Value of performance options		
	Granted	Exercised	Lapsed	Granted (1)	Exercised (2)	Lapsed (3)
	No.	No.	No.	$	$	$
Executive directors						
A Fahour						
JM Stewart	900,000			1,386,000		
MJ Ullmer						
Specified executives - current						
CA Clyne	55,000			154,000		
MJ Hamar	40,000			133,200		
JE Hooper	70,000			196,000		
LM Peacock	100,000			280,000		
PL Thodey	100,000	100,000		280,000	661,000	
Specified executives - former						
EC Hunter	42,000			117,600		
IG MacDonald	46,000			128,800		
RE Pinney	75,000			210,000		
PB Scott		242,000			1,261,080	
GR Slater	45,000			126,000		
GD Willis	42,000	30,000		117,600	114,000	

	Number of performance rights			Value of performance rights		
	Granted	Exercised	Lapsed	Granted (1)	Exercised (2)	Lapsed (3)
	No.	No.	No.	$	$	$
Executive directors						
A Fahour						
JM Stewart	210,000			1,547,700		
MJ Ullmer						
Specified executives - current						
CA Clyne	13,750			235,812		
MJ Hamar	10,000			141,100		
JE Hooper	17,500			300,125		
LM Peacock	25,000			428,750		
PL Thodey	25,000			428,750		
Specified executives - former						
EC Hunter	10,500			180,075		
IG MacDonald	11,500			197,225		
RE Pinney	18,750			321,563		
PB Scott						
GR Slater	11,250			192,938		
GD Willis	10,500			180,075		

(1) Value of performance options and performance rights granted is determined as the fair value at grant date multiplied by the total number of performance options or performance rights granted. The value of performance options and performance rights disclosed above represents the full value over the vesting period, which is greater than one year.

(2) Value of performance options and performance rights exercised is determined as the difference between the market price at exercise date and the exercise price of the performance option or performance right.

(3) Value of performance options and performance rights lapsed is determined as the difference between the market price at lapse date and the exercise price of the performance option or performance right.

Non-executive director remuneration

The following persons were non-executive directors of the Company at September 30, 2005:

Name	Position	Date commenced, if during year
MA Chaney	Director	December 6, 2004
	Chairman	September 28, 2005
PJB Duncan	Director	
RG Elstone	Director	
DT Gilbert	Director	
PJ Rizzo	Director	
JS Segal	Director	
JG Thorn	Director	
GA Tomlinson	Director	
GM Williamson	Director	

The following person resigned from his position as a non-executive director of the Company during the year ended September 30, 2005:

Name	Position	Date resigned
GA Kraehe	Director	September 27, 2005
	Chairman	September 27, 2005

Remuneration policy

The fees paid to non-executive directors on the Board are based on advice and data from the Group 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.

Fees are established annually for the Chairman and 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 by the Group to members of the Board, including fees paid for their involvement on Board committees, are kept within the total approved by shareholders from time to time. Shareholders approved a maximum fee pool of $3.5 million per annum at the Company s annual general meeting held on December 19, 2003.

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 Director s 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 of 10% of fees is provided in this form and a maximum of 40%). 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.

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 superannuation contributions or to the acquisition of shares in the Company (to be held in trust until retirement).

All directors now have flexibility in relation to their remuneration, including the opportunity to set aside additional Company superannuation contributions.

The appointment letters for the non-executive directors set out the terms and conditions of their appointments. These terms and conditions are in conjunction with, and subject to, the Company s constitution and the charters and policies approved by the Board from time to time *(refer to the corporate governance section on page 71)*.

Non-executive director remuneration (current and former non-executive directors at September 30, 2005)

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 2005 year. Total retirement benefits paid during the 2004 year relating to benefits accrued in current and prior years are set out in footnote (3) below. No performance options or performance rights have been granted to non-executive directors during or since the end of 2005.

		Primary			Post-employment		Equity		Other		
Non-executive directors Current (5)		**Cash salary and fees (1) fixed $**	**Bonus at risk $**	**Non-monetary benefits fixed $**	**Super-annuation (2) fixed $**	**Retirement benefits (3) fixed $**	**Shares (4) fixed $**	**Performance options and rights at risk $**	**Termination benefits fixed $**	**Other fixed $**	**Total $**
M A Chaney	**2005**	**116,665**			**11,491**		**11,250**				**139,406**
PJB Duncan	**2005**	**176,083**			**18,512**		**30,072**				**224,667**
	2004	154,598			13,913	11,385	27,971				207,867
RG Elstone	**2005**	**176,255**					**17,804**				**194,059**
	2004	12,224					1,246				13,470
DT Gilbert	**2005**	**147,218**			**15,903**		**29,750**				**192,871**
	2004	11,215			1,009		1,246				13,470
PJ Rizzo	**2005**	**200,135**					**19,000**				**219,135**
	2004	13,746					1,401				15,147
JS Segal	**2005**	**123,982**			**15,976**		**54,356**				**194,314**
	2004	8,868			798		985				10,651
JG Thorn	**2005**	**164,217**			**18,367**		**40,500**				**223,084**
	2004	143,843			12,946		26,750				183,539
GA Tomlinson	**2005**	**326,605**			**30,220**		**10,767**				**367,592**
	2004	208,313			18,576	33,074	79,356				339,319
GM Williamson	**2005**	**507,122**									**507,122**
	2004	212,610									212,610
Former											
GJ Kraehe	**2005**	**424,419**			**42,999**		**70,499**				**537,917**
	2004	284,017			25,562	27,369	67,883				404,831
Total	**2005**	**2,362,701**			**153,468**		**283,998**				**2,800,167**
Total *(6)*	2004	1,588,069			121,281	328,309	339,302				2,376,961
Specified directors											
Total *(7)*	**2005**	**7,090,227**	**6,966,000**	**95,055**	**257,484**		**1,268,189**	**1,467,966**			**17,144,921**
Total *(6) (8)*	2004	4,156,679	1,445,000	36,375	197,580	328,309	6,357,239	2,290,587	6,618,595	4,211,881	25,642,245

