RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2004

GROUP PROFITABILITY AND CAPITAL

PROFITABILITY

Net Operating Income

Group net operating income increased 1.3% from the prior year, with a 0.6% increase in the September 2004 half compared to the March 2004 half.

Net Interest Income

Banking net interest income fell 3.3% from the prior year and increased 0.6% in the second half. This decrease reflects continued strong growth in housing loans, offset by continued pressure on margins and reduced net interest income within Corporate & Institutional Banking's Markets and Specialised Finance divisions.

Volumes by Division

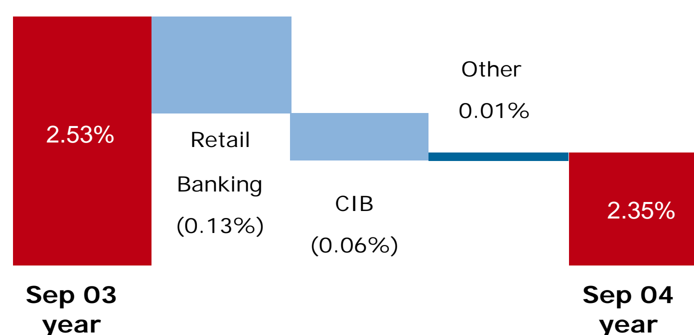
Average interest-earning assets [1]	Half Year to Sep 04 $bn	Half Year to Mar 04 $bn	Fav/ (Unfav) Change on Mar 04 Ex FX % [2]	Year to Sep 04 $bn	Year to Sep 03 $bn	Fav/ (Unfav) Change on Sep 03 Ex FX % [2]
Financial Services Australia	128.0	122.1	4.8	**125.1**	110.9	12.8
Financial Services Europe	50.9	46.2	3.9	**48.5**	48.6	5.7
Financial Services New Zealand	24.2	22.2	6.4	**23.2**	20.7	13.4
Retail Banking	203.1	190.5	4.8	**196.8**	180.2	11.0
Corporate & Institutional Banking	104.4	102.3	(1.2)	**103.3**	107.4	1.1
Other	6.3	6.4	0.6	**6.4**	5.7	14.8
Group average interest-earning assets	313.8	299.2	2.6	**306.5**	293.3	7.5

[1] *Interest-earning assets exclude intercompany balances.*

[2] *Change expressed at constant foreign exchange rates.*

Net interest margin

Year to 30 September 2004



Group net interest margin declined 18 basis points during the year from 2.53% to 2.35%. During the second half, the net interest margin declined 11 basis points from 2.40% to 2.29%.

Margin decline primarily occurred in:

- Retail Banking, primarily due to the mix effect of the strong growth in mortgages and in lower margin fixed rate lending; and
- Corporate & Institutional Banking, primarily due to reduced contributions from Markets and Specialised Finance.

Within Retail Banking the 13 basis point decline in contribution to the Group margin is due to a decline in margin across all regions – Australia, Europe and New Zealand.

The absolute decline in Financial Services Australia's margin of 33 basis points is mainly due to:

- continued growth in home loans, including an increase in loans from the Third Party Business channel;
- unfavourable lending margins, primarily fixed rate housing lending;
- unfavourable deposit mix, reflecting growth in lower margin variable rate deposits at the expense of higher margin traditional passbook accounts;
- retail deposits growing at a slower rate than interest-earning assets; and
- the prevailing interest rate environment with unfavourable basis risk.

The absolute decline in Financial Services Europe's margin of 27 basis points is primarily due to growth in housing and SME lending and realigning product pricing in line with the market. The margin on these products is below the average existing margin. Other factors contributing to the margin reduction include an unfavourable interest rate environment and reduced contribution from core free funds. The decline in margin due to the change in product mix has previously been flagged by management. This is consistent with the strategy of re-positioning this business to meet the competitive environment.

The absolute decline in Financial Services New Zealand's margin of 13 basis points reflects competitive pressure, especially for housing, combined with unfavourable product mix as customers moved to lock in fixed rate products in a low but rising interest rate environment. In addition, the lower official cash rate earlier in the year put downward pressure on retail deposit margins. However, in the September half retail deposit margins strengthened as the official cash rate rose, resulting in a 4 basis point improvement in the net interest margin.

