RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2004

DIVISIONAL PERFORMANCE ANALYSIS

TOTAL BANKING

Total Banking includes Retail Banking, Corporate & Institutional Banking and Other (including Group Funding and Corporate Centre). It excludes Wealth Management.

Performance Summary

Comparison to September 2003 year	Year to Sep 04 $m	Year to Sep 03 $m	Fav / (Unfav) Change on Sep 03 %	Fav / (Unfav) Change on Sep 03 Ex FX [1] %
Net interest income	**7,059**	7,302	(3.3)	(0.5)
Other operating income [2]	**4,137**	4,394	(5.8)	(3.6)
Total income	**11,196**	11,696	(4.3)	(1.7)
Pension fund expense	**(275)**	(207)	(32.9)	(38.6)
Other operating expenses [2]	**(5,781)**	(5,458)	(5.9)	(8.1)
Underlying profit	**5,140**	6,031	(14.8)	(11.9)
Charge to provide for doubtful debts	**(557)**	(632)	11.9	9.3
Cash earnings before tax	**4,583**	5,399	(15.1)	(12.2)
Income tax expense	**(1,335)**	(1,512)	11.7	9.5
Cash earnings before significant items and outside equity interest	**3,248**	3,887	(16.4)	(13.2)
Net profit attributable to outside equity interest	**(9)**	(8)	(12.5)	(25.0)
Cash earnings before significant items	**3,239**	3,879	(16.5)	(13.3)

Comparison to March 2004 half	Half Year to Sep 04 $m	Half Year to Mar 04 $m	Fav / (Unfav) Change on Mar 04 %	Fav / (Unfav) Change on Mar 04 Ex FX [1] %
Net interest income	3,540	3,519	0.6	(1.9)
Other operating income [2]	2,027	2,110	(3.9)	(5.7)
Total income	5,567	5,629	(1.1)	(3.4)
Pension fund expense	(139)	(136)	(2.2)	2.9
Other operating expenses [2]	(3,051)	(2,730)	(11.8)	(9.0)
Underlying profit	2,377	2,763	(14.0)	(15.6)
Charge to provide for doubtful debts	(252)	(305)	17.4	20.3
Cash earnings before tax	2,125	2,458	(13.5)	(15.0)
Income tax expense	(605)	(730)	17.1	18.2
Cash earnings before significant items and outside equity interest	1,520	1,728	(12.0)	(13.7)
Net profit attributable to outside equity interest	(4)	(5)	20.0	20.0
Cash earnings before significant items	1,516	1,723	(12.0)	(13.6)

Key Performance Measures

	Half Year to Sep 04	Half Year to Mar 04	Year to Sep 04	Year to Sep 03
Performance & profitability				
Cost to income ratio	57.3%	50.9%	**54.1%**	48.4%

[1] *Change expressed at constant exchange rates.*

[2] *Total Banking is before inter-divisional eliminations.*

RETAIL BANKING

The regional Retail Banking Divisions include the business, agribusiness and consumer financial services retailers, as well as cards, payments and leasing units together with supporting Customer Service and Operations. These operate in Australia, Europe and New Zealand. They exclude Wealth Management, Corporate & Institutional Banking and Other (including Group Funding & Corporate Centre).

	Year to		Fav / (Unfav) Change on Sep 03	
	Sep 04	Sep 03		Ex FX [1]
Comparison to September 2003 year	$m	$m	%	%
Net interest income	**6,385**	6,497	(1.7)	0.5
Other operating income [2]	**3,156**	3,217	(1.9)	(0.1)
Total income	**9,541**	9,714	(1.8)	0.3
Pension fund expense	**(246)**	(176)	(39.8)	(46.0)
Other operating expenses [2]	**(4,815)**	(4,538)	(6.1)	(8.4)
Underlying profit	**4,480**	5,000	(10.4)	(8.6)
Charge to provide for doubtful debts	**(445)**	(566)	21.4	19.6
Cash earnings before tax	**4,035**	4,434	(9.0)	(7.2)
Income tax expense	**(1,232)**	(1,355)	9.1	7.3
Cash earnings before significant items	**2,803**	3,079	(9.0)	(7.2)

	Half Year to		Fav / (Unfav) Change on Mar 04	
	Sep 04	Mar 04		Ex FX [1]
Comparison to March 2004 half	$m	$m	%	%
Net interest income	3,208	3,177	1.0	(1.4)
Other operating income [2]	1,597	1,559	2.4	0.4
Total income	4,805	4,736	1.5	(0.8)
Pension fund expense	(127)	(119)	(6.7)	(1.7)
Other operating expenses [2]	(2,539)	(2,276)	(11.6)	(8.8)
Underlying profit	2,139	2,341	(8.6)	(10.2)
Charge to provide for doubtful debts	(228)	(217)	(5.1)	(0.9)
Cash earnings before tax	1,911	2,124	(10.0)	(11.3)
Income tax expense	(573)	(659)	13.1	14.6
Cash earnings before significant items	1,338	1,465	(8.7)	(9.8)

(1) *Change expressed at constant exchange rates.*

(2) *Retail Banking is the sum total of Financial Services Australia, Financial Services New Zealand and Financial Services Europe, before inter-divisional eliminations.*

FINANCIAL SERVICES AUSTRALIA

Performance Summary

	Half Year to Sep 04 $m	Half Year to Mar 04 $m	Fav / (Unfav) Change on Mar 04 %	Year to Sep 04 $m	Year to Sep 03 $m	Fav / (Unfav) Change on Sep 03 %
Net interest income	1,753	1,799	(2.6)	**3,552**	3,519	0.9
Other operating income	1,004	989	1.5	**1,993**	1,950	2.2
Total income	2,757	2,788	(1.1)	**5,545**	5,469	1.4
Pension fund expense	(30)	(29)	(3.4)	**(59)**	(82)	28.0
Other operating expenses	(1,371)	(1,225)	(11.9)	**(2,596)**	(2,420)	(7.3)
Underlying profit	1,356	1,534	(11.6)	**2,890**	2,967	(2.6)
Charge to provide for doubtful debts	(99)	(105)	5.7	**(204)**	(298)	31.5
Cash earnings before tax	1,257	1,429	(12.0)	**2,686**	2,669	0.6
Income tax expense	(380)	(430)	11.6	**(810)**	(798)	(1.5)
Cash earnings before significant items [(1)]	877	999	(12.2)	**1,876**	1,871	0.3

(1) *Refer to Note 1 for a reconciliation of Financial Services Australia's result to Group net profit.*

Key Performance Measures

	Sep 04	Mar 04		Sep 04	Sep 03	
Performance & profitability						
Return on average assets (annualised)	1.13%	1.33%		**1.23%**	1.39%	
Cost to income ratio	50.8%	45.0%		**47.9%**	45.7%	
Cash earnings per average FTE (annualised) ($'000)	100	115		**107**	104	
Net interest income						
Net interest margin	2.71%	2.91%		**2.81%**	3.14%	
Net interest spread	2.16%	2.39%		**2.28%**	2.68%	
Average balance sheet ($bn)						
Gross loans and acceptances	152.4	145.0	5.1%	**148.7**	132.4	12.3%
Interest-earning assets	128.5	122.5	4.9%	**125.5**	111.2	12.9%
Retail deposits	66.8	65.4	2.1%	**66.1**	60.6	9.1%

	As at Sep 04	As at Mar 04	As at Sep 03
Asset quality			
Gross non-accrual loans ($m)	**436**	429	494
Gross loans and acceptances ($bn)	**154.5**	148.8	140.5
Gross non-accrual loans to gross loans and acceptances	**0.28%**	0.29%	0.35%
Specific provision to gross impaired assets	**31.1%**	34.0%	27.6%
Full-time equivalent employees (FTE)	**17,514**	17,663	17,233

	As at		
	Sep 04	**Mar 04**	**Sep 03**
Market share [1]			
Housing	**14.3%**	14.6%	14.9%
Business (including Corporate & Institutional Banking)	**18.6%**	19.0%	19.2%
Other Personal	**15.3%**	15.7%	16.1%
Retail deposits (Personal & Business)	**14.7%**	15.0%	14.7%

(1) *Source: RBA*

Financial performance – year to 30 September 2004

Cash earnings were flat with the prior year, with a 2.6% reduction in underlying profit being offset by a significantly lower charge to provide for doubtful debts.

The lower charge to provide for doubtful debts is a result of the provision for a single large exposure raised in the prior year of $104 million, together with continuing sound asset quality.