(1) Non-executive directors remuneration represents fees in connection with their roles, duties and responsibilities as a non-executive director, and includes attendance at meetings of the Board, Board committees and boards of controlled entities and includes payments of $160,890 (2004: $109,219) to Mr Tomlinson and $362,230 (2004: $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 $14,412 (2004: $9,739) for Mr Tomlinson in respect of services performed as a non-executive director of controlled entity boards and

committees. Mr Elstone and Mr Rizzo have elected to have their superannuation paid as cash remuneration.

(3) No 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 value of accumulated retirement benefits which were provided to directors during 2004 in the form of shares was: 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 $5,135 (2004:$42,388) provided to Mr Tomlinson in respect of services performed as a non-executive director of controlled entity boards and committees.

(5) Mrs Patricia Cross and Mr T Kerry McDonald were appointed as non-executive directors of the Company in December 2005 and accordingly, had not received any remuneration with respect to their office as at September 30, 2005.

(6) Specified executives who commenced executive directorships during 2005 have been reclassified in the 2004 specified directors total.

(7) Specified directors include all executive and non-executive directors of the Company.

(8) This is the total for non-executive directors and specified directors disclosed in last year s annual financial report and differs from the sum of current non-executive directors 2004 remuneration totals due to changes in non-executive directors during the year.

Non-executive director fees

Fees are paid by the Group to non-executive members of the Board and include amounts paid for their involvement on Board committees. The following table shows details of the components of non-executive director remuneration paid in the form of Board and committee fees:

	Board and committee remuneration							
	Board **$**	**Audit Committee** **$**	**Risk Committee** **$**	**Remuneration Committee** **$**	**Nomination Committee** **$**	**Meetings of controlled entities** **$**	**Non-recurring committees**	**Total** **$**
Current (1)								
MA Chaney	124,457						3,458	127,915
PJB Duncan	150,000	3,550	40,000	6,930			5,675	206,155
RG Elstone	150,000		20,000			8,036		178,036
DT Gilbert	150,000	20,000					6,968	176,968
PJ Rizzo	150,000	20,000	20,000				11,147	201,147
JS Segal	150,000	11,087		12,500			4,751	178,338
JG Thorn	150,000	40,000		12,500			2,217	204,717
GA Tomlinson	150,000			25,000		160,890	1,482	337,372
GM Williamson	144,892					362,230		507,122
Former								
GA Kraehe	480,326						14,593	494,919
Total	**1,799,675**	**94,637**	**80,000**	**56,930**		**531,156**	**50,291**	**2,612,689**

(1) Mrs Patricia Cross and Mr T Kerry McDonald were appointed as non-executive directors of the Company in December 2005, and accordingly no fees were paid to either in respect of their office as non-executive director as a September 30, 2005.

Included within the table above are fees paid by the Company of $2,250,459 and fees paid by controlled entities of $362,230. Fees above are paid either in cash or in the form of Company shares.

Report of the directors

The directors of National Australia Bank Limited (Company) present their report, together with the financial statements of the Group, being the Company and its controlled entities, for the year ended September 30, 2005.

Directors

The Board of directors (Board) has power to appoint persons as directors to fill any vacancies. Other than the Managing Director and Group Chief Executive 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 at the date of this report, and each director s qualifications, experience and special responsibilities are below:

Mr Michael A Chaney

AO, BSc, MBA, Hon. LLD Western Australia, FAIM, FAICD

Mr Chaney was appointed Chairman in September 2005 and has been a non-executive director since December 2004. He is the Chairman of the Nomination Committee.

Experience

22 years with Wesfarmers Limited, including Managing Director and Chief Executive Officer from 1993 until July 2005. Three years with investment bank Australian Industry Development Corporation, 1980 to 1983.

Directorships of listed entities within the last three years

Wesfarmers Limited from 1984 to July 2005, BHP Billiton Limited from May 1995 until November 2005, BHP Billiton Plc from June 2001 until November 2005 and Woodside Petroleum Ltd from November 2005.

Other directorships

Chairman of Gresham Partners Holdings Limited director since 1985 and a director of the Centre for Independent Studies. He is President of the Business Council of Australia and Chairman of Australian Research Alliance for Children and Youth Limited. He is a Council Member of the Australian National Gallery, a member of the JP Morgan International Advisory Council and a Trustee of the Committee for the Economic Development of Australia.

Mrs Patricia A Cross

BSc (Hons), FAICD, FAIM

Mrs Cross was appointed as a non-executive director in December 2005. She is a member of the Nomination Committee.

Experience

25 years in international banking and finance, including management and senior executive roles in Europe, the United States and Australia with Chase Manhattan Bank, Banque Nationale de Paris and National Australia Bank. Mrs Cross is a Fellow of the Finance and Treasury Association and was a founding member of the Financial Sector Advisory Council to the Federal Treasurer serving for five years until 2003. In 2003, she received a Centenary Medal for service to Australian society through the finance industry.

Directorships of listed entities within the last three years

AMP Limited from August 2000 until February 2003. Director of Wesfarmers Limited since February 2003 and Qantas Airways Limited since January 2004.

Other directorships

Director of the Murdoch Childrens Research Institute.

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 Remuneration Committee (formerly Human Resources 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. Director of GasNet Australia Limited from October 2001 to September 2005 and Woodside Petroleum Limited from May 1999 to February 2002.