The absolute decline in Corporate & Institutional Banking's margin of 12 basis points primarily reflects a reduced contribution from the Markets' division due to lower trading income, resulting from a benign trading environment influenced by flatter yield curves and reduced volatility in interest rate and foreign exchange markets. The margin was also negatively impacted by the reversal of prior period capitalised interest on a large exposure which has been re-classified as a non-accrual loan.

Net Life Insurance Income

The Group reports its results in accordance with Australian Accounting Standard AASB 1038 "Life Insurance Business" (AASB 1038). AASB 1038 requires that the interests of policyholders in the statutory funds of the life insurance business be reported in the consolidated results.

Net life insurance income is the profit before tax excluding net interest income of the life insurance statutory funds of the life insurance companies of the Group. As the tax expense/benefit is attributable primarily to the policyholders, the movement in net life insurance income should be viewed on an after tax basis. In addition, net life insurance income includes investment revenue attributable to consolidated registered schemes with a corresponding increase in net profit attributable to outside equity interests. The life insurance funds of the life insurance companies conduct superannuation, investment and insurance-related businesses (ie. Protection business including Term & Accident, Critical Illness and Disability insurance and Traditional Whole of Life and Endowment).

	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 %
Net life insurance income	557	455	22.4	**1,012**	444	large
Interest expense, income tax expense and outside equity interest	(402)	(281)	43.1	**(683)**	(130)	large
Net profit of life insurance funds after outside equity interest	155	174	(10.9)	**329**	314	4.8

Net life insurance income after tax has improved 4.8% on the September 2003 year and decreased 10.9% in the second half of 2004. This is primarily due to increased investment revenue reflecting the performance of global equity markets as compared to the September 2003 year, partially offset by an increase in policy liabilities. Fee revenue increased due to higher average funds under management, and higher annual inforce premiums and favourable claims experience contributed to the result. The second half decline reflects the recognition of a prior year adjustment of $40 million.

For a detailed discussion on the results of Wealth Management, including the results of the life businesses (above), as well as the results from non-life businesses, refer pages 46 – 55.

Other Operating Income

Year to 30 September 2004

Total Banking other operating income decreased by 5.8% from the prior year to $4,137 million. At constant exchange rates, other operating income decreased 3.6%, reflecting:

- a reduction in money transfer fees;
- the inclusion in the September 2003 year of a one-off benefit on the restructure of the hedging swaps on the TrUEPrS^{SM} preference shares and profit on sale of property;
- a reduction in trading income as a result of a benign trading environment influenced by flatter yield curves and reduced volatility in interest rate and foreign exchange environments;
- the negative impact of the RBA credit card interchange fee reform in Australia effective 1 October 2003;
- lower dividend income following the sale of investments;
- flat loan fees from banking reflecting solid bill fee growth, offset by the impact of customers using lower cost channels and competitive pricing across regions; and
- growth in the Fleet Management and custody businesses following recent acquisitions.

Wealth Management other operating income increased by 13.9% from the prior year, resulting from higher sales and average funds under management increasing brokerage, commission and fee income.

TrUEPrS is a service mark of Merrill Lynch & Co., Inc.

Half year to 30 September 2004

Total Banking other operating income decreased by 3.9% from the March 2004 half, or 5.7% at constant exchange rates, due to:

- a significant reduction in trading income;
- lower dividend income following the sale of investments in the March half; and
- flat loan fees from banking and money transfer fees.

Wealth Management other operating income increased by 2.7% from the March 2004 half, resulting from higher sales and average funds under management increasing brokerage, commission and fee income. Growth in average funds under management was more subdued in the second half.

Operating Expenses

Cost growth in the retail financial services businesses in Australia, Europe and New Zealand was skewed towards the September half year and this is receiving management attention. Highlighted below are some of the more significant factors impacting this growth.

Year to 30 September 2004

Total Banking expenses increased 6.9%, or 9.2% at constant exchange rates, from the prior year to $6,056 million.

The result has been impacted by an increase of 38.6% (at constant exchange rates) in superannuation expense:

- increased costs associated with the European defined benefit pension funds. In the year to September 2004 costs of £84 million were incurred (of which £73 million relates to Financial Services Europe), compared to £42 million in the year to September 2003 year; and
- a superannuation contribution holiday in Australia reduced pension fund expenses by $28 million in the September 2004 year (primarily in Financial Services Australia).