The deterioration in underlying profit is a result of a number of factors:

- Low growth in net interest income, with income from higher lending (primarily driven by housing growth) and retail deposits almost entirely offset by margin contraction, unfavourable mix and yield curve impacts.
- The reduction in the net interest margin of 33 basis points to 2.81% was mainly driven by a continued shift in the balance sheet mix to lower-margin housing lending, higher wholesale funding costs and lower long-term lending yields in a less favourable interest rate environment.
- The increase in other operating income was due to changes in accounting treatments of Wealth Management property rental recharges and fleet vehicle registration costs, (both of which are offset by corresponding expense increases totalling $44 million). Excluding these impacts, other operating income was flat on the September 2003 year. Lending and transaction fee growth achieved during the year was offset by the impact of RBA interchange reforms ($52 million) and by one-off gains on property sales in the prior year.
- Operating expenses grew significantly over the year, driven by:
  - higher advertising and marketing expenses of $44 million, including new product launches, costs associated with the 2006 Commonwealth Games sponsorship, and revenue driven credit card loyalty program costs;
  - a $26 million increase in technology costs, arising from the sale and lease back of voice and data equipment to obtain enhanced service delivery, increased amortisation on major projects, Docklands infrastructure expense and costs related to the ISI program;
  - $23 million of compliance expenditure in relation to Basel II and IFRS;
  - higher occupancy expenses of $20 million (excluding changes to accounting treatment) reflecting increased market rentals, rising utility costs, and the cost of upgrading network and non-network accommodation including the move to Docklands;
  - personnel costs were broadly flat with the EBA increase partially offset by the favourable impacts of a superannuation holiday during the year of $28 million, a reduction in performance-related remuneration and a FBT provision write-back; and
  - the unfavourable impact of the accounting changes offset in other operating income ($44 million).

Financial performance – half year to 30 September 2004

Cash earnings decreased 12.2% from the March 2004 half, with a reduction in underlying profit of 11.6% principally driven by a reduction in net interest income and higher expenses in the second half.

The charge to provide for doubtful debts has reduced by $6 million reflecting a continued focus on asset quality, with gross non-accrual loans to gross loans and acceptances steady at 0.28%.

The 11.6% deterioration in underlying profit is a result of a number of factors:

- A reduction in net interest income, with margin pressure and higher wholesale funding costs offsetting growth in lending and retail deposits.
- Housing lending and retail deposits grew 4.9% and 2.1%, respectively from 31 March 2004. This reflects a slowdown in growth as a result of exiting certain higher risk components of the housing market and competitive pricing in the retail deposit market.
- During the September 2004 half the wholesale cost of funding was significantly higher than the March 2004 half. Combined with lower retail deposit margins and change in the portfolio mix, these factors contributed to a 20 basis point reduction in the net interest margin over the half.
- Low growth in other operating income, which was largely due to the 1 April 2004 change in accounting treatment around fleet vehicle registration costs ($10 million - offset by a corresponding expense increase). Growth in bill fee income was offset by lower lending fee income as a result of the zero home loan fee campaign and a declining trend in reference fees.
- Significant growth in expenses of 11.7% across a range of expense categories, driven by:
  - growth in advertising and marketing expenses of $33 million, including the 2006 Commonwealth Games sponsorship;
  - $23 million of compliance expenditure in relation to Basel II and IFRS;
  - growth in personnel costs of $41 million reflecting the full impact of 1 January 2004 EBA increases, an increase in retrenchment costs, higher investment in training - including Leadership programs, and the impact of an FBT provision writeback in the March 2004 half, net of a reduction in performance-related remuneration;
  - increased technology costs;
  - an increase in non-lending losses, mainly in third party cheque fraud;
  - higher occupancy expenses arising from the move to Docklands; and
  - the unfavourable impact of the accounting changes offset in other operating income ($10 million).

Business developments

- An Amex branded National Credit Card was launched in July 2004 in both a standard and a gold card offering with reward scheme. The key differentiator of this product is that it can be linked to other National accounts and used in National ATMs.
- In July, two new flat fee transaction accounts – the Smart Direct and Smart Access accounts were launched for personal customers. The key customer benefit is the combination of unlimited transactions and value for money. Smart Direct has a $3 per month flat fee that includes all electronic transactions (on-line, telephone, EFTPOS and National ATM transactions). Smart Access has a $5 per month flat fee that includes all electronic transactions noted above, cheque and over the counter withdrawals.
- The National also announced its partnership with Melbourne 2006 as Official Partner of the Commonwealth Games in September. The Commonwealth Games is an opportunity for the National to leverage into new products and promotions; to strengthen the brand through positive association; but, most of all, to inspire the organisation in its journey of renewal.

FINANCIAL SERVICES EUROPE

Performance Summary

Australian dollars	Half Year to Sep 04 $m	Half Year to Mar 04 $m	Fav / (Unfav) Change on Mar 04 %	Year to Sep 04 $m	Year to Sep 03 $m	Fav / (Unfav) Change on Sep 03 %
Net interest income	1,090	1,043	4.5	**2,133**	2,327	(8.3)
Other operating income	427	410	4.1	**837**	938	(10.8)
Total income	1,517	1,453	4.4	**2,970**	3,265	(9.0)
Pension fund expense	(88)	(92)	4.3	**(180)**	(93)	(93.5)
Other operating expenses	(907)	(803)	(13.0)	**(1,710)**	(1,626)	(5.2)
Underlying profit	522	558	(6.5)	**1,080**	1,546	(30.1)
Charge to provide for doubtful debts	(124)	(100)	(24.0)	**(224)**	(247)	9.3
Cash earnings before tax	398	458	(13.1)	**856**	1,299	(34.1)
Income tax expense	(108)	(150)	28.0	**(258)**	(402)	35.8
Cash earnings before significant items [(1)]	290	308	(5.8)	**598**	897	(33.3)

(1) *Refer to Note 1 for a reconciliation of Financial Services Europe's result to Group net profit.*

Pounds sterling	£m	£m	%	£m	£m	%
Net interest income	428	436	(1.8)	**864**	887	(2.6)
Other operating income	167	172	(2.9)	**339**	357	(5.0)
Total income	595	608	(2.1)	**1,203**	1,244	(3.3)
Pension fund expense	(34)	(39)	12.8	**(73)**	(36)	large
Other operating expenses	(356)	(335)	(6.3)	**(691)**	(621)	(11.3)
Underlying profit	205	234	(12.4)	**439**	587	(25.2)
Charge to provide for doubtful debts	(48)	(42)	(14.3)	**(90)**	(94)	4.3
Cash earnings before tax	157	192	(18.2)	**349**	493	(29.2)
Income tax expense	(43)	(63)	31.7	**(106)**	(153)	30.7
Cash earnings before significant items	114	129	(11.6)	**243**	340	(28.5)

Key Performance Measures

	Half Year to Sep 04 £m	Half Year to Mar 04 £m	Fav / (Unfav) Change on Mar 04 %	Year to Sep 04 £m	Year to Sep 03 £m	Fav / (Unfav) Change on Sep 03 %
Performance & profitability						
Return on average assets (annualised)	0.84%	0.97%		**0.92%**	1.36%	
Cost to income ratio	65.5%	61.5%		**63.5%**	52.8%	
Cost to income ratio (excl. pension fund expense)	59.8%	55.1%		**57.4%**	49.9%	
Cash earnings per average FTE (annualised) (£'000)	19	22		**21**	29	
Net interest income						
Net interest margin	3.92%	4.16%		**4.03%**	4.30%	
Net interest spread	3.40%	3.69%		**3.54%**	3.82%	
Average balance sheet (£bn)						
Gross loans and acceptances	19.7	19.1	3.1%	**19.4**	18.3	6.0%
Interest-earning assets	21.5	20.6	4.4%	**21.1**	20.3	3.9%
Retail deposits	15.3	14.9	2.7%	**15.1**	14.6	3.4%

	As at Sep 04	As at Mar 04	As at Sep 03
Asset quality			
Gross non-accrual loans (£m)	**108**	101	122
Gross loans and acceptances (£bn)	**20.3**	19.2	18.7
Gross non-accrual loans to gross loans and acceptances	**0.53%**	0.53%	0.65%
Specific provision to gross impaired assets	**45.7%**	43.7%	39.9%
Full-time equivalent employees (FTE)	**11,765**	11,661	11,411

Financial Performance (in local currency) – year to 30 September 2004

Cash earnings decreased 28.5% on the prior year. Higher pension fund expenses have negatively impacted this result. Including pension fund expenses, underlying profit decreased 25.2% on the prior year.

