COMMENTARY FOR PRESENTATION

ON

NATIONAL AUSTRALIA BANK'S 1999 / 2000 FIRST QUARTER PROFIT RESULT

GIVEN BY

FRANK CICUTTO

MANAGING DIRECTOR
AND
CHIEF EXECUTIVE OFFICER

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SLIDE 0

Good afternoon ladies and gentlemen,

Today I have the pleasure of presenting to you two exciting messages about the National Australia Bank Group.

The first message is about our first quarter performance and how we are delivering value to our shareholders today. The second is about the future of the National and how we will continue to deliver superior value to our shareholders.

SLIDE 1

I am pleased to announce that the National has begun the 1999/2000 financial year with a strong profit of $771 million for the 3 months to 31 December.

This is up 6.5% on the December 98 quarter and 5.0% higher than the previous quarter (Sep 99)

As you will have seen in our press release this result was impacted by a higher tax charge of $34m comprising of $28m in respect of the restatement of opening deferred tax balances pursuant to the new Australian tax regime and $6m being the effect of a lower effective tax rate on timing differences recognised in the current period. We chose not to treat this as an abnormal item.

Offsetting this was an $11m tax credit being a reduction in the carrying value of HomeSide's deferred tax liabilities as a consequence of operational changes made to reflect the industry environment.

There was also an $11 million gain arising on the revaluation of the Group's life insurance subsidiaries, pursuant to the new Life Insurance standard which the National adopted with effect from 1 October, 1999.

SLIDE 2

At the announcement of the 1998/99 Full Year results, I foreshadowed a strengthening in performance.

It is pleasing to report the significant strengthening of the organisation across a broad front.

The hallmarks of the December quarter result are:

- Significant growth in underlying profit
- Gains in efficiency and productivity
- Growth in lending
- Sound underlying asset quality
- Resurgence of our Australian operations

The strong performance resulted in increasing value to our shareholders.

I would now like to look at some of the key aspects of the result in closer detail.

SLIDE 3

It is pleasing to note the improvement in the bottom line result was sustained by solid growth in our underlying profit.

Underlying profit in the latest quarter was $1,313 - 20% higher than the September quarter.

Excluding the impact of the new life insurance standard – which impacted revenue and expense disclosures and also resulted in a gain of $11m associated with the Group’s investment in life insurance companies - the increase was 16.1%.

The growth in underlying profit was driven by:

- Growth in lending activity
- An increase in total income of 3.8% (1.7% excluding the impact of life insurance standard)
- Significant improvement in cost, efficiency and productivity levels

Underlying profit was up 8.2% on the December 98 quarter.

SLIDE 4

Overall total income grew by 3.8% - 1.7% excluding the impact of the change in disclosure required by the life insurance standard (gross up revenue $44m and revaluation gain $11m).

Net interest income grew by 1.9% from $1,538 million in the September 1999 quarter to $1,567 million in the current quarter.

Growth in lending and favourable exchange rates movements were offset by an easing of the Group margin and changes in product mix.

The unfavourable product mix was due to increased Year 2000 liquidity and lower growth in business overdrafts.

The Group **net interest margin** for the December quarter was 2.92% down from 3.00% for the previous quarter. The reduction was driven by:

- Increased liquidity held for Year 2000 (we took a very conservative position)
- a reduction in the HomeSide margin resulting from a lower level of mortgage originations in the US; and
- slightly lower variable lending margins in Australia and New Zealand resulting from Increased wholesale interest rates.

Overall European margins were stable. Clydesdale Bank and Northern Bank were steady, NIB slightly up and Yorkshire Bank down. YB declined due to lower business lending related margins and the impact of reduced interest recoveries compared with the previous quarter.

Since September 1999, **loans and advances** for the Group increased by 3.1% in local currency terms and are 8.6% higher compared with a year earlier.

Growth in all major regions (except Asia)

Strong growth in:

- Housing loans up in all regions (up 3.1%)
- Credit cards up 9.0%
- Lease finance up 8.8%

Other operating income rose by 6.1% to $1,223 million which represents 43.8% of total income, up from 42.8% in the September quarter.

