

Statement by Seven Non-Executive Directors

Dear Shareholder

This statement is made by seven of your non-executive directors.

Resolutions you will be asked to consider

At the EGM of the company on 21 May 2004, we will ask you to remove Ms Walter as a director so that the Board can discharge effectively its duties to the company and its shareholders.

We will also ask you to reject each of Ms Walter's resolutions. In effect, shareholders are being asked to decide whether the Board other than Ms Walter is to be allowed to fulfill the responsibilities with which it has been entrusted. Although the National has received advice that a number of Ms Walter's proposed resolutions are invalid, and while we oppose each of those resolutions, we do not object to Ms Walter's resolutions being put before shareholders for their consideration.

Board objectives

The Board's current priorities are to:

- oversee and support the change programme of the Chief Executive Officer, John Stewart and his management team;
- ensure that the PricewaterhouseCoopers (**PwC**) and Australian Prudential Regulatory Authority (**APRA**) reports are implemented and risk management systems and controls strengthened;
- ensure that the National's strategy is aligned to improving financial performance and maximising shareholder value;
- complete the renewal of the Board and its committees and ensure that they operate cohesively and effectively; and
- ensure that better relationships are developed with stakeholders and the National's reputation is restored.

We are committed to doing these things. However, to be successful the Board must be able to fully and frankly exchange views and work together in a cohesive and unified manner. This is no longer possible while Ms Walter remains a director.

We believe that further change to the Board at this time would be destabilising and against the interests of shareholders.

The need for a shareholders' meeting

We have lost trust and confidence in Ms Walter because of:

- her misconceived criticism of the procedural integrity of the PwC report;
- her allegations that other non-executive directors sought to improperly influence the report;
- her refusal to give assurances that she would maintain Board confidentiality in relation to PwC's investigation; and
- the damage we believe her public criticism of the report has caused the National.

Ms Walter's allegations concerning the report were never justified and cannot withstand objective consideration.

Our lack of confidence in Ms Walter does not derive from a desire to maintain collegiality at the cost of stifling rigorous investigation of issues or the expression of independent and dissenting views. Nor does it flow from differences of view about directors' accountability.

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The facts are summarised below:

1. On 12 March 2004, the PwC report into irregular foreign currency options trading at the National was released to the ASX. Blake Dawson Waldron (**BDW**) also advised the Board that PwC was reasonably likely to be regarded as being independent for the purpose of the report.
2. BDW were appointed by the Board, including Ms Walter, to provide a probity and governance opinion.
3. In a series of communications with the Chairman and in a media release dated 26 March 2004, Ms Walter made criticisms of the procedural integrity of the PwC report (but not of the report's findings), and suggested the PwC investigation should be aborted and a new investigation commenced by another expert.
4. Having considered these matters at the request of the Board, BDW in a letter dated 31 March 2004 confirmed that the report was impartial, unbiased and unaffected by any inappropriate interference or direction by the Principal Board Risk Committee or by the Board.
5. Ms Walter also wrote to BDW on 30 March 2004 submitting that BDW should not agree to provide its further probity opinion. The further opinion was nonetheless obtained and released to the ASX because the National had a strong corporate interest in responding to Ms Walter's public criticisms of the procedural integrity of the PwC report and in ensuring that the market was fully informed.
6. APRA's report into the irregular foreign currency options trading was released to the ASX on 23 March 2004.
7. APRA's findings are consistent with those contained in the PwC report. The APRA report has not been criticised by Ms Walter.

As the PwC report findings are supported by the APRA report, we formed the view that it was unproductive to engage in further public debate concerning Ms Walter's allegations.

We recognise that we are not free of blame for mistakes which have been made in the past. We consider that the interests of the National and its shareholders are best served now by full transparency and ensuring that the PwC and APRA reports are implemented and that the other challenges which the company faces are met.

We tried very hard over many hours to resolve our differences with Ms Walter, both within and outside Board meetings, before the matter was in the public domain. We regret that a shareholders meeting has had to be called to resolve them.

The meeting

We are asking shareholders to remove Ms Walter from the Board. If Ms Walter is not removed from the Board, we have unanimously agreed that we would all resign from the Board as soon as practicable following the appointment of sufficient new directors required to ensure that the Board could continue to fulfill its functions.

Were any of Ms Walter's resolutions to be passed, the authority and effectiveness of the Chairman and of the Board as a whole would be undermined and, in our view, the interests of the National would be seriously harmed.

It is now time to move on. The Board needs to do everything that it can to support John Stewart and his management team in improving the performance of the National, changing organisational culture and behavioural standards and in continuing to build shareholder value. We believe it is in the interest of all stakeholders that we do so.

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Board renewal programme

On 6 April 2004, the Chairman, with the support of all of the other non-executive directors other than Ms Walter, announced further details of the process for Board renewal. The Chairman also confirmed the Board's commitment to drive a major culture change within the organisation and enhance shareholder value.

The Chairman's announcement included the following:

"The National is committed to a continuing process of Board renewal on an orderly basis. The search for two new directors with banking experience has been accelerated and we now have identified candidates from Australia and the UK. If Ms Walter leaves the board it is intended another director with the appropriate skills would be appointed. These new appointments will be announced over the next few months. Additionally, another director will retire next year.

"The three most recent appointments to the Board were made after searches to find people with specific skills, to complement existing Board skills: Brian Clark with international experience in IT and consumer marketing; Peter Duncan with international financial management experience; and John Thorn with international auditing experience at a senior level.

"Following the new Board appointments, the National will have a Board with average years of service far lower than that of any of the major Australian banks. At that point half of the Board will have less than 3 years experience with the National.

"The National is a large and complex organisation which is undergoing substantial change. Since the announcement of the foreign currency options trading losses in January 2004, the then CEO and a number of other senior executives have departed. John Stewart and his management team are implementing their change program and continuing to focus on improving financial performance and maximising shareholder returns.

"..... We need a cohesive and effective board with the requisite experience and corporate memory to support the new management team and in the rebuilding of National's reputation.

"It would be my intention, subject to shareholder endorsement, to remain Chairman until the National's strategy formulation, operational improvement and Board reconstruction is done. I would expect that this could be achieved over the next few years when I would then hand over the chairmanship in an orderly fashion. This I believe would provide the stability required for the new management team to implement plans which will add to shareholder value."

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As part of the Board renewal programme, there will be a regular internal review of Board performance and effectiveness.

We consider the Board renewal programme is of critical importance to the National's stakeholders. We ask for your support.

8 April 2004



K Moss



B Clark



G Kraehe



E Tweddell



J Thorn



P Duncan



G Tomlinson