- Lending has increased 8.6% since 30 September 2003:
  - An increased focus on mortgage lending has resulted in growth of mortgage volumes of 15.5% over the last 12 months slightly ahead of UK systems growth of 14.5%; and
  - Business lending has increased by 10.2% over the last 12 months driven by variable rate term lending.
- Retail deposits have grown 5.4% (UK system growth 5.1%) since 30 September 2003, reflecting the success of the brand program.
- Net interest margin has decreased from 4.30% to 4.03%. This margin contraction reflects the change in product mix towards lower margin lending products. During the year there has been significant growth in the mortgage portfolio (in particular, current account and fixed rate mortgages) while there has been a decline in personal lending volumes (personal loans and credit cards). The shift towards lower margin (and lower risk) lending products is the significant contributor to the reduction in net interest income from lending and deposit products.
- Other operating income has decreased 5.0% on the prior year. This results from reductions in account maintenance fees, unauthorised overdraft charges, the outsourcing of the Merchant Acquiring business, lower levels of insurance commission income and a reduction in card income due to lower active customer numbers and card transaction volumes.
- Operating expenses, excluding pension expenses, increased 11.3% driven by:
  - additional provisions for retiree medical expenses, endowment mis-selling and regulatory costs of £20M;

- £8M of spend in relation to 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;
- Project expenditure on major programs against the prior year has increased £29M:
  - this includes investment in the Customer Connect System, which involves the replacement of the front-end systems together with expenditure on Integration; and
  - a £14M increase year on year in ongoing expenditure on regulatory projects, such as compliance costs for Chip & Pin technology (mandatory European project to reduce card fraud), Basel II, IFRS and the Financial Services Authority mortgage regulation program,
- Occupancy costs, which are above prior year due to increased annual property rents, repairs and utilities; and
- Growth in advertising costs in relation to branding and communication-related expenses.

The charge to provide for doubtful debts decreased 4.3% from the prior year and is mainly driven by a reduction in Business provisions.

Financial Performance (in local currency) – half year to 30 September 2004

Cash earnings decreased 11.6% on the March 2004 half, with underlying profit decreasing 12.4% on prior half.

- Lending has increased 5.7% since 31 March 2004:
  - Mortgage lending has resulted in volume growth of 9.1% during the six-month period; and
  - Business lending has increased by 4.2% on the prior half with growth in both fixed and variable products.
- Retail deposits have grown 4.4% since 31 March 2004 reflecting the impact of the rising interest rate environment on the attractiveness of retail deposits.
- Net interest margin has decreased from 4.16% in the March half to 3.92%. This contraction has offset volume growth, reflecting the change in product mix towards lower margin lending products.
- Other operating income has declined, resulting from the reductions in, and the removal of certain fees.
- Operating expenses, excluding pension fund expenses, increased 6.3% on the March 2004 half driven by ongoing expenditure on regulatory projects, such as compliance costs for Chip & Pin technology, Basel II, IFRS and the Financial Services Authority mortgage regulation program.

The charge to provide for doubtful debts increased 14.3% from the prior half driven by provisioning requirements as a result of lending growth and one major provision raised during the second half of the year.

Business developments

- Customer acquisition levels have increased with the Brand Program, launch of Current Account Plus and Offset mortgage all helping to lift new business. Customer Service Metrics show customer satisfaction improved by 7% in the latest wave of research, with customer loyalty and advocacy ahead of the competition and improving.
- Brand Metrics show brand awareness has grown, brand preference/consideration amongst customers compares well against a number of competitors, while the recent TV advertising performed well on a number of metrics lifting awareness.
- A major program aimed at delivering improved financial products and services to all customers. Program deliverables to date include:
  - The establishment of a network of strategically located Financial Solutions Centres, offering integrated business and private banking services to business and high net worth customers. At 30 September 2004, 8 centres had been opened with further expansion planned in 2005;
  - Entry into the intermediary market, selling Clydesdale Bank mortgage products through a range of key broker partners, providing an opportunity to acquire additional customers who will be offered relationship-managed banking through Financial Solutions Centres.
  - Progress being made to rationalise and enhance products into a single product set supporting multiple brands and distribution channels. Released new current account plus, offset mortgage products new Business and Farm investment loans, which will be rolled out further in the UK and Ireland during 2005.
- A cost reduction program commenced across the European business in September 2004. The aim is to deliver significant reductions through a combination of re-engineering processes, de-layering management structures, critically reviewing business operations and driving further efficiencies.

- In July the High Court Inspectors' Report into National Irish Bank was published. National Irish Bank had been working for more than six years to deal with the issues in the report, co-operate with the investigation, develop reimbursement schemes and implement a wide ranging compliance program. While the work to complete the reimbursement schemes will continue into 2005, National Irish Bank responded to the issues with integrity and now has a solid foundation from which to meet the needs of customers and satisfy regulators.
- Continued a long tradition of investing in the UK and Irish communities, co-ordinating the efforts across four banks with a particular focus on financial literacy and youth projects. Also launched a national staff grants scheme to recognise and support staff who volunteer their time in their communities.
- The Group remains committed to developing its businesses in Europe and is implementing a range of initiatives to improve shareholder value. However, all options are being considered as part of a wide-ranging review. Several expressions of interest in the businesses of Northern Bank and National Irish Bank have been received and the Group considers it is in shareholders' interests to explore this option. As such, an investment bank has been commissioned to issue an information memorandum and test the market.

FINANCIAL SERVICES NEW ZEALAND

Performance Summary

Australian dollars	Half Year to Sep 04 $m	Half Year to Mar 04 $m	Fav / (Unfav) Change on Mar 04 %	Year to Sep 04 $m	Year to Sep 03 $m	Fav / (Unfav) Change on Sep 03 %
Net interest income	365	335	9.0	**700**	651	7.5
Other operating income	166	160	3.8	**326**	329	(0.9)
Total income	531	495	7.3	**1,026**	980	4.7
Operating expenses	(270)	(246)	(9.8)	**(516)**	(493)	(4.7)
Underlying profit	261	249	4.8	**510**	487	4.7
Charge to provide for doubtful debts	(5)	(12)	58.3	**(17)**	(21)	19.0
Cash earnings before tax	256	237	8.0	**493**	466	5.8
Income tax expense	(85)	(79)	(7.6)	**(164)**	(155)	(5.8)
Cash earnings before significant items (1)	171	158	8.2	**329**	311	5.8

(1) *Refer to Note 1 for a reconciliation of Financial Services New Zealand's result to Group net profit.*

New Zealand dollars	NZ$m	NZ$m	%	NZ$m	NZ$m	%
Net interest income	404	382	5.8	**786**	725	8.4
Other operating income	185	182	1.6	**367**	367	-
Total income	589	564	4.4	**1,153**	1,092	5.6
Operating expenses	(299)	(280)	(6.8)	**(579)**	(549)	(5.5)
Underlying profit	290	284	2.1	**574**	543	5.7
Charge to provide for doubtful debts	(6)	(14)	57.1	**(20)**	(23)	13.0
Cash earnings before tax	284	270	5.2	**554**	520	6.5
Income tax expense	(94)	(90)	(4.4)	**(184)**	(173)	(6.4)
Cash earnings before significant items	190	180	5.6	**370**	347	6.6

Key Performance Measures

Performance & profitability						
Return on average assets (annualised)	1.18%	1.17%		**1.17%**	1.25%	
Cost to income ratio	50.8%	49.6%		**50.2%**	50.3%	
Cash earnings per average FTE (annualised) (NZ$'000)	89	85		**87**	81	
Net interest income						
Net interest margin	2.60%	2.56%		**2.58%**	2.71%	
Net interest spread	2.76%	2.78%		**2.77%**	3.00%	
Average balance sheet (NZ$bn)						
Gross loans and acceptances	27.3	25.6	6.6%	**26.5**	23.5	12.8%
Interest-earning assets	30.9	29.6	4.4%	**30.3**	26.6	13.9%
Retail deposits	17.2	16.6	3.6%	**16.9**	15.9	6.3%

	As at		
	Sep 04	**Mar 04**	**Sep 03**
Asset quality			
Gross non-accrual loans (NZ$m)	**84**	39	30
Gross loans and acceptances (NZ$bn)	**27.7**	26.2	24.6
Gross non-accrual loans to gross loans and acceptances	**0.30%**	0.15%	0.12%
Specific provision to gross impaired assets	**22.1%**	59.5%	34.5%
Full-time equivalent employees (FTE)	**4,324**	4,238	4,257
Market share (1)			
Cards	**29.9%**	30.2%	30.6%
Housing	**15.6%**	15.3%	15.4%
Agribusiness	**17.5%**	18.5%	18.8%
Retail deposits	**19.0%**	19.0%	19.1%

(1) *Source: RBNZ*

Financial Performance (in local currency) – year to 30 September 2004

Cash earnings increased 6.6% over the prior year reflecting strong volume growth and stable asset quality.