Other directorships

Chairman of Scania Australia Pty Limited and Director of Cranlana Foundation. President of the Australian German Association, CSIRO from June 2002 to September 2005 and Governor of Committee for Economic Development of Australia (CEDA).

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

25 years in financial and senior management roles and has been Managing Director and Chief Executive Officer of SFE Corporation Limited 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

management programs at the Harvard and Stanford business schools.

Directorships of listed entities within the last three years

Managing Director of SFE Corporation Limited since May 2000.

Other directorships

SFE Corporation Limited related entities, including the Sydney Futures Exchange, SFE Clearing Corporation and Austraclear Limited.

Mr Ahmed Fahour

BEc (Hons), MBA, FAIM

Mr Fahour was appointed as Chief Executive Officer, Australia in September 2004 and an executive director in October 2004.

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 including Chief Executive Officer and Vice Chairman of Citigroup Investment Ltd. Previously Managing Director, iFormation Private Equity Group and a director of Boston Consulting Group from 1995 to 1999. He is an honorary Business Ambassador for Melbourne s North.

Other directorships

Rip Curl Group Pty Ltd.

Mr Daniel T Gilbert

AM, 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 Thomas (Kerry) McDonald

BCom, MCom (Hons), FID, FNZIM

Mr McDonald was appointed as a non-executive director in December 2005. He is a member of the Nomination Committee.

Experience

40 years in economic consulting, energy, resources, logistics and banking in Australia and New Zealand with a particular interest in organisation performance and improvement. He was a senior executive of Comalco from 1981 and a Managing Director and member of the Group Executive Committee from 1988 to 2000.

Directorships of listed entities within the last three years

Carter Holt Harvey Limited from April 1998 until December 2005. Chairman of Oceana Gold Limited since December 2003. Director of Owens Group Limited from April 2000 until October 2003.

Other directorships

Ports of Auckland Limited (delisted September 2005). Chairman of Bank of New Zealand and Advanced Dynamics NZ Ltd. Director of Gough Gough & Hamer Limited and Dux Industries Limited until November 2005. He is the New Zealand Chairman of the Australia New Zealand Leadership Forum, Deputy Chairman of NZ Institute of Economic Research, a Life Member of the Australia New Zealand Business Council, on the National Council of the Institute of Directors and a member of the Governing Board of Antarctica New Zealand.

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 Ltd from 1966 to 1990.

Directorships of listed entities within the last three years

BlueScope Steel Limited since May 2002. Director of NM Rothschild Australia Holdings Ltd from 2001 to 2003.

Other directorships

Consultant director to Mallesons Stephen Jaques.

Ms Jillian S Segal

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

Ms Segal was appointed a non-executive director in September 2004. She is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Experience

Over 20 years as a lawyer and regulator, most recently at the Australian Securities and 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. 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 Group Chief Executive in February 2004 and has been an executive director since August 2003. He is a member of the Risk 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 Remuneration 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

Amcor Limited since December 2004, 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 Remuneration 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 director of Amcor Limited since March 1999 and Mirrabooka Investments Limited since February 1999. 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 Director, Finance and Risk in September 2004 and an executive director in October 2004.

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.

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 Chairman of National Australia Group Europe Limited and on the boards of the Company s main controlled entity boards in the UK.

Experience

48 years in banking and finance in the United Kingdom and the United States. He served with Barclays 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, Britannic Group PLC from October 2004 until September 2005, Deputy Chairman and Senior Independent Director Resolution PLC (formed from a merger of Britannic Group PLC and Resolution Life Group Limited) since September 2005, director Securicor PLC from April 2004 until May 2004 and director of Group 4 Securicor PLC (formed from a merger of Securicor PLC and Group 4 Falk) since May 2004.

Other directorships

Director of JP Morgan Cazenove Holdings since April 2005.

Secretaries of the Company

Details of company secretaries of the Company in office at the date of this report, and each company secretary s qualifications and experience are below:

Mr Garry F Nolan

MBus, FCIS, FAIBF, FAICD, 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, GDip App Fin, 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. He has senior management experience in corporate finance, corporate governance and financial planning.

Board changes

Mr Michael A Chaney was appointed to the Board as a non-executive director on December 6, 2004 and was appointed Chairman in September 2005. The Company has announced that Mrs Patricia A Cross and Mr Thomas (Kerry) McDonald would be appointed as non-executive directors on December 1, 2005. Mr Graham J Kraehe resigned as Chairman and non-executive director on September 27, 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 certain non-executive directors of related bodies corporate of the Company.

The Company has, under deeds of settlement and release, agreed to release a former officer, Mr Peter B Scott, and agreed to release and indemnify an officer, Mr Graeme D Willis (who will cease employment with the Company on February 15, 2006), in respect of all actions, claims and costs which the Company has or may otherwise have arising out of their respective employment or termination of employment.

For more detailed summaries of the deeds of settlement and release, refer to pages 271 to 274.

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

A review of the operations of the Group, and the results of those operations, is contained in the financial review on pages 19 to 22 of the annual financial report. These sections are incorporated by reference into and form part of this report of the directors.

Dividends

The directors have declared a final dividend of 83 cents per fully paid ordinary share, 80% franked, payable on December 19, 2005. The proposed payment amounts to approximately $1,304 million.