The major movements in other operating income include:

- Higher treasury related income - $25 million
- Volume related growth in mortgage servicing fees of $26 million
- Reduction in origination income of $18 million – due to higher US interest rates
- Volume related growth in Australian credit card fees

Offset by:

- Lower gains on disposal of property compared with the previous quarter

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The regional profits chart highlights the strengths derived from the Group's diversified income streams.

The December 1999 quarter saw strong growth in profits in the Group's two principle regions – Australia and Europe.

Australian Financial Services recorded a strong quarter demonstrating the success of a number of initiatives to enhance distribution, streamline activities and strength financial services capability during the past 18 months. These initiatives are starting to bear fruit.

The result was driven by lending growth (particularly housing, credit cards and leasing) and a significant reduction in operating expenses.

Our European operations also recorded a pleasing increase of 10.1% brought about by increased volumes, lower provisioning and lower costs.

NZ – contribution down 27.4% for the quarter. The September 1999 quarter benefited from lower doubtful debts provisioning and a reduced tax expense driven by a number of tax effective transactions.

Given that both Europe's and New Zealand's profit contribution is steady on the previous corresponding quarter I intend to focus a great deal of management attention on gaining the maximum value from the Group's investments in these regions to ensure that they deliver a satisfactory level of growth.

The Group's US profit was $140 million, up from $137 million in the previous quarter. The previous quarter incorporated a one-off tax benefit on a non-assessable gain on Group hedging activities of $35m.

The Asia result was adversely impacted by higher provisioning, however market conditions continue to improve.

SLIDE 6

Significant reduction in costs from $1,542 million to $1,427 million reflecting the absence of one-off cost factors in the previous quarter, reduction in staff numbers (down 1.5%) and cost control.

Cost to income ratio reduced to 51.1%. - excluding the impact of adopting the new life insurance accounting standard, and interest income from National Income Securities and Preference Shares from all periods, the cost to income ratio for December 1999 quarter was 52.7% compared with September 1999 quarter of 58.3%. The result was an solid improvement on the December 1998 quarter ratio of 53.2%.

During the December 1999 quarter:

- Personnel costs reduced by 2.9%.
- Occupancy costs were steady.
- General expenses reduced by 15.6%.

Employee numbers, on an FTE basis, decreased 1.5% during the December 1999 quarter and 3.2% lower than a year earlier.

Underlying profit per FTE for the December 1999 quarter is 21.9% higher than the September 1999 quarter and is 11.8% higher than the December 1998 quarter – due to strong growth in underlying profit and lower employee numbers.

SLIDE 7

Asset quality remained robust during the quarter.

Gross non-accrual loans decreased by 4.7% during the quarter and are now equivalent to 0.7% of risk weighted assets down from 0.8% at September.

The Group's total provisioning coverage of impaired assets at December 1999 was 164.9% compared with 158.4% at September 1999 and 170.8% at December 1998.

The specific provision coverage ratio increased during the quarter from 28.8% at September 1999 to 32.6%.

SLIDE 8

Economic profit for the December 1999 quarter increased by 8.0% from $414 million for the September 1999 quarter to $447 million.

Growth in cash earnings and imputed franking credits, due to higher Australian profits, was partially offset by an increase in the level of capital employed.

The Group's return on average ordinary shareholders funds increased from 17.8% to 17.84% during the quarter and compares with 18.5% a year earlier.

The current return was achieved on increase in average ordinary shareholders' funds of 6.2% from $15.3 billion for December 1998 to $16.3 billion.

The return on equity reflects the very strong capital position we have which has been intentionally accumulated. This strong position has been achieved in a very cost effective manner. The capital position provides us with strategic flexibility for expansion however, as announced by our Chairman at our recent Annual General Meeting, we will return this to shareholders should value creating acquisitions not present themselves by mid year.

Basic earnings per share (attributable to ordinary shareholders) rose from 47.5 cents in the September 1999 quarter to 48.8 cents, an increase of 2.7%.

December 1999 earnings per share were steady with the December 1998 quarter of 48.9 cents.

Cash earnings per share (earnings attributable to ordinary shareholders before goodwill amortisation) rose by 1.8% to 52.1 cents compared with the September 1999 quarter.