Underlying profit increased 5.7% over the prior year.

- Net interest income grew by 8.4% over the prior year reflecting strong volume growth in housing, business lending and retail deposits.
- Housing volumes grew 18% (compared to systems growth of 16%) reflecting BNZ's proposition to provide superior products such as 'FlyBuys' which offer loyalty points, rapidly improving customer satisfaction and competitive pricing.
- Heightened competition, especially for housing, combined with a change in product mix (as customers moved to lock in fixed rate products in a low, but rising interest rate environment) put increased pressure on the net interest margin. The lower official cash rate earlier in the year also put downward pressure on retail deposit margins.
- Other operating income is flat compared to the prior year as growth from higher volumes and transaction levels has been offset by the impact of simplified fee structures and a trend by customers to move towards lower cost channels.
- The cost to income ratio has remained stable at 50.2%. Other operating expenses have increased 5.5% over the prior year driven by personnel expenses reflecting annual salary increases and higher compliance costs. Non-personnel expenses have remained relatively flat with productivity improvements being offset by increased advertising and marketing costs.

Overall asset quality remains sound despite an increase in gross non-accrual loans as a percentage of gross loans and acceptances to 0.30% due to a large agribusiness exposure.

Financial Performance (in local currency) – half year to 30 September 2004

Cash earnings increased 5.6% over the March half due to stronger net interest income reflecting continued volume growth and a lower charge to provide for doubtful debts.

Underlying profit increased 2.1% over the prior half.

- Net interest income grew by 5.8% over the prior half reflecting strong volume growth in housing, business lending and retail deposits. Retail deposit margins have also strengthened on the back of four successive 25 basis point increases in the official cash rate to 6.25%.
- Other operating expenses have increased from the prior half by 6.8% due to the timing of pension and compliance costs.

The charge to provide for doubtful debts has decreased by NZ$8 million due to favourable re-ratings of customers and lower specific provision charges in the current half.

Business developments

- Initiatives to improve customer service included the successful rollout of the new Tellers' customer service platform, which allows faster and more customised service for customers in branches, and improvements to call centre operations, which saw the BNZ rated best call centre in New Zealand at the CRM Contact Centre Awards in August.
- BNZ have re-appointed branch managers with increased responsibilities across the entire network, reintroducing a role that has not existed for several years. The branch managers are responsible for all aspects of service and sales delivery in branches. The public response to this initiative has been overwhelmingly positive, and it contributed to significant improvements in satisfaction in branch service.
- Implementation of a consistent and targeted home loan strategy has delivered the fastest period of growth in home lending in the Bank of New Zealand's history. A combination of new product development, pricing initiatives, promotional campaigns and integrated sales focus has helped Bank of New Zealand to out strip market growth in the past twelve months despite record growth in the system.
- New products aimed at the youth market were launched during the year. 'Campus Pack' targeted at tertiary students and 'Smart Money', aimed at under 30's, have both achieved strong growth that has delivered increased market share in the critical youth segment. This growth, combined with success in the home lending market, helped BNZ to become the only major bank to grow its main bank retail banking market share in 2004 according to AC Nielsen.

CORPORATE & INSTITUTIONAL BANKING

Corporate & Institutional Banking (CIB) is responsible for managing the Group's relationships with large corporate clients and financial institutions worldwide. CIB operates through an international network of offices in Australia, Europe, New Zealand, North America and Asia.

CIB comprises Corporate Banking, Markets, Specialised Finance, Financial Institutions Group, Transactional Solutions and a Support Services unit. The business also incorporates Custodian Services, which provides custody and related services to institutions within the Australian, NZ and UK markets.

Performance Summary

	Year to		Fav / (Unfav) Change on	
	Sep 04 $m	**Sep 03 $m**	**Sep 03 %**	**Sep 03 Ex FX[(1)] %**
Net interest income	**678**	848	(20.0)	(15.8)
Other operating income	**1,048**	1,102	(4.9)	(1.0)
Total income	**1,726**	1,950	(11.5)	(7.4)
Operating expenses	**(858)**	(755)	(13.6)	(18.5)
Underlying profit	**868**	1,195	(27.4)	(23.8)
Charge to provide for doubtful debts	**(112)**	(70)	(60.0)	(67.1)
Cash earnings before tax	**756**	1,125	(32.8)	(29.5)
Income tax expense	**(129)**	(239)	46.0	42.3
Cash earnings before significant items	**627**	886	(29.2)	(26.1)
Net profit attributable to outside equity interest	**(9)**	(9)	-	(11.1)
Cash earnings before significant items and after outside equity interest [(2)]	**618**	877	(29.5)	(26.5)

	Half Year to		Fav / (Unfav) Change on	
	Sep 04 $m	**Mar 04 $m**	**Mar 04 %**	**Mar 04 Ex FX[(1)] %**
Net interest income	307	371	(17.3)	(19.4)
Other operating income	452	596	(24.2)	(25.5)
Total income	759	967	(21.5)	(23.2)
Operating expenses	(458)	(400)	(14.5)	(11.5)
Underlying profit	301	567	(46.9)	(47.6)
Charge to provide for doubtful debts	(24)	(88)	72.7	73.9
Cash earnings before tax	277	479	(42.2)	(42.8)
Income tax expense	(30)	(99)	69.7	68.7
Cash earnings before significant items	247	380	(35.0)	(36.1)
Net profit attributable to outside equity interest	(4)	(5)	20.0	20.0
Cash earnings before significant items and after outside equity interest [(2)]	243	375	(35.2)	(36.3)

(1) *Change expressed at constant exchange rates.*

(2) *Refer to Note 1 for a reconciliation of Corporate & Institutional Banking's result to Group net profit.*

Key Performance Measures

	Half Year to Sep 04	Half Year to Mar 04		Year to Sep 04	Year to Sep 03	
Performance & profitability						
Cost to income ratio	60.3%	41.4%		**49.7%**	38.7%	
Cash earnings per average FTE (annualised) ($'000) [(3)]	175	279		**225**	344	
Net interest income						
Net interest margin	0.45%	0.56%		**0.50%**	0.62%	
Average balance sheet ($bn)						
Core lending	39.6	37.6	5.3%	**38.4**	39.4	(2.5%)
Gross loans and acceptances	45.2	42.8	5.6%	**44.2**	45.1	(2.0%)
Interest-earning assets	137.0	130.8	4.7%	**133.9**	135.9	(1.5%)

(3) *Cash earnings before significant items and after outside equity interest.*

	As at Sep 04	As at Mar 04	As at Sep 03
Asset quality			
Gross non-accrual loans ($m)	**425**	719	793
Gross loans and acceptances ($bn)	**45.1**	43.0	44.5
Gross non-accrual loans to gross loans and acceptances	**0.94%**	1.67%	1.78%
Specific provision to gross impaired assets	**29.0%**	28.4%	24.6%
Full-time equivalent employees (FTE)	**2,832**	2,720	2,624

Financial Performance (at constant exchange rates) – year to 30 September 2004

Cash earnings of $618 million decreased 26.5% for the year, with the major reduction occurring in the September 2004 half year. This excludes losses announced in January 2004 related to unauthorised trading in foreign currency options of $360 million ($252 million after-tax), which have been classified as a significant item.

In addition to this loss, the currency options incident had a significant impact on the broader operations of Corporate & Institutional Banking. 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 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. Finally, the incident also resulted in many senior staff being diverted to managing the currency options issue and the associated remedial actions.

- Total income was 7.4% lower than 2003 with net interest income down 15.8% and other operating income down 1.0%. The decrease in income was due to:
  - the currency options incident which impacted the broader performance of the Markets division;
  - lower Markets risk and trading income as a result of a benign trading environment influenced by flatter yield curves and reduced volatility in interest rate and foreign exchange markets. Sales of interest rate risk management products were also impacted by the stable interest rate outlook; and
  - reduced Specialised Finance income due to a slow down in overall deal flow and the need to reverse prior period capitalised interest of $38 million on a large project finance exposure, which has been reclassified as a non-accrual loan.