Dividends paid since the end of the previous financial year:

the final dividend for the year ended September 30, 2004 of 83 cents per fully paid ordinary share, fully franked, paid on December 8, 2004. The payment amount was $1,289 million; and

the interim dividend for the year ended September 30, 2005 of 83 cents per fully paid ordinary share, 80% franked, paid on July 13, 2005. The payment amount was $1,297 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 carries 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

Sale of Northern Bank Limited and National Irish Bank Limited

The sale of Northern Bank Limited and National Irish Bank Limited (the Irish Banks) to Danske Bank A/S was completed on February 28, 2005, generating a profit on sale after all disposal costs, including taxation, of $1,043 million. Under the terms of the sale agreement, the Company has certain indemnification obligations and standard warranties that survive the completion of the sale. Transitional services are provided to Danske Bank A/S in respect of the Irish Banks to assist in the smooth transition of ownership of those businesses. Transitional services are provided at cost and are expected to be in place for up to 18 months from the date of sale.

Foreign currency options losses

In January 2004 the Company announced that it had identified losses relating to unauthorised trading in foreign currency options. The Company recognised the total losses of $360 million before tax during the year ended September 30, 2004.

In March 2004, the Australian Prudential Regulatory Authority (APRA) conducted a review of the Company s market trading activities. The review identified remedial actions required by the Company, and further requirements were imposed as follows:

the Company would remain under close supervision by APRA until these actions were implemented;

the Company s internal target total capital adequacy was to rise to 10%;

the Company s approval to use an internal model to determine market risk capital was withdrawn; and

the Company s currency options desk was to remain closed to corporate business and proprietary trading until substantial progress had been made to redress the issues raised by APRA in its report.

Significant progress has been made in addressing deficiencies in market risk systems, governance processes and organisational culture in accordance with the remedial actions specified by APRA. A key outcome was the re-opening in May 2005 of the foreign currency options trading desk. The Company is also progressing with remedial action leading to its internal model re-accreditation and reduction in capital adequacy levels.

Detailed resources are deployed on all of these initiatives and the Company anticipates that all APRA requirements will be completed in 2006.

Claim for compensation for foreign currency options trading losses

In September 2005, the Company issued letters of demand claiming compensation exceeding $539 million against ICAP plc and another broker in relation to the foreign currency options trading losses announced in January 2004.

The Company is seeking compensation for losses including foreign currency trading losses, additional capital expenses and loss of profit as a result of the disruption to foreign currency options trading services. The Company has also indicated its intention to seek exemplary damages

against ICAP plc in any proceedings brought against that firm.

The Company has conducted a detailed forensic investigation over the course of more than a year in preparing its claims, and has also had regard to evidence gained during inquiries by APRA and Pricewaterhouse-Coopers.

The Company is confident it has a strong case to seek compensation from the parties involved in the foreign currency options trading losses. While the Company would prefer to resolve its claims against those parties by negotiation, it may be necessary for it to bring legal proceedings against them to enforce its rights.

Enforceable undertaking

On October 20, 2004, the Company announced that it 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 was 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 covered 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 reports have been submitted by the Company and audited by the Company s external auditors under the agreed terms of the enforceable undertaking with ASIC. The remedial actions noted by the external auditor will be completed in 2006.

In addition to the significant changes above, the following general developments occurred during the year:

a program of work was undertaken to transform the Australia regional business. The re-alignment of the organisational structure was completed by March 2005, with Australian Banking and Wealth Management moving into a single, regional business centred around customers, products and services;

there were 23 financial solutions centres opened in the South East of England during the year, with progress made to roll out the financial solutions concept into the markets in the north of England and Scotland. This is a two-year program to update all business banking centres and third party distribution; and

a detailed review of the operating model for Institutional Markets & Services was undertaken during the year with consolidation of the Asian operations, including establishing a business hub in Hong Kong and the exit of activities in Seoul, Singapore, Tokyo and Malaysia. The non-core business operations were also exited in the Americas.

Events subsequent to balance date

The Group announced in November 2005 that it was undertaking a process to seek expressions of interest for its wholly owned fleet leasing and management business, Custom Fleet, which is a leading player in the vehicle fleet management and leasing industries in Australia and New Zealand. No firm decision has been made to sell the business and any decision will be made after conclusion of this process.

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 the opinion of the directors, disclosure of any further future developments would be likely to result in unreasonable prejudice to the interests of the Group.

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).

Environmental regulation

The Group has a key role, as a global provider of financial products and services, to contribute to environmental sustainability of communities in which it operates. The Group s commitment to environmental sustainability is outlined in its environmental policy at www.nabgroup.com and the Group s management of direct and indirect environmental impacts is outlined in the 2005 Corporate Social Responsibility Report.

The operations of the Group are not subject to any particular or significant environmental regulation under 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.

Remuneration report

The remuneration report is set out on pages 81 to 100 and is incorporated by reference into and forms part of the report of the directors. Certain disclosures required by AASB 1046 Director and Executive Disclosures by Disclosing Entities have been made in the remuneration report. Pages 81 to 82 and pages 90 to 100 of the remuneration report have been audited as required.

Executive performance options and performance rights

Performance options and performance rights are granted by the Group 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). The executive share option plan was approved by shareholders by special resolution in January 1997 and again at the 2002 annual general meeting. *Refer to the remuneration report for a description of the key terms and conditions of performance option and performance right plans.*

All performance options that have not expired are detailed in note 38 in the financial report. 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 by the Company during 2005 and since the end of the year over ordinary shares 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, 2005 (No.)	Lapsed during the period (3) (No.)	Granted since October 1, 2004 (No.)	Fair value as at grant date (4)
Performance options						
Dec 21, 2004	Sep 1, 2007 - Aug 31, 2009	$ 26.59	237,500		237,500	$ 790,875
Feb 7, 2005	Feb 7, 2008 - Feb 6, 2010	$ 29.93	5,492,778	460,601	5,953,379	$ 16,669,461
Feb 22, 2005 *(5)*	Feb 2, 2007 - Feb 1, 2009	$ 30.41	900,000		900,000	$ 1,386,000
Apr 18, 2005	Feb 7, 2008 - Feb 6, 2010	$ 28.90	155,000		155,000	$ 375,100
Apr 18, 2005	Feb 7, 2008 - Feb 6, 2010	$ 29.93	17,500		17,500	$ 49,000
Jul 8, 2005	Feb 7, 2008 - Feb 6, 2010	$ 30.40	220,375		220,375	$ 577,383
Jul 8, 2005	Feb 7, 2008 - Feb 6, 2010	$ 29.93	3,000		3,000	$ 8,400