Total Banking expenses (excluding pension fund expenses) increased 5.9%, or 8.1% at constant foreign exchange rates from the prior year, reflecting:

- growth in personnel costs (excluding pensions) of $101 million due to salary increases and growth in staffing levels;
- higher occupancy costs of $54 million as a result of annual rent increases and relocation costs;
- growth in costs associated with major Group-wide projects - in relation to Basel II of $45 million and IFRS of $46 million;
- higher advertising and marketing costs of $55 million, including the sponsorship of the 2006 Melbourne Commonwealth Games;
- higher software amortisation of $23 million, including the ISI program; and
- higher compliance-related and regulatory costs in Europe.

Wealth Management operating expenses increased 11.3% from the prior year to $897 million due to the full year inclusion of PLUM operating expenses post acquisition in June 2003 and higher brokerage and commission expenses in line with increased trading activity.

Half year to 30 September 2004

Total Banking expenses increased 11.3%, or 8.4% at constant exchange rates, from the March 2004 half to $3,190 million.

The result has been impacted by:

- growth in personnel costs (excluding pensions) of $84 million due to salary increases and growth in staffing levels;
- higher occupancy costs of $30 million as a result of annual rent increases and the move to Docklands;
- higher advertising and marketing costs of $28 million, including the sponsorship of the 2006 Melbourne Commonwealth Games; and
- higher compliance and regulatory-related spend, particularly in Europe,

  partly offset by:
- lower software expense due to the writedown of the ISI Program in the March half ($22 million after-tax).

Wealth Management operating expenses increased 5.7% from the March 2004 half, reflecting higher volume-related expenses in line with business growth.

Income Tax Expense

Total Banking's effective tax rate on cash earnings before significant items has increased from 28.0% in the prior year to 29.1%. This is impacted by the Group's international activities to which a wide range of tax rates are applied.

Exchangeable capital units capital raising

In February 2004 the National announced that it had received amended assessments from the Australian Taxation Office (ATO) which seek to disallow interest deductions on exchangeable capital units (ExCaps) for the tax years 1997 to 2000. The ATO assessments are for $157 million of primary tax and interest and penalties of $150 million (after-tax), a total of $307 million (after-tax). The ATO is considering its position in respect of interest deductions claimed by the National on its ExCaps for 2001 to 2003. The amount of primary tax relating to these interest deductions is approximately $135 million. If the ATO issues amended assessments in respect of these years it is possible interest and penalties would also apply.

The Group is confident that its position in relation to the application of the taxation law is correct and intends to dispute the amended assessments and pursue all necessary avenues of objection and appeal. Objections against the amended assessments have been lodged, and no provisions have been raised by the Group.

The Group has paid 50% of the amounts owing under the amended assessments. This payment has been recognised as an asset on the statement of financial position, included within other assets, on the basis that the Group expects recovery of the amount paid to the ATO.

The Group will not tax-effect interest paid on the ExCaps after 1 October 2003 whilst the tax treatment is in dispute. As a result, a permanent difference of $33 million has been recognised in determining income tax expense for the 2004 year.

TrUEPrS^{SM} capital raising

In April 2004 the National announced that it had received amended assessments from the ATO which seek to disallow interest deductions claimed in respect of its TrUEPrS^{SM} capital raising for the years 1999 to 2002. The ATO assessments are for $85 million of primary tax and interest and penalties of $65 million (after-tax), a total of $150 million (after-tax). The ATO is also expected to issue amended assessments for 2003 and 2004 income years and the expected additional primary tax payable for those years is $20 million. If the ATO issues amended assessments in respect of those years it is possible interest and penalties would also apply. No further disputed tax amounts will arise in relation to future years as the TrUEPrS^{SM} were redeemed in January 2004.

The Group is confident that its position in relation to the application of the taxation law is correct and intends to dispute the amended assessments and pursue all necessary avenues of objection and appeal. Objections against the amended assessments have been lodged, and no provisions have been raised by the Group.

The Group has paid 50% of the amounts owing under the amended assessments. This payment has been recognised as an asset on the statement of financial position, included within other assets, on the basis that the Group expects recovery of the amount paid to the ATO.