  The reduction in income was partly offset by strong growth in the Custody business and Financial Institutions sector following successful implementation of strategic initiatives.
- Expenses increased 18.5% for the year reflecting strategies to support client revenues, increased investment in the control environment following the currency options incident, increased rental costs, higher volume-related expenses and higher project costs for Basel II and IFRS.
- Average interest-earning assets, while down at actual rates, grew by $2.4 billion (1.7%) at constant exchange rates. Most of the growth was due to higher core lending principally to Corporate Banking and Financial Institutional clients in Europe and Australia and increased Markets assets from funding the Group's operations.

- The underlying margin on the core lending business has stayed relatively flat over the year. The reduction in net interest margin from 0.62% to 0.50% for the year is largely due to the decrease in net interest income related to lower Markets risk & trading and Specialised Finance income outlined above.
- Asset quality continues to be sound with the level of exposures rated investment grade equivalent or above increasing from 91.0% at 30 September 2003 to 92.7%. The higher charge to provide for doubtful debts reflects specific provisions taken on US project finance exposures and other historical exposures. The level of gross non-accrual loans to gross loans and acceptances has improved significantly from 1.78% at 30 September 2003 to 0.94%, principally as a result of a strategic initiative to reduce the Group's exposure to non-performing US project finance assets. This is after the reclassification of one large exposure to non-accrual (refer to page 18). The specific provision coverage to gross impaired assets has improved from 30 September 2003 increasing from 24.6% to 29.0%.

Financial Performance (at constant exchange rates) – half year to 30 September 2004

Cash earnings of $243 million decreased 36.3% from the March 2004 half year reflecting most of the factors which influenced the full year performance (as outlined above).

- Total income was 23.2% lower. Most of the reduction was due to a full half year's impact of the currency options incident impacting Market's broader performance, lower Markets risk and trading income due to the unfavourable trading environment, lower sales of interest rate risk management products arising from the stable interest rate environment, and reduced Specialised Finance income arising from reversal of prior period capitalised interest of $38 million on a large project finance exposure reclassified as a non-accrual loan and the slow down of deal flow.
- Expenses increased 11.5% primarily due to increased investment in the control environment following the currency options incident and higher costs associated with the Basel II and IFRS projects.
- Average interest-earning assets grew $1.6 billion (1.2%) at constant exchange rates mainly driven by higher core lending assets which grew by $1.0 billion (2.8%) in Europe and Australia.
- The reduction in net interest margin to 0.45% is largely due to the decrease in net interest income related to lower Markets risk & trading and Specialised Finance income outlined above.
- The lower charge to provide for doubtful debts reflects specific provisions taken on US project finance exposures and other historical exposures which were incurred in the March 2004 half year.

Business developments

- Creation of the new Institutional Markets & Services (IMS) business following the restructure of the Group to a regional based model is effective from 1 October 2004. This will enhance the opportunity to provide IMS services and products to the Group's broader client base.
- Significant progress has been made on the remedial action plans implemented to address issues raised by APRA and PricewaterhouseCoopers following the currency options incident.
- Sale of UK custody business in July 2004 to Bank of New York.

WEALTH MANAGEMENT

Wealth Management operates a diverse portfolio of financial services businesses. It provides financial planning, insurance, private banking, superannuation and investment solutions to both retail and corporate customers and portfolio implementation systems and infrastructure services to financial advisers. The businesses operate across four regions, Australia, Europe (Great Britain & Ireland), New Zealand and Asia.

Operating Profit	Half Year to		Fav / (Unfav) Change on	Year to		Fav / (Unfav) Change on
	Sep 04 $m	**Mar 04 $m**	**Mar 04 %**	**Sep 04 $m**	**Sep 03 $m**	**Sep 03 %**
Investments (1)	**102**	87	17.2	**189**	142	33.1
Insurance (2)	**107**	121	(11.6)	**228**	204	11.8
Private Bank	**30**	32	(6.3)	**62**	56	10.7
Other (including regulatory programs) (3)	**(15)**	(37)	59.5	**(52)**	(58)	10.3
Strategic investment expenditure	**(23)**	(16)	(43.8)	**(39)**	(28)	(39.3)
Profit from operations (after tax)	**201**	187	7.5	**388**	316	22.8
Investment earnings on shareholders' retained profits and capital from life businesses	**27**	44	(38.6)	**71**	58	22.4
Underlying operating profit after tax and outside equity interest	**228**	231	(1.3)	**459**	374	22.7
Prior year adjustments	**(40)**	(10)	large	**(50)**	-	large
Operating profit after tax and outside equity interest	**188**	221	(14.9)	**409**	374	9.4
Revaluation profit/(loss) after tax	**(132)**	148	large	**16**	(200)	large
Net profit before significant items and after outside equity interest	**56**	369	(84.8)	**425**	174	large

(1) *Investments include funds management, funds administration and asset management. Investments exclude prior year adjustments.*

(2) *Insurance includes retail insurance (retail risk insurance encompassing term, trauma and disability insurance, life insurance and general insurance agency) and group insurance.*

(3) *Other includes Advice Solutions and other businesses and shareholders branches of the life companies. The costs of NAFiM investor compensation and enforceable undertakings are included in this line.*

Year to 30 September 2004

Net profit (after outside equity interest) for the year to September 2004 was $425 million. Operating profit after tax grew 9.4% to $409 million. Continued improvement in market conditions resulted in strong growth in the Investments business and earnings on shareholders retained profits and capital. Solid growth was achieved in Insurance, Private Bank, and Other. Continued strategic investment spend and prior year adjustments of $50 million negatively impacted the result.

The revaluation profit reflects the positive impact arising from the election into tax consolidations, offset by the adoption of a more conservative sales growth outlook, shift in product mix and changing industry dynamics.

Half year to 30 September 2004

Net profit (after outside equity interest) for the half year to September 2004 was $56 million. Profit from operations growth of 7.5% was offset by more subdued earnings from shareholders retained profits and capital and the recognition of prior year adjustments resulting in operating profit after tax decreasing 14.9% to $188 million.

The revaluation loss for the September 2004 half reflects a more conservative short-term sales outlook, a shift in the product mix and changing industry dynamics.

Key Performance Measures

	Half Year to Sep 04 $m	Half Year to Mar 04 $m	Fav / (Unfav) Change on Mar 04 %	Year to Sep 04 $m	Year to Sep 03 $m	Fav / (Unfav) Change on Sep 03 %
Investment sales	**7,332**	7,104	3.2	**14,436**	12,189	18.4
Insurance sales	**114**	98	16.3	**212**	243	(12.8)
Debt sales	**868**	661	31.3	**1,529**	1,200	27.4

Investment sales increased 18.4% on prior year primarily due to a 72% increase in wholesale sales. September 2004 half sales increased due to the improvement in productivity of advisers, and the seasonality due to the end of tax year. Insurance sales were lower than prior year due to the sale of the life insurance business in Europe in the first half. Excluding this impact, insurance sales were marginally lower. Insurance sales for the September 2004 half increased primarily due to higher Group Insurance sales. The increase in debt sales reflects the progress towards a more integrated offer. The profit from debt sales emerges in the Retail bank.

	As at Sep 04	As at Mar 04	As at Sep 03	Change on Mar 04 %	Change on Sep 03 %
Full-time equivalent employees (FTEs) (No.)	**6,048**	6,068	6,174	(0.3)	(2.0)
Financial advisers					
Bank channels:					
- Australia	**460**	477	456	(3.6)	0.9
- Europe	**157**	171	187	(8.2)	(16.0)
Total Bank channels	**617**	648	643	(4.8)	(4.0)
Aligned channels:					
- Australia	**848**	909	947	(6.7)	(10.4)
- Europe	**64**	55	64	16.4	-
- Asia	**1,586**	1,541	1,561	2.9	1.6
Total Aligned channels	**2,498**	2,505	2,572	(0.2)	(2.9)
Financial advisers (No.) (1)	**3,115**	3,153	3,215	(1.2)	(3.1)

(1) In addition to banking and aligned channels, Wealth Management has relationships with over 2,600 External Financial Advisers (EFAs) in Australia at September 2004 (March 2004: 2,250, September 2003: 2,250), and over 90 in Europe at September 2004 (March 2004: 70, September 2003: 25). Wealth Management has revised the definition of adviser numbers to separately identify individual advisers operating within a licensee group.