Grant date	Exercise period (1)	Exercise price (2)	Held at September 30, 2005 (No.)	Lapsed during the period (3) (No.)	Granted since October 1, 2004 (No.)	Fair value as at grant date (4)
Performance rights						
Dec 21, 2004	Sep 1, 2007 - Aug 31, 2009	$ 1.00	59,450		59,450	$ 838,840
Feb 7, 2005	Feb 7, 2008 - Feb 6, 2010	$ 1.00	1,373,303	115,113	1,488,416	$ 26,047,280
Feb 22, 2005 *(5)*	Feb 2, 2007 - Feb 1, 2009	$ 1.00	210,000		210,000	$ 1,547,700
Apr 18, 2005	Feb 7, 2008 - Feb 6, 2010	$ 1.00	43,125		43,125	$ 710,700
Jul 8, 2005	Feb 7, 2008 - Feb 6, 2010	$ 1.00	55,844		55,844	$ 1,022,504

(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 performance option or performance right. Refer above and to note 38 in the financial report for further information.

(5) Approval of the granting of 900,000 performance options and 210,000 performance rights was sought and obtained at the 2004 annual general meeting held on January 31, 2005. The agreement date for these performance options and performance rights commenced on February 2, 2004 and the grant date was January 31, 2005.

Performance options and performance rights on issue and number exercised

There are currently 41,444,420 performance options and 4,634,848 performance rights which are exercisable, or may become exercisable in the future, under the respective plans.

There were 1,794,820 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 $43,170,463. There were 132,260 fully paid ordinary shares of the Company issued since the end of the year as a result of performance options granted being exercised, for a total consideration of $3,356,879. 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 in the financial report.

No person holding a performance option has or had, by virtue of the performance 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 meetings of the Company				Audit Committee meetings of the Company attended by members of the Committee		Risk Committee meetings of the Company attended by members of the Committee	
Directors	**Scheduled meetings attended**	**Scheduled meetings held**	**Unscheduled meetings attended (1)**	**Unscheduled meetings held**	**Meetings attended**	**Meetings held**	**Meetings attended**	**Meetings held**
MA Chaney *(5)*	8	8	2	2				
PJB Duncan	11	11	2	2	4*(4)*	4*(4)*	12	12
RG Elstone *(6)*	11	11	2	2			12	12
A Fahour	11	11	1*(1)*	2*(1)*				
DT Gilbert	11	11	2	2	11	12		
GJ Kraehe	11	11	2	2				
PJ Rizzo	11	11	2	2	12	12	12	12
JS Segal	11	11	2	2	10*(4)*	10*(4)*		
JM Stewart	11	11	2	2			8	12
JG Thorn	11	11	2	2	12	12		
GA Tomlinson	11	11	2	2				
MJ Ullmer	11	11	2	2				
GM Williamson	11	11	1*(1)*	2*(1)*				

	Remuneration Committee meetings of the Company		Nomination Committee meetings of the Company		Directors meetings of controlled entities (2)		Additional meetings (3)
Directors	**Meetings attended**	**Meetings held**	**Meetings attended**	**Meetings held**	**Meetings attended**	**Meetings held**	**Meetings attended**
MA Chaney			2	2	4	4	8
PJB Duncan	1*(7)*	2*(7)*	3	3	6	6	3
RG Elstone			3	3	7	7	8
A Fahour					6	6	8
DT Gilbert			3	3	6	6	9
GJ Kraehe			3	3	7	7	34
PJ Rizzo			3	3	6	6	7
JS Segal	7	7	3	3	6	6	13
JM Stewart					6	6	15
JG Thorn	7	7	3	3	6	6	8
GA Tomlinson	7	7	3	3	39	40	3
MJ Ullmer					6	6	28
GM Williamson			2	3	43	45	4

(1) 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 views of the director are obtained.

(2) 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, 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.

(3) Reflects the number of additional formal meetings attended during the year by each director, including committee meetings (other than Audit, Risk, Remuneration or Nomination Committee) where any two directors are required to form a quorum.

(4) Mr Duncan resigned as a member of the Audit Committee after the Audit Committee meeting held on December 2, 2004. Mr Duncan attended three meetings as a member and one as a non-member. Ms Segal was appointed a member of the Audit Committee after the Audit Committee meeting held on March 10, 2005. Ms Segal attended five meetings as a non-member and five as a member.

(5) Mr Chaney was appointed to the Board on December 6, 2004.

(6) Mr Elstone was appointed to the board of National Wealth Management Holdings Limited and principal subsidiaries in July 2005 and resigned in November 2005.

(7) Mr Duncan was appointed to the Remuneration Committee on August 18, 2005.

