

Sale of Northern Bank and  
National Irish Bank



**John Stewart,**  
Managing Director  
and CEO

**Michael Ullmer,**  
Group Chief Financial  
Officer

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# Transaction summary

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- Sale of Northern Bank Limited ("NB") and National Irish Bank Limited ("NIB")
- Consideration of £967M (A\$2,454M)<sup>1</sup> in cash with an adjustment for changes in net assets (includes profits from 1<sup>st</sup> October 04 to completion)
- Exit multiple at 2.1 times proforma book value at September 2004
- Expected profit on sale of approximately A\$1.1b
- ACE ratio expected to increase by approximately 67bps (\$1.8bn ACE increment)
- Expect transaction to be settled by end of March '05
- No change to previous dividend guidance

# Transaction Details

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- Sale of share capital of National Europe Holdings (Ireland) Limited (“NEHIL”), as holding company for Northern Bank and National Irish Bank
- Includes Irish wealth management operations
- Transitional provisions for common services and IT infrastructure to be provided for up to 18 months based on cost recovery
- National to provide normal sale warranties
- Indemnities are provided for certain risks which are adequately provided for, principally:
  - Claims for endowment and investment bond mis-selling
  - Liabilities arising from High Court investigation
- Acquirer assumes responsibility for Irish pension liabilities
- Subject to Regulatory consents by FSA, IFSRA, FSC<sup>1</sup>, EU Commission

# Irish businesses consolidated results as at September 30, 2004

	Statutory Accounts £M <sup>2</sup>	<u>Proforma Adjustments</u>				Proforma Accounts £M <sup>1</sup>
		One-Offs	Transaction Adjustments	Other Recharges	Total	
<b>Income Statement</b>						
Revenue	287	(8)	6		(2)	285
Costs	206	(19)	2	(15)	(32)	174 <sup>3</sup>
NPAT	51	9	3	11	23	74
<b>Balance Sheet</b>						
Assets	7,068				0	7,068
Liabilities	6,619				(12)	6,607
Net Assets	449				12	461
Price / Earnings	19.0X					13.1X
Price / Book Value	2.2X					2.1X

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1. Proforma Accounts of the businesses sold
2. Statutory Accounts of NB, NIB and Northern Bank Insurance Services
3. Includes £25M of annualised costs that will be charged to acquirer during the transitional services period



# Impact of the transaction on the European cost base

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## Transitional services

- Transitional services will be provided for up to 18 months after settlement with associated costs being recovered by the National
- Covers certain operations, technology and support functions
- Annualised costs relating to these services are approximately £25m p.a.
- These costs are planned to be reduced in line with service provision run off

## Other recharges

- £15m of costs currently recharged to the Irish Banks are not subject to the transitional services arrangements
- Plans to remove these costs will be built into the GB efficiency program

## Separation costs

- Have allowed approximately £50m for the separation of the Irish businesses

# Capital and tax impacts

- No capital management initiatives assumed
- No material tax impact on sale

	National Group Sep 04	Transaction Impact	Pro forma National Group Sep 04	Target Range
<b>Ratios</b>				
ACE	5.30%	67 bps	5.97%	4.75% to 5.25%
Tier 1	7.34%	75 bps	8.09%	7.00% to 7.50%
Total Capital	10.58%	85 bps	11.43%	10.00% to 10.50%
<b>RWAs (A\$bn)</b>	287	(12)	275	
<b>Estimated increase in ACE surplus capital</b>			<b>A\$bn</b>	
Estimated profit on sale			1.1	
Other ACE impacts <sup>1</sup>			0.1	
Reduction in RWAs <sup>2</sup>			0.6	
			<u>1.8</u>	

# 2004 proforma financial impacts of sale assuming capital retained

A\$ M	2004 National Group	Proforma Ibiza	One-offs	Impact of Proceeds	2004 Proforma National Group
Net Operating Income	13,034	(703)	(18)	121	12,434
Operating Expenses	(6,812)	430	(33)		(6,415)
Cash Earnings	3,461	(182)	12	85	3,376
RWA (A\$bn)	287	(12)			275
Diluted Number of Shares (m) <sup>1</sup>	1,582				1,582
<b><u>EPS Impact on Proforma basis</u></b>					
Diluted Cash EPS	\$2.26				\$2.20
<b>Diluted Cash EPS Dilution</b>					<b>(2.4%)</b>

#### Assumptions for the basis of the proforma EPS impact calculation:

- Estimated profit on sale has not been included
- None of the proceeds are applied to a buy back of capital
- One-offs are equivalent to those disclosed on slide 4 but remove £5.7M expense in relation to software impairment disclosed as a significant item by the Group
- Impact of proceeds assumes total proceeds net of estimated transaction and separation costs are applied to short-term senior debt
- Short term senior debt funding rate = 5.45%
- Exchange rate on net proceeds AUD/GBP = 0.3940
- Exchange rates for one-offs are FY04 average at 0.4055 AUD/GBP

# Fit with European strategy

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- Support of simplification agenda
- Four main banking licenses to one
- Focus of effort and spend on Great Britain and its greater market scale
- Target South East England for development area
- Significant efficiency opportunities in remaining core franchises
- Market briefing on Great Britain business to be held in February 2005 in Melbourne

# Disclaimer

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The preceding material is a presentation of general background information about the National's activities current at the date of the presentation, December, 2004. It is information given in a summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice when deciding if an investment is appropriate.

# Appendix 1 – Fact Sheet

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## Northern Bank

- 95 Branches and 13 Business Banking centres
- 2,300 employees
- 415,000 retail and business customers
- £3.2bn lending volumes

## National Irish Bank

- 59 branches and 13 Business Banking centres
- 800 employees
- 167,000 retail and business customers
- €2.9 billion lending volumes

# Appendix 1 – Fact Sheet

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## Retail Banking Market Share

	Current Account	Mortgages	Savings Account	Personal lending	Credit Cards
<b>Northern Bank (March 04)</b>	21%	5%	13%	8%	12%
<b>National Irish Bank (June 04)</b>	3%	2%	1%	1%	3%

## Business Banking Market Share

	Custom / Corporate <sup>1</sup>	Package <sup>2</sup>	Micro <sup>3</sup>	Unallocated
<b>Northern Bank (February 04)</b>	36%	33%	28%	
<b>National Irish Bank (August 04)</b>	4%	5%	5%	4%

1. Custom / Corporate definition: £500k + turnover
2. Package definition: £100k - £500k turnover
3. Micro definition: up to £100k turnover