Domestic adviser numbers have been impacted by the implementation of FSRA and the associated additional compliance and education requirements which has resulted in advisers exiting the industry, while internationally, active performance management of underperforming advisers has been undertaken. Across the regions, the business has focused on the recruitment and retention of quality planners resulting in improved planner productivity. Importantly, the number of domestic advisers who have met the voluntary internal quality advice accreditation standard has doubled in the current year.

Investments

	Half Year to		Fav / (Unfav) Change on	Year to		Fav / (Unfav) Change on
	Sep 04	Mar 04	Mar 04	Sep 04	Sep 03	Sep 03
	$bn	$bn	%	$bn	$bn	%
Total funds under management and administration						
Spot	**81.1**	76.7	5.7	**81.1**	73.1	10.9
Average	**78.5**	74.3	5.7	**76.4**	68.3	11.9

	As at		
	Jun 04	Mar 04	Sep 03
Market share – Australia % (1)			
Total Master Funds (2)	**17.1**	15.9	16.3
Annual Master Funds inflows	**11.6**	10.9	11.7
Annual Master Funds outflows	**14.3**	12.8	13.9
Retail funds management (ex cash mgmt)(2)	**13.1**	12.2	12.3
Annual Retail inflows (ex cash mgmt)	**9.4**	8.8	9.3
Annual Retail outflows (ex cash mgmt)	**10.9**	9.6	10.1
Corporate Master Funds (2)	**18.9**	12.6	14.5
Net annual Corporate Master Funds flows	**18.8**	18.4	5.3

(1) *Source: Plan for Life Australian Retail & Wholesale Investments Market Share & Dynamics Reports as at June 2004, March 2004 and September 2003. Plan for Life is now used to report Investments market share (previously ASSIRT) due to the additional reporting provided by Plan for Life on business drivers such as gross inflows and outflows.*

(2) *Plum funds under administration included in market share reporting for the first time at June 2004. Corporate Master Funds are a subset of Total Master Funds and Retail Funds Management.*

Year to 30 September 2004

Investments profit from operations increased 33.1% on the September 2003 year, the result of increased fee revenue due to the 11.9% growth in average funds under management, which was driven by the improvement in investment market conditions and strong wholesale sales in Australia. The domestic result was favourably impacted by $9 million profit from small member balances in certain funds that have minimum earnings thresholds which were not achieved in the prior year. Profits earned within the New Zealand and Europe businesses were 42% higher than the September 2003 year due to improved market conditions and focus on tight expense control.

Wealth Management maintained the number one position in the target market of Master Fund funds under management (FUM) in Australia, with market share of 17.1% as at 30 June 2004. Retail FUM (ex cash management) market share was 13.1% ranking second in the industry as at 30 June 2004. Strong gross annual Master Fund inflows of $6.6 billion were achieved, representing a market share of 11.6%, which whilst ranked second in the industry, reflects competitive conditions and a strategic decision to maintain margins rather than pursue a volume-led price strategy. The increase in annual gross outflows reflects the decision not to renew a $330 million white-labelled platform offer from MLC Masterkey Custom.

Corporate Master Funds increased market share by 4.4%* over the year, which can be attributed to the enhanced offers in the two market segments with Plum in the Corporate and Institutional category, and MLC Masterkey Business Super in the Small Medium Enterprise category segment.

The cost to funds under management ratio for the Investments business** achieved 56 basis points as a result of increased funds under management. This compares with 60 basis points for the year ended 30 September 2003.

**Source: Plan for Life Australian Retail & Wholesale Investments Market Share & Dynamics Reports as at June 2004*

***Excluding costs of NAFiM investor compensation and enforceable undertakings and volume-related expenses.*

Half year to 30 September 2004

The September 2004 half profit from operations grew 17.2% to $102 million. The result was positively impacted by increased fee revenue following the continuing growth in funds under management, with average FUM growing 5.7%, and $9 million profit from small member balances.

	Year ended 30 September 2004					
Funds Under Management and Administration	**Opening Balance Sep 03 $m**	**Inflows $m**	**Outflows $m**	**Investment Earnings $m**	**Other [1] $m**	**Closing Balance Sep 04 $m**
Platforms	36,992	6,566	(6,169)	4,963	(1,375)	40,977
Wholesale	16,538	6,191	(2,984)	1,785	237	21,767
Other Retail and Trustee	12,695	205	(1,395)	664	(881)	11,288
Australia	**66,225**	**12,962**	**(10,548)**	**7,412**	**(2,019)**	**74,032**
International	**6,868**	**1,310**	**(949)**	**356**	**(489)**	**7,096**
Total	**73,093**	**14,272**	**(11,497)**	**7,768**	**(2,508)**	**81,128**

	Year ended 30 September 2003					
Funds Under Management and Administration	**Opening Balance Sep 02 $m**	**Inflows $m**	**Outflows $m**	**Investment Earnings $m**	**Other [1] $m**	**Closing Balance Sep 03 $m**
Platforms	34,258	6,296	(5,595)	3,188	(1,155)	36,992
Wholesale	11,366	3,818	(1,854)	825	2,383	16,538
Other Retail and Trustee	13,358	493	(1,684)	466	62	12,695
Australia	**58,982**	**10,607**	**(9,133)**	**4,479**	**1,290**	**66,225**
International	**6,590**	**1,559**	**(1,233)**	**222**	**(270)**	**6,868**
Total	**65,572**	**12,166**	**(10,366)**	**4,701**	**1,020**	**73,093**

(1) *Other includes trust distributions and flows due to the sale/purchase of businesses and product closures.*

FUM grew $8.0 billion or 10.9% to $81.1 billion over the year to 30 September 2004, primarily due to positive investment earnings and strong wholesale sales.

Platforms

Platform FUM comprises the MLC Masterkey products, MLC Investment Trust and the National All In One Pension Plan. Net funds flow for the year to 30 September 2004 was negatively impacted by the withdrawal of a non-MLC branded platform from MLC Masterkey Custom.

Wholesale

The Wholesale business experienced strong inflows for the year with a 63.3% increase in net funds flow over the previous year. The increase was predominantly driven by the ongoing sales success of Plum, JANA Implemented Consulting and Capital National Alliance, and the continuation of the trend towards outsourcing of investments and administration in the market.

Other Retail & Trustee

Other Retail and Trustee consists of products which were closed to new business following the integration of the MLC and National Australia Financial Management businesses, funds under trusteeship and Traditional FUM. The outflows relate primarily to the closed products.

International

International FUM increased 3.3% over the year to 30 September 2004, primarily due to investment earnings and positive net flows in Europe and Asia. Other includes the impact of the sale of the Life Company in Europe.

Insurance

	As at			Fav / (Unfav) Change on	
	Sep 04	Mar 04	Sep 03	Mar 04 %	Sep 03 %
Annual InForce Premiums ($m) [1]					
Retail risk insurance	**497.3**	469.3	445.2	6.0	11.7
Group insurance	**110.7**	108.2	109.1	2.3	1.5

	Jun 04	Dec 03	Jun 03
Market share – Australia (%) [2]			
Retail risk insurance	**15.1**	15.0	14.7
New retail risk annual premiums	**13.6**	15.4	16.5

(1) *Annualised inforce premiums for Australia and New Zealand only. Inforce premiums for Asia are not shown in this table as they are Traditional in nature*

(2) *Source: DEXX&R Life Analysis Reports as at June 2004, December 2003 and June 2003. Retail risk insurance includes term, trauma and disability insurance.*

Full Year to 30 September 2004

Insurance profit from operations grew 11.8% on the September 2003 year. The result was positively impacted by growth in annual inforce premiums due to stable sales, improved persistency in lump sum and disability business and favourable claims experience in Australia and New Zealand.

At 30 June 2004, Wealth Management retained number one position for retail risk annual inforce premiums with market share of 15.1%. Whilst market share of new retail risk annual premiums has recently declined to 13.6% (now ranked second), the restructure of the business along regional lines going forward should provide a greater opportunity to increase penetration of protection products to banking customers.

Robust cost containment together with growth in the Insurance business has resulted in a cost to premium income ratio for the year of 18% compared with 20% for the 2003 year.