Directors and executives interests

The tables below show the interests of each director and executive in the issued ordinary shares and National Income Securities of the Group, and in registered schemes made available by the Group as at the date of this report. No director or senior executive held an interest in Trust Preferred Securities, Trust Preferred Securities II 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 (1)	Performance rights over fully paid ordinary shares of the Company (1)	National Income Securities	Registered schemes
MA Chaney	20,853				
PA Cross	8,294				
PJB Duncan *(2)*	11,184				
RG Elstone *(2)*	2,913				
A Fahour	302,865	160,000	40,000		
DT Gilbert *(2)*	6,997			1,253	
T McDonald					
PJ Rizzo *(2)*	2,845				
JS Segal *(2)*	7,729			180	
JM Stewart	27,373	1,175,000	278,750		
JG Thorn *(2)*	4,607				
GA Tomlinson *(2)*	36,478			500	
MJ Ullmer	2,863	100,000	25,000		
GM Williamson	5,196				

Senior executives (3)	Fully paid ordinary shares of the Company	Performance options over fully paid ordinary shares of the Company (1)	Performance rights over fully paid ordinary shares of the Company (1)	National Income Securities	Registered schemes
CA Clyne	2,852	110,000	27,500		
MJ Hamar	13,403	40,000	10,000		
JE Hooper	14,173	175,000	30,000		
EC Hunter	10,120	139,500	19,875		
IG MacDonald	6,385	796,000	74,000		
LM Peacock	16,911	250,000	62,500		
RE Pinney	61,466	775,000	62,500	500	
GR Slater	8,353	112,500	19,375		
PL Thodey	4,761	587,500	71,875		
GD Willis	26,648	199,500	26,125		

(1) 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 in the financial report.

(2) Includes shares acquired under the Non-Executive Director Share Plan operated through the National Australia Bank Staff Share Ownership Plan.

(3) Senior executives in current employment with the Group as at September 30, 2005 where information on shareholdings is disclosed in note 51 in the financial report.

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.

Past employment with external auditor

Ernst & Young has been the Company s external auditor since January 31, 2005. There is no person who has acted as an officer of the Group during the year who has previously been a partner at Ernst & Young when that firm conducted the Company s audit.

Non-audit services

Fees paid or due and payable to the external auditor, Ernst & Young, for non-audit services provided by the external auditor to the Group during the year to September 30, 2005 are set out in the table below:

	Group 2005 $ 000
Audit-related fees (regulatory)	
APRA reporting (attestation in connection with the Company s Basel II accreditation program)	1,760
Regulatory audits/attestations for Wealth Management entities (in all regions)	420
APRA reporting (attestation relating to Prudential Standard APS 310)	385
National Custodian Services Auditing Guidance Statement (AGS) 1026 reports	287
UK regulatory audits/attestations	212
New Zealand regulatory audits/attestations	122
Other regulatory audits attestations (in all regions)	81
Asia regulatory audits/attestations	77
Audit of the Company s Australian Financial Services Licence	36
Total audit-related fees (regulatory)	**3,380**
Audit-related fees (non-regulatory)	
Procedures with regards to internal controls relating to the requirements of section 404 of the United States *Sarbanes-Oxley Act of 2002*	1,957
Assurance services relating to the content of the Company s Basel II accreditation application to APRA	619
Agreed-upon procedures on results announcements	191
Provision of audit commentary on the Group s proposed accounting treatment for transactions	153
Procedures with regard to the reconciliation of half-year financials under Australian GAAP to US GAAP	67
Audit of employee benefit plans	37
Other (including procedures in relation to the Group s corporate social responsibility report)	13
Total audit-related fees (non-regulatory)	**3,037**
Tax fees	
Tax services to expatriate employees	1,532
Provision of standard tax compliance software to Wealth Management Australia	2
Total tax fees	**1,534**
All other fees	
Sub-lease of office space to BNZ on commercial terms	670
Attestation procedures regarding certain risk management functions as required by ASIC under the enforceable undertaking	648
Regulatory or compliance audits/attestations for Wealth Management entities (in all regions) unrelated to the audit or review of the Group s financial statements	383
Other regulatory audits/attestations (in all regions) unrelated to the audit or review of the Group s financial statements	32
Total all other fees	**1,733**
Total non-audit services fees	**9,684**

Fees exclude goods and services tax, value added tax or equivalent taxes.

Ernst & Young issued several comfort letters to underwriters in connection with the Company s funding programs. The fees paid or due and payable to Ernst & Young for these services during the year to September 30, 2005 total approximately $1,361,000. These services are classified by the Audit Committee as audit services.

Ernst & Young 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 Ernst & Young for these services during the year to September 30, 2005 total approximately $1,932,000.

KPMG resigned as the Group s external auditor effective January 31, 2005. During the period October 1, 2004 to January 31, 2005, KPMG provided non-audit services to the Group for which KPMG was paid $807,000.

These services included regulatory audits and other reviews and assurances for reporting periods ended before, on or around September 30, 2004, and procedures in relation to the Group s 2004 corporate social responsibility report. The fees paid to KPMG include $297,000 for work performed by KPMG in connection with the transition to Ernst & Young as external auditor.

During the period October 1, 2004 to January 31, 2005, KPMG also provided audit and non-audit services to 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 to KPMG for these services total approximately $141,000.

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, 2005 by Ernst & Young, and during the period October 1, 2004 to January 31, 2005 by KPMG, 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 assessed each service, having regard to auditor independence requirements of applicable laws, rules and regulations, and concluded in respect of each non-audit service or type of non-audit service that the provision of that service or type of service would not impair the independence of Ernst & Young or KPMG (as the case may be).

A description of the Audit Committee s pre-approval policies and procedures is set out on page 77. Details of the services provided by Ernst & Young and KPMG to the Group during 2005 and the fees paid or due and payable for those services are set out in note 52 in the financial report. A copy of Ernst & Young s independence declaration is set out on the following page.

