

August 2005

Institutional Markets & Services

Overview and Update

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Executive General Manager

Overview of the IMS Business

Clients	Financial Institutions: Banks, Insurance, Fund Managers, Governments, and Corporates and Business Clients managed by other parts of the Group		
Products	Debt Financing	Risk Management	Investment
	<ul style="list-style-type: none"> Syndications Debt Capital Markets Securitisation Project Finance Structured Finance Asset Finance Leveraged Finance Mezzanine Finance Corporate Lending* 	<ul style="list-style-type: none"> Interest Rate Currency Commodity Equity Derivatives Credit Derivatives 	<ul style="list-style-type: none"> Deposits/CDs/CP/Bills Bonds & ABS Mezzanine Structured Property Private Equity Capital Protection Structured Credit Alternative Investment
Services	<ul style="list-style-type: none"> Portfolio Management Marketing & Communications Technology 	<ul style="list-style-type: none"> People & Culture Operations Program Office 	<ul style="list-style-type: none"> Finance and Risk Management Quantitative Services Client Business Services
What's out of IMS	Trade Finance	Transactional Banking	Custodian Services

2 Note: *In Australia, Corporate Lending is to the Top 500 Corporates with an annual turnover greater than \$350M

The issues IMS faced can be grouped into four core themes

Business inefficiency	Unsustainable revenue growth
People	Ineffective risk practices

IMS focus was on risk capital at the expense of actual capital

	FY 2001[^]	FY 2002[^]	FY 2003	FY 2004
Net Operating Income	~A\$1,820m	~A\$1,810m	A\$1,782m	A\$1,484m
Operating Expenses	~A\$650m	~A\$660m	A\$643m	A\$705m
Net Profit after Tax	~A\$700m	~A\$790m	A\$840m	A\$558m
Average Interest Earning Assets - External	~A\$92b	~A\$101b	A\$104.5b	A\$96.8b
Staff Numbers (Spot)*	~1,950	~1,900	1,904	2,073

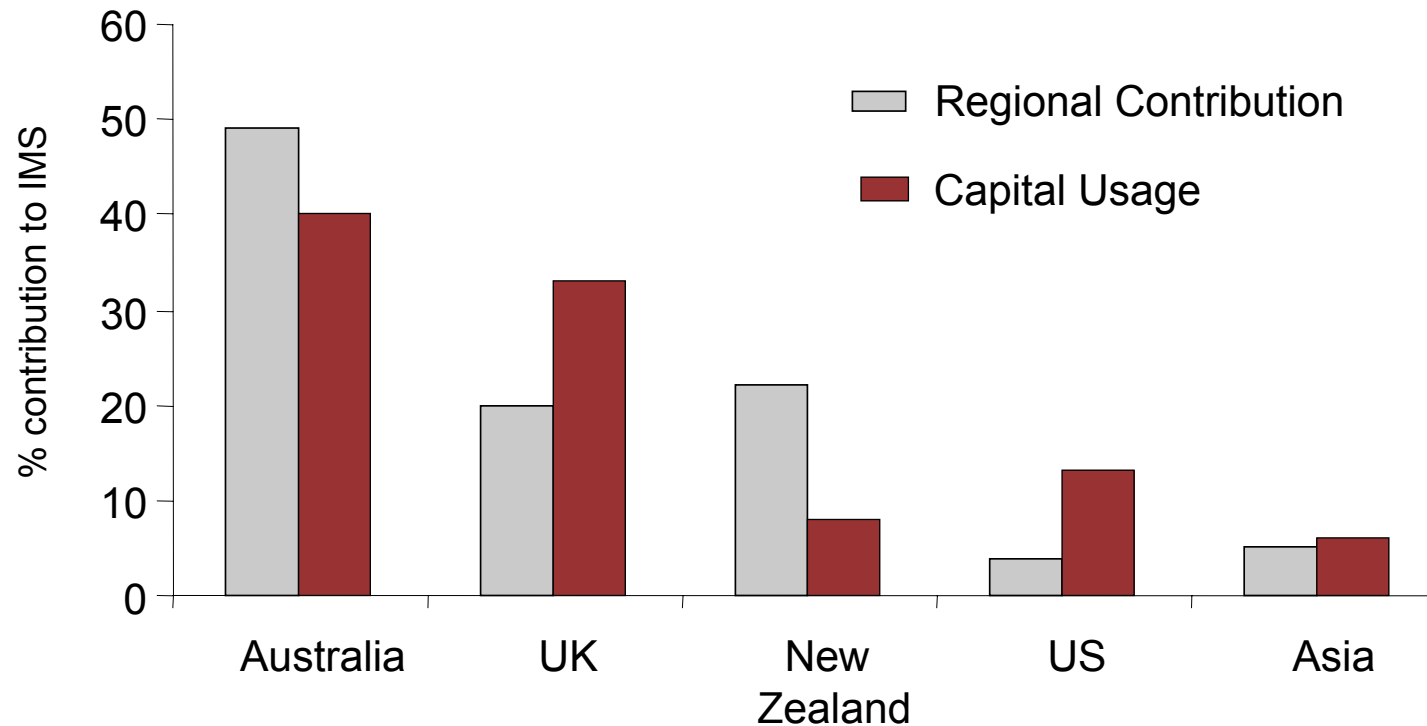
[^]2001 and 2002 not comparable to 2003 and 2004. These are indicative numbers adjusted to reflect current operating model