Half year to 30 September 2004

Insurance profit from operations decreased by 11.6% in the September 2004 half. The current half result was impacted by $15 million lower profit in the Europe creditor business due to the timing of receipt of profit share and the implementation of a more conservative capital strategy within the domestic business which reduced investment related profits by $5 million. However, underlying growth in the insurance result due to increased annual inforce premiums, favourable claims experience and improved persistency in lump sum and disability business continued in the September 2004 half.

Australia and New Zealand Annual Inforce Premiums [1]	Year ended 30 September 2004			
	Opening Balance Sep 03 $m	Sales/New Business $m	Lapses & other movements $m	Closing Balance Sep 04 $m
Retail risk	445.2	83.8	(31.7)	497.3
Group risk	109.1	43.9	(42.3)	110.7
Total	**554.3**	**127.7**	**(74.0)**	**608.0**
Australia	526.0	120.7	(71.1)	575.6
New Zealand	28.3	7.0	(2.9)	32.4
Total	**554.3**	**127.7**	**(74.0)**	**608.0**

Australia and New Zealand Annual Inforce Premiums [1]	Year ended 30 September 2003 Opening Balance Sep 02 $m	Sales/New Business $m	Lapses & other movements $m	Closing Balance Sep 03 $m
Retail risk	389.1	87.6	(31.5)	445.2
Group risk	103.2	36.2	(30.3)	109.1
Total	**492.3**	**123.8**	**(61.8)**	**554.3**
Australia	465.5	121.8	(61.3)	526.0
New Zealand	26.8	2.0	(0.5)	28.3
Total	**492.3**	**123.8**	**(61.8)**	**554.3**

(1) *Inforce premiums for Asia are not shown in this table as they are Traditional in nature.*

Private Bank

Full Year to 30 September 2004

Private Bank profit grew 10.7% with strong lending growth of 23% in both the investment and housing areas as a result of positive equity market performance. Improved investor confidence was reflected in financial planning revenue growth of 35%. During the year the Private Bank introduced a three phased development program for all staff to better understand and deliver appropriate products and services in line with client life stages and events which contributed to the result.

Half year to 30 September 2004

The Private Bank result decreased 6.3% in the September 2004 half, reflecting competitive pressures and a slow down in the rate of growth of the housing market, caused by investor caution following the official interest rate rises in the March 2004 half. Offsetting this market environment was a positive impact from the introduction of three phased development program for all staff to better understand and deliver appropriate products and services in line with client life stages and events. Additionally, market anticipation of further rate increases resulted in minor margin contraction in the September 2004 half.

Other

Full Year to 30 September 2004

The operating loss decreased 10.3% on the prior year due to a reduction in discretionary project expenditure across the business, and the completion of number of regulatory programs such as FSRA. In addition, the settlement of a legal claim allowed the release of a provision positively impacting profit by $4 million.

Half year to 30 September 2004

A number of regulatory programs including FSRA were completed in the March 2004 half. In addition, the settlement of a legal claim and the finalisation of 2003 tax returns had a positive impact in the September 2004 half by $4 million and $9 million respectively.

Strategic investment expenditure

Full Year to 30 September 2004

Strategic investment expenditure for the year in the Amazon program in Australia and the Endeavour program in Europe negatively impacted profit by $26 million and $13 million respectively. Expenditure relates to the non-capitalised portion of spend and the amortisation of capitalised costs. The higher profit impact in the current year reflects the completion of a number of key deliverables, and commencement of amortisation of associated capitalised costs. During the year, a core deliverable of the Amazon program, ‘Adviser Central’ commenced roll out to the adviser network, providing advisers with an integrated advice platform.

Half year to 30 September 2004

Strategic investment expenditure for the September half in the Amazon program in Australia and the Endeavour program in the UK was $17 million and $6 million respectively. The $8 million increase in Amazon in the current half is due to the project entering into delivery phase with a number of projects completed or nearing completion, while the profit impact of Endeavour remained stable.

Investment earnings on shareholders' retained profits and capital from life businesses

Asset mix - shareholder retained profits and capital from life business	As at Sep 04 %	As at Mar 04 %	As at Sep 03 %
Equity	23.1	24.4	29.0
Fixed interest	21.2	22.8	24.0
Cash and others	55.7	56.6	51.8
Subordinated debt	-	(3.8)	(4.8)
Total	**100.0**	**100.0**	**100.0**

The asset mix is consistent with the investment profile of policyholder assets and regional regulatory requirements.

Investment earnings on shareholders' retained profits and capital from life business	Half Year to		Fav / (Unfav) Change on	Year to		Fav / (Unfav) Change on
	Sep 04 $m	Mar 04 $m	Mar 04 %	Sep 04 $m	Sep 03 $m	Sep 03 %
Investments	**20**	28	(28.6)	48	31	54.8
Insurance	**7**	16	(56.3)	23	27	(14.8)
Total	**27**	44	(38.6)	**71**	**58**	**22.4**

Full Year to 30 September 2004

Investment earnings generated on shareholders' invested capital in the life insurance statutory funds was $71 million. The result reflects the improved performance of the major stockmarket indices over the prior year, however has been impacted by a more subdued second half result. The insurance business assets are invested primarily in fixed interest and cash. Insurance earnings were impacted by the payment of a $50 million dividend, which decreased the level of interest earning capital, and lower earnings in the Asian business.

Half year to 30 September 2004

The September half results were impacted by more subdued equity market returns with the Asian operations particularly impacted by the significant second half volatility of the MSCI, resulting in minimal earnings growth for that region.

Prior year adjustments

Following a number of years of considerable change impacting the Wealth Management Group, a full review of tax processes and balances was launched. The review included an analysis of tax balances post the acquisition of the MLC group by the National, the handling of changes to tax legislation, and the management of the changes to reporting and tax periods, together with the processes for dealing with contributions tax. The recognition of a prior year under provision for tax in the March 2004 half year ($10 million) was the initial outcome of the review. Subsequent work in this review has identified several tax amendments extending back to the 2000 year which have been adjusted in the current half ($40 million). These adjustments are reflected within change in policy liabilities.

Valuation and revaluation profit

The valuation represents the market value of the subsidiaries of the parent life company, National Australia Financial Management Limited (NAFiM). The valuation provided represents the combined value of the National's debt and equity interests in the subsidiaries of NAFiM. The National's debt interests principally relate to loans to Wealth Management Europe and New Zealand used to fund the acquisition of the existing life insurance and funds management businesses of National Australia Group Europe and Bank of New Zealand. The reconciliation between the market valuation below and the deduction for capital adequacy purposes is outlined in note 15.

Included within Wealth Management operations, but excluded from the valuation are businesses such as National Australia Trustees, the Private Bank, and NAFiM's own business. The valuation also excludes the value created from banking product sales through Wealth Management channels.

The valuation decreased $124 million (inclusive of $280 million dividend payments and $63 million impact of transfer of franking credits, which decrease market value) from $6,633 million at 30 September 2003 to $6,509 million at 30 September 2004. Values shown are directors' market valuations. The valuations are based on Discounted Cash Flow (DCF) valuations prepared by Tillinghast – Towers Perrin (Tillinghast), using, for the Australian and New Zealand entities, risk discount rates specified by the directors. The components comprising the change in value are summarised below:

NAFiM subsidiaries Market value summary ($m)	**Net assets**	**Value of inforce business**	**Embedd -ed value**	**Value of future new business**	**Market value**
Market value at 30 September 2003	**1,572**	**2,463**	**4,035**	**2,598**	**6,633**
Operating profits after tax of NAFiM subsidiaries [(1)]	270	-	270	-	270
Capital and other movements	(216)	(41)	(257)	-	(257)
Increase in shareholders net assets	**54**	**(41)**	**13**	**-**	**13**
Revaluation profit / (loss) components before tax:					
- Business assumptions & roll forward					
Roll forward of DCF [(1)]	-	385	385	-	385
Change in assumptions & experience	-	(354)	(354)	(105)	(459)
- Tax consolidations – transfer of franking credits to National Group	-	(63)	(63)	-	**(63)**
Revaluation profit / (loss) before tax	**-**	**(32)**	**(32)**	**(105)**	**(137)**
Foreign exchange excess movements	**(21)**	**21**	**-**	**-**	**-**
Market value at 30 September 2004	**1,605**	**2,411**	**4,016**	**2,493**	**6,509**

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

Revaluation Profit

The components comprising the revaluation profit are summarised below:

	$m
Roll forward of DCF	385
Change in assumptions and experience	(459)
Revaluation profit / (loss) (pre tax consolidations) before tax	**(74)**
Tax consolidations – transfer of tax credits to the National Group	(63)
Revaluation profit / (loss) before tax	**(137)**
Income tax benefit on revaluation loss	3
Income tax benefit arising from election into tax consolidations	150
Revaluation profit after tax	**16**
Revaluation profit / (loss) after tax – excluding the impact of tax consolidations[(1)]	**(61)**

(1) *Revaluation profit/(loss) after tax excluding the impact of tax consolidations is calculated by adjusting the revaluation loss before tax of $137 million by the before-tax impact of the loss of prior year franking credits ($73 million), plus the tax benefit attributable to the pre tax consolidation revaluation loss ($3 million).*

The $137 million revaluation loss before tax is made up of $385 million anticipated growth in the value of the business above current levels of operating profit (ie. the roll forward of the DCF), less a transfer of $63 million of tax credits from NAFiM to the National Group and changes in assumptions and experience of $459 million.