ASIC relief Ernst & Young Australia bank accounts

In connection with Ernst & Young becoming the Group s external auditor for the year to September 30, 2005, ASIC granted transitional relief to Ernst & Young from certain provisions of the *Corporations Act* 2001 (Cth). By virtue of Order 04/1168 dated September 30, 2004, ASIC granted Ernst & Young Australia and its partners relief from sections 324CF(1) and 324CF(2) of the *Corporations Act* 2001 (Cth) to permit the following relationships to continue during the period October 1, 2004 to November 30, 2004:

a relationship that consists of one partner of Ernst & Young Australia owing an amount to the Company of more than $5,000 but less than $1,200,000 solely as a result of that partner also being a member of a certain other partnership, and where:

that partner is not engaged on the audit of the Company or a related body corporate of the Company, whether having actual carriage and control of the audit or not;

that partner is not involved in the management of the firm as a whole, does not undertake audits, and does not practise mainly in Melbourne; and

the indebtedness arose prior to July 31, 2004 upon ordinary commercial terms as to the rate of interest, the terms of repayment of principal and payment of interest, the security to be provided and otherwise; and

a relationship that consists of Ernst & Young Australia maintaining one deposit account with the Company, where such account is at no time overdrawn (other than by reason of the imposition of fees and taxes ordinarily applied to accounts of that type).

The relief was granted on the following conditions:

the existence of the relief and the terms of the Order must be summarised in the report of the directors of the Company for the half-year ended March 31, 2005 and the year ended September 30, 2005, and in the report of the directors of any related body corporate of the Company that is required to a lodge a financial report for either or both of those periods;

the Company must report to ASIC within seven days of the occurrence of any event of default and any enforcement action taken in relation to the indebtedness of the one partner of Ernst & Young Australia referred to above;

at intervals of not greater than two business days (and forthwith after expiry of the relief), Ernst & Young Australia must transfer the balance in the deposit account referred above to an account maintained by it with another Australian authorised deposit-taking institution; and

within seven days after the signing of the audit report for the Company for the year ended September 30, 2005, the directors must report to ASIC whether or not, in the Audit Committee s opinion, the above conditions have been complied with, and Ernst & Young Australia must report to ASIC whether or not the conduct of its audit or the content of its audit report has been influenced by the relationships referred to in the Order, as described above.

Auditor s Independence Declaration to the directors of National Australia Bank Limited

In relation to our audit of the financial report of National Australia Bank Limited (National) for the financial year ended September 30, 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 (the Act) or any applicable code of professional conduct, other than for one employee of Ernst & Young who inadvertently held an insignificant number of ordinary shares in the National whilst engaged in the audit and two instances where immaterial bank account balances belonging to unrelated third parties were held in the name of Ernst & Young which constitute contraventions of the auditor independence requirements of the Act.

In my opinion, due to the nature of these contraventions and the rectification steps which were promptly taken upon identification of these contraventions, these matters have not impaired our audit independence for the year ended September 30, 2005.

Ernst & Young

/s/ SJ Aldersley
SJ Aldersley
Partner

December 1, 2005

Directors signatures

This report of directors signed in accordance with a resolution of the directors:

/s/ Michael Chaney
Michael A Chaney
Chairman

/s/ John Stewart
John M Stewart
Managing Director and Group Chief Executive

December 1, 2005

Financial report

Statement of financial performance

For the year ended September 30	Note	Group 2005 $m	Group 2004 $m	Group 2003 $m	Company 2005 $m	Company 2004 $m
Interest income	4	**20,872**	18,650	17,022	**15,539**	13,707
Interest expense	5(b)	**(13,790)**	(11,459)	(9,603)	**(11,337)**	(9,605)
Net interest income		**7,082**	7,191	7,419	**4,202**	4,102
Premium and related revenue	4, 54	**906**	1,005	949		
Investment revenue	4, 54	**7,698**	4,842	2,759		
Claims expense	5(b), 54	**(590)**	(702)	(958)		
Change in policy liabilities	5(b), 54	**(5,570)**	(3,368)	(1,518)		
Policy acquisition and maintenance expense	5(b), 54	**(739)**	(723)	(713)		
Investment management fees	5(b), 54	**(33)**	(42)	(75)		
Net life insurance income		**1,672**	1,012	444		
Other banking and financial services income	4	**5,102**	4,831	5,010	**5,732**	3,490
Movement in the excess of net market value over net assets of life insurance controlled entities	4	**335**	(137)	(160)		
Significant revenue						
Proceeds from the sale of controlled entities	4, 5(a)	**2,493**				
Proceeds from the sale of strategic shareholdings	4, 5(a)		993			993
Personnel expenses	5(b)	**(3,736)**	(3,616)	(3,416)	**(2,206)**	(1,976)
Occupancy-related expenses	5(b)	**(622)**	(591)	(556)	**(324)**	(297)
General expenses	5(b)	**(2,946)**	(2,605)	(2,382)	**(1,432)**	(1,399)
Amortisation of goodwill	5(b)	**(98)**	(103)	(98)		
Charge to provide for doubtful debts	5(b), 17	**(534)**	(559)	(633)	**(294)**	(325)
Significant expenses						
Cost of controlled entities sold	5(a), (b)	**(1,416)**			**(41)**	
Restructuring costs	5(a), (b)	**(838)**			**(499)**	
Reversal of prior years restructuring provision	5(a), (b)	**11**			**6**	
Foreign currency options trading (losses)/reversal	5(a), (b)	**34**	(360)		**34**	(360)
Cost of sale of strategic shareholdings	5(a), (b)		(678)			(678)
Write-down of impaired application software	5(a), (b)		(409)			(239)
Charge to provide for doubtful debts revision of accounting estimate	5(a), (b)		(292)			(190)
Cost of foreign controlled entity sold revision of accounting estimate	5(a), (b)		64			64
Profit from ordinary activities before income tax expense		**6,539**	4,741	5,628	**5,178**	3,185
Income tax expense relating to ordinary activities	6	**(1,797)**	(1,190)	(1,681)	**(865)**	(768)
Net profit		**4,742**	3,551	3,947	**4,313**	2,417
Net (profit)/loss attributable to outside equity interest Life insurance business		**(610)**	(365)	16		
Net profit attributable to outside equity interest - Other			(9)	(8)		
Net profit attributable to members of the Company		**4,132**	3,177	3,955	**4,313**	2,417
Other changes in equity other than those resulting from transactions with owners as owners						
Net credit to asset revaluation reserve	34	**1**	71	9	**1**	5
	34	**(614)**	226	(1,251)	**(7)**	6