4 Note: Operating Expenses exclude Bⅅ Net Profit After Tax is before significant items and after Outside Equity Interests; *Full Time Equivalent Employees



c.70% of IMS contribution is from Australia and NZ
with less than 50% of the capital deployed

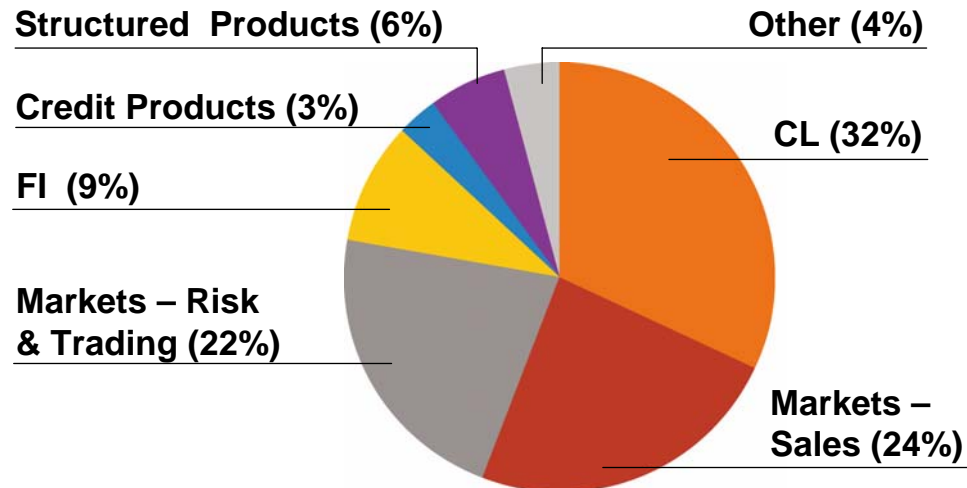
Regional profit contribution and capital usage as at 30 Sep 2004



c.60% of IMS revenue comes from Australia and NZ

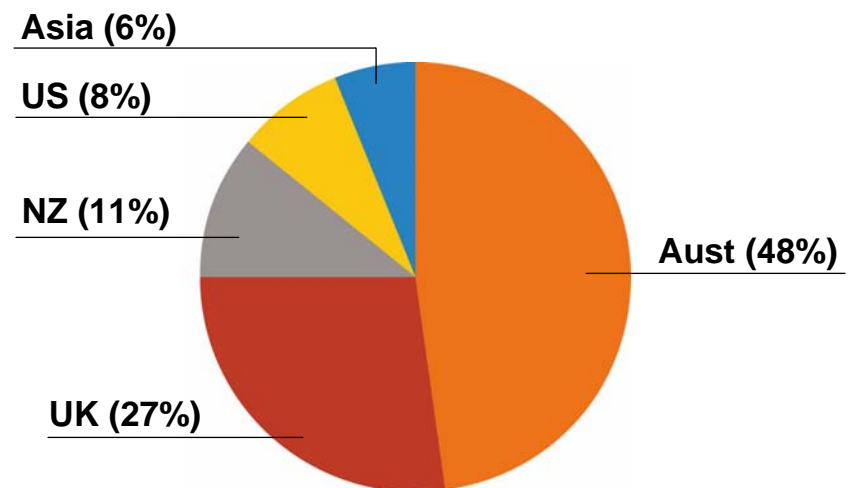
Revenue by Product

(September 2004)



Revenue by Region

(September 2004)