Contributing to the $459 million negative impact from change in assumptions and experience was lower near term sales growth for domestic Retail Investments business, reflecting the impact of retail funds flow recovering more slowly than originally anticipated from the recent market downturn and the closure to new MLC Investment Trust investors of the MLC Platinum Global Fund. Partially offsetting the impact of sales is lower planned expenses in line with the lower business volumes.

The valuation includes lower margins for wholesale business, reflecting recent industry experience and lower margins for domestic Retail investments business. In addition, the recent business decision to close to new clients the nil entry fee/initial commission paying products (MasterKey Five Star products) during 2005 has been reflected.

Changes in demographic and other business assumptions include higher long-term discontinuance rates for retail investments business, particularly allocated pensions as a result of more recent experience at longer durations, assumed improved disability income continuance rates, reflecting favourable experience from strong claims processes and an uplift in value reflecting revisions to commission structures for Protection business.

A further uplift in value arose from changes in economic assumptions, particularly an increase in the assumed inflation rate which is reflected in the assumed growth of insurance premiums and investment sales.

Within Europe, an uplift in sales from outsourced life and investment business was offset by lower assumed sales from general insurance business. The result also reflects the write-off of the investment in the Endeavour program.

Included within experience items is a movement of approximately $90 million value from embedded value to value of new business, reflecting a refinement in modelling for certain smaller entities.

During the year, the National Group elected to consolidate for Australian income tax purposes (ie. entered the tax consolidations regime). This impacted revaluation profit in two ways:

- The business valuation (and revaluation profit/(loss) before tax) was negatively impacted by the transfer of franking credits from NAFiM's subsidiaries, of $63 million ($73 million in relation to prior periods less $10 million in relation to the current year). These franking credits remain available to the National Group and are now recognised in National Australia Bank Limited.
- The tax attributed to the revaluation profit has been positively impacted. This is due to the restatement of the tax cost base of the NAFiM subsidiaries, such that there would be a lower tax liability on any sale of these subsidiaries. Therefore the tax benefit of $150 million reflects the reversal of a previously recognised deferred tax liability on prior period revaluations of the NAFiM subsidiaries.

Entities held within the mark to market environment include operations in Australia, Europe, New Zealand and Asia. Distribution of value by both region and business segment are summarised below:

NAFiM subsidiaries Market value summary ($m)	**Net assets**	**Value of inforce business**	**Embedd-ed value**	**Value of future new business**	**At 30 Sep 04 Market value**	**At 30 Sep 03 Market value**
By region						
Australia	1,281	2,071	3,352	2,338	5,690	5,775
Europe	152	208	360	86	446	504
New Zealand	29	45	74	11	85	77
Asia	143	87	230	58	288	277
Market value at 30 September 2004	**1,605**	**2,411**	**4,016**	**2,493**	**6,509**	**6,633**
By business segment						
Investments	727	1,286	2,013	1,442	3,455	3,707
Insurance	820	1,182	2,002	996	2,998	2,785
Other	58	(57)	1	55	56	141
Market value at 30 September 2004	**1,605**	**2,411**	**4,016**	**2,493**	**6,509**	**6,633**

The reduction in the value of the Europe business is primarily due to the payment of a GBP20 million dividend, and the write-off of the investment in the Endeavour program reducing the gross valuation by GBP 10 million.

The downward movement in the value of the investment business reflects the assumption changes detailed previously. Some of the assumption changes, being long-term in nature, have a much more significant impact on the valuation than may be reflected in half on half profit results. This is particularly so for the higher assumed long-term discontinuance rates for allocated pension business, lower short-term sales growth and anticipated downwards pressure on margins.

Actuarial assumptions applied in the determination of market value

Actuarial assumptions applied in the determination of market values for significant Wealth Management businesses held within the mark to market environment are summarised as follows:

	September 2004			**September 2003**		
Assumptions applied in the determination of market value(1)	**New business multiplier**	**Risk discount rate (%)**	**Franking credit assumptn (%)**	**New business multiplier**	**Risk discount rate (%)**	**Franking credit assumptn (%)**
Insurance	9.6	11.0	70	9.1	11.0	70
Investments	8.9	11.0-12.1	70	9.1	11.0 - 12.0	70
New Zealand	7.1	11.7-12.8	70	6.8	11.25 - 12.50	70
Hong Kong	9.0	12.0	-	9.0	12.5	-

(1) *The bulk of the European valuation was performed on a consolidated basis. Where the European business valuations identified separate values of inforce business and future new business, approximate methods were used to derive the value of future business that did not involve new business multipliers. The risk discount rate used in European valuations at 30 September 2004 was 10.5% (10.0% at 30 September 2003).*

The increase in the insurance multiplier reflects the impact of assumed higher growth rates as a result of an increased inflation rate assumption. While this also has a small positive impact on investments business, the reduction in this multiplier reflects lower assumed year 1 growth for domestic retail investments business.

OTHER (GROUP FUNDING & CORPORATE CENTRE)

Performance Summary

By Division	Half Year to Sep 04 $m	Half Year to Mar 04 $m	Fav / (Unfav) Change on Mar 04 $m	Year to Sep 04 $m	Year to Sep 03 $m	Fav / (Unfav) Change on Sep 03 $m
Group Funding (1)	(16)	(49)	33	**(65)**	(12)	(53)
Corporate Centre	(49)	(68)	19	**(117)**	(65)	(52)
Other (2)	(65)	(117)	52	**(182)**	(77)	(105)

(1) *Excess capital has been included within the Group Funding result and comparatives have been reclassified.*

(2) *Refer to Note 1 for a reconciliation of Other (including Group Funding & Corporate Centre) to Group net profit.*

Group Funding

Group Funding acts as the central vehicle for movements of capital and structural funding to support the Group's operations. This minimises the earnings distortion to the operating divisions and enhances the comparability of divisional performance over time.

Year to 30 September 2004

Group Funding's full year deficit of $65 million compared with $12 million in 2003 is due to:

- the decision not to book the tax benefit of $33 million on the interest expense relating to ExCaps following the receipt of an ATO tax assessment;
- the inclusion in the September 2003 year of a one-off benefit on the restructure of the hedging swaps on TrUEPrs[SM] preference shares; and
- the net effect of one-off items in both years.

Half year to 30 September 2004

Group Funding's reduced deficit in the September half of $16 million compared with $49 million in the March half primarily reflected:

- funding benefit from the $1.25 billion underwriting of the 2004 interim Dividend Reinvestment Plan;
- lower capital benefit paid to operating divisions due to reduced economic capital attributed to those divisions; and
- one-off items in the March 2004 half.

Corporate Centre

Corporate Centre comprises the following non-operating units – Group and Corporate Finance, Corporate Development, People & Culture, Risk Management, Nautilus Insurance, Technology, Office of the CEO, and Group eliminations.

Year to 30 September 2004

The Corporate Centre deficit for the September 2004 year of $117 million compared with $65 million in 2003 has been primarily impacted by:

- growth in operating costs (including software amortisation) for the ISI program;
- higher compliance-related costs, for activities such as Sarbanes-Oxley, SEC voluntary document request, taxation-related matters; and
- additional costs associated with the expansion of the risk management and technology functions.

Half year to 30 September 2004

The reduction in the Corporate Centre deficit for the half has primarily been impacted by:

- timing difference associated with Basel II and IFRS as full year costs were recharged to the operating divisions in the September half; and
- $22 million (after tax) write-off of development work associated with the Integrated Systems Implementation (ISI) program in the March 2004 half; offset by
- growth in operating costs for the ISI program and compliance-related costs.