Net credit/(debit) to foreign currency translation reserve						
Net credit to retained profits on initial adoption of AASB 1044 Provisions, Contingent Liabilities and Contingent Assets	35			1,151		
Total revenues, expenses and valuation adjustments attributable to members of the Company and recognised directly in equity		**(613)**	297	(91)	**(6)**	11
Total changes in equity other than those resulting from transactions with owners as owners		**3,519**	3,474	3,864	**4,307**	2,428
Basic earnings per share (cents)	8	**251.9**	197.3	248.8		
Diluted earnings per share (cents)	8	**248.1**	196.1	243.6		
Dividends per ordinary share (cents)						
Interim	7	**83**	83	80		
Final	7	**83**	83	83		

Statement of financial position

As at September 30	Note	Group 2005 $m	Group 2004 $m	Company 2005 $m	Company 2004 $m
Assets					
Cash and liquid assets	9	**8,430**	8,080	**3,334**	4,189
Due from other financial institutions	10	**15,477**	23,494	**16,158**	21,615
Due from customers on acceptances	11	**27,627**	16,344	**27,612**	16,266
Trading securities	12	**15,957**	24,248	**14,974**	23,699
Trading derivatives	45	**13,959**	17,939	**13,416**	17,279
Available for sale securities	13	**3,857**	4,610	**3,231**	3,978
Investment securities	14	**7,466**	11,513	**2,425**	5,383
Investments relating to life insurance business	15	**50,500**	41,013		
Loans and advances	16	**260,053**	247,836	**175,783**	156,035
Due from controlled entities				**29,595**	32,244
Shares in controlled entities, joint venture entities and other securities	19	**75**	158	**11,017**	11,432
Regulatory deposits	20	**118**	177	**67**	93
Property, plant and equipment	21	**1,974**	2,257	**840**	878
Income tax assets	22	**1,530**	1,367	**918**	876
Goodwill	23	**522**	632		
Other assets	24	**12,043**	11,641	**2,957**	2,435
Total assets		**419,588**	411,309	**302,327**	296,402
Liabilities					
Due to other financial institutions	25	**36,322**	43,768	**32,605**	40,399
Liability on acceptances	11	**27,627**	16,344	**27,612**	16,266
Trading derivatives	45	**12,407**	16,150	**11,642**	15,181
Deposits and other borrowings	26	**209,079**	219,028	**144,842**	145,696
Life insurance policy liabilities	27	**42,123**	36,134		
Income tax liabilities	28	**1,381**	1,178	**1,004**	740
Provisions	29	**1,823**	1,129	**1,137**	629
Due to controlled entities				**13,729**	18,004
Bonds, notes and subordinated debt	30	**39,238**	32,573	**38,108**	31,449
Other debt issues	31	**1,559**	1,612	**328**	350
Other liabilities	32	**13,749**	13,627	**7,220**	6,600
Total liabilities		**385,308**	381,543	**278,227**	275,314
Net assets		**34,280**	29,766	**24,100**	21,088
Equity					
Contributed equity	33	**11,486**	10,191	**10,511**	9,216
Reserves	34	**667**	1,194	**45**	50
Retained profits	35	**15,903**	14,515	**13,544**	11,822
Total parent entity interest		**28,056**	25,900	**24,100**	21,088
Outside equity interest Life insurance business	36	**6,224**	3,866		
Total equity	37	**34,280**	29,766	**24,100**	21,088

Statement of cash flows

For the year ended September 30	Note	Group 2005 $m	2004 $m	2003 $m	Company 2005 $m	2004 $m
Cash flows from operating activities						
Interest received		**20,588**	18,594	17,372	**15,216**	12,578
Interest paid		**(13,605)**	(11,136)	(10,115)	**(10,989)**	(8,272)
Dividends received		**2**	23	39	**2,930**	974
Fees and other income received		**5,271**	5,068	3,026	**3,411**	3,020
Life insurance						
Premiums received		**7,594**	7,467	6,546		
Investment and other revenue received		**1,853**	1,339	1,857		
Policy payments		**(6,837)**	(6,694)	(5,778)		
Other life insurance payments		**(350)**	(641)	(476)		
Personnel expenses paid		**(3,544)**	(3,521)	(3,327)	**(2,021)**	(1,908)
Occupancy-related expenses paid		**(545)**	(521)	(489)	**(301)**	(243)
General expenses paid		**(3,225)**	(3,048)	(2,959)	**(1,408)**	(1,481)
Income tax paid		**(1,416)**	(1,567)	(1,830)	**(1,008)**	(987)
Goods and services tax (paid)/received		**(33)**	(30)	(52)	**6**	(8)
Net decrease/(increase) in trading securities		**8,161**	(449)	(4,345)	**8,611**	(725)
Net decrease/(increase) in mortgage loans held for sale		**38**	(22)	50		
Net cash provided by/(used in) operating activities	42(a)	**13,952**	4,862	(481)	**14,447**	2,948
Cash flows from investing activities						
Movement in available for sale securities						
Purchases		**(4,465)**	(5,727)	(15,052)	**(3,815)**	(5,098)
Proceeds from sale		**1,384**	2,002	3	**784**	2,001
Proceeds on maturity						