FI = Financial Institutions

CL = Corporate Lending

The issues IMS faced can be grouped into four core themes

<p>Business inefficiency</p> <ul style="list-style-type: none">■ Risk capital focus (EVA / RAROC) at expense of actual capital	<p>Unsustainable revenue growth</p> <ul style="list-style-type: none">■ Declining margins in volume products■ High reliance on one-off fees and peaks in non-sustainable income streams
<p>People</p> <ul style="list-style-type: none">■ Key senior management changes■ Lack of clear accountability	<p>Ineffective risk practices</p> <ul style="list-style-type: none">■ Ineffective engagement between the business and Risk

IMS is creating a competitive growth platform

- Focus on key segments across core markets – Australia, New Zealand and UK
- Consolidation of Asian footprint – hub in Hong Kong, exiting IMS activity in Singapore, Seoul, Tokyo and Malaysia
- Exit non-core businesses in the US – Energy and Utilities and Real Estate
- Reduction of low yielding risk weighted assets – majority from UK, Asia and US



Flat half on half earnings with potentially lower earnings in 2006 as the business is rebased

IMS is also addressing the challenging external environment

External Environment

- Strong market liquidity continues to put pressure on corporate lending yield
- Increasing sophistication of retail and sub-institutional client segments
- Changing legislative environment impacting Structured Finance business
- Impact of low and stable interest rates on the trading environment

Implication

- Reduce reliance on low ROE* lending
- Focus on cross-sell of high value add products
- Increase breadth and sophistication of core product offerings
- Shift focus from asset side to both asset and liability sides of balance sheet
- Focus on establishment and growth of new businesses
- Build lower volatility income streams

IMS ongoing focus is to address key issues

- Simplify the operations of the business
- Deliver sustainable revenue growth
- Create the right environment for people to excel
- Embed ownership of effective risk practices

IMS - Simplify Operations

Priorities

- Rationalise geographic footprint
- Review competitive position of all products and market segments

Progress to Date

- Released \$250M ACE* capital as at 31 March 2005 but still work in progress
- Consolidation of Asian footprint on track – centralisation of IMS business into Hong Kong
- Repositioned corporate banking in the UK to focus on core large client relationships and Middle Market
- Reorganised Markets Division realigning global product lines into more effective business groupings
- Consolidated regional technology centres – transition from a dual-hub infrastructure model into a global support hub

IMS - Revenue

Priorities

- Focus on key segments across core markets
- Improve returns from client relationships
- New product introduction
- Focus on originate – warehouse – distribute operating model

Progress to Date

- Re-opened FX Options desk
- Expanded product range including Leveraged Finance, Mezzanine Debt and Asset Finance
- Ongoing development of investor product for distribution channels

IMS has experienced some early successes

No. 1 in Project Finance

Mandated Arranger of Australasian Project Finance Loans First Half 2005		
Rank	Mandated Arranger	Value (A\$m)
1	NAB	1,131
2	CBA	873
3	JP Morgan	621
4	ANZ IB	582
5	ABN Amro	320

No. 1 in Loan Syndications

Australia Loans 1 Jan 2005 – 30 June 2005		
Rank	Bookrunner	Proceeds (US\$m)
1	NAB	3,913
2	ANZ	3,400
3	CBA	2,426
4	Westpac	2,408
5	CSFB	1,046

**Only Australian Bank in Global Top 10;
Mandated Arranger of Global Project
Finance Loans**

IMS - People

Priorities

- Stabilise management
- Drive cultural change and awareness
- Clear role definition and accountability
- Linking of performance and reward

Progress to Date

- New IMS Management team in place
- Compliance and behavioural 'gateways' embedded into people assessments
- Organisational Culture Inventory for IMS Group Critical Roles – positive shifts
- Established new incentive compensation scheme and performance measures

IMS - Risk

Priorities

- Focus on APRA/ASIC and undertakings given to global regulators
- Shift from reactive to proactive risk management
- Integration of all aspects of Risk Management into the business

Progress to Date

- Completed all IMS specific ASIC Enforceable Undertaking work, closer focus and effort on support of regulatory needs of business
- Team focused on proactive management of Regulatory Compliance issues, including APRA remediation
- Risk function embedded within the IMS business
- Transformation of compliance behaviour evident, e.g. reduction in limit breaches

IMS - Summary

- Rebasing our business
- Addressing fundamentals - simplification, revenue, people and risk
- Expecting flat half on half earnings in line with half year announcement
- Potentially lower earnings in 2006 as the business is rebased – c. \$50M reduction

Disclaimer

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