New Zealand structured finance transactions

Subsidiaries of the Group have received amended tax assessments from the New Zealand Inland Revenue Department (IRD) with respect to three structured finance transactions entered into in the 1998 and 1999 income years. The amended assessments are for income tax of approximately NZ$36 million, plus interest. The possible application of penalties has yet to be considered by the IRD. In addition, the IRD has also issued amended assessments based on an alternative approach to reassessing the transactions. This alternative approach results in a lower additional tax liability.

The IRD has not yet issued amended assessments for the transactions for income years after 1999. Notwithstanding that, based on the assessments received to date, the maximum sum of primary tax which the IRD might claim for the years after 1999 is approximately NZ$240 million. Interest would be charged in the event that the IRD were to issue amended assessments for this period. Penalties may also be considered by the IRD.

The IRD is also investigating two other transactions in the New Zealand structured finance portfolio, which have materially similar features to those for which the above assessments have been received. Should the IRD take the same position across all of these transactions, the additional primary tax liability would be NZ$111 million, plus interest. Penalties may also be considered by the IRD.

Therefore the total potential tax in dispute for the period to 30 September 2004 is NZ$387 million, plus interest of NZ$86 million (net of tax). As noted above the IRD may also consider imposing penalties.

The Group is confident that its position in relation to the application of the taxation law is correct and it intends to dispute the IRD's position with respect to these transactions. The Group has obtained legal opinions that confirm that the transactions complied with New Zealand tax law, and no provisions have been raised by the Group. The transactions are similar to transactions undertaken by other New Zealand banks.

Significant Items

Foreign currency options losses

In January 2004, the National announced that it had identified losses relating to unauthorised trading in foreign currency options of $360 million before tax, or $252 million after tax. This total loss consists of losses arising from the removal of fictitious trades from the foreign currency options portfolio of $185 million and a further loss of $175 million arising from a risk evaluation and complete mark-to-market revaluation of the foreign currency options portfolio in January 2004. Included within the total loss is a valuation allowance for long-dated and illiquid trading derivatives in other portfolios of $26 million as at 30 September 2004.

Further details of this matter may be obtained from the Company's ASX Announcement on 12 March 2004, which is available on the Group's website at www.nabgroup.com The complete PricewaterhouseCoopers and APRA reports relating to the trading losses are also available on the Group's website.

Sale of strategic shareholdings

On 28 January 2004, the National sold its strategic shareholdings in St George Bank Limited, AMP Limited and HHG Plc. This resulted in a net profit on sale of $315 million after tax, which has been recognised in the September 2004 year.

Writeback of HomeSide provision

During the year to September 2004 the Group wrote back to profit a provision of $64 million. This provision was raised at the date of sale of SR Investment, Inc (the parent entity of HomeSide), in relation to estimated probable costs arising from the sale. At this time the expense was treated as a significant item.

Write-down of impaired application software

During the September half, the Group undertook a detailed review of the carrying value of its software assets which resulted in a charge to the profit and loss of $409 million ($307 million after tax).

The Group ceased its global enterprise resource planning (ERP) strategy supported by its Integrated Systems Implementation (ISI) application software and has indefinitely deferred the implementation of further modules of this software. The software has been written-down by $200 million to its recoverable amount of $87 million as at September 30, 2004. The recoverable amount of the software was determined through the application of a valuation methodology performed by an external party. In performing the assessment, the external party used a number of assumptions based on their industry expertise taking into

account the complexity of the software, the cost of building such software and the build environment. The resulting carrying value of the asset represents the recoverable amount of the software that is in use.

Other software with a carrying value of $209 million was identified as fully impaired and was written-off. This related to a range of small software items across all divisions:

	$m
Financial Services Australia	59
Financial Services Europe	47
Financial Services New Zealand	8
Corporate & Institutional Banking	17
Wealth Management Europe	60
Wealth Management Australia	18
Total	**209**

After allowance for the above write-offs, the written down value of software on the balance sheet at 30 September 2004 was $655 million. This is summarised as follows:

			$m	Amortisation period (years)
Integrated Systems Implementation (ISI) Program			87	5
Europe Front End Replacement Program			110	5
Siebel Customer Relationship Management (CRM) System (Australia)			73	5
Wealth Management Amazon Platform (Australia)			24	3
Group Bank Teller Platform			20	5
Europe System Upgrade to meet Financial Services Authority requirements			17	5
Europe Integration Project			13	5
Europe Chip and Pin			12	5
Sub-Total			**356**	
Other Projects (original cost above $10 million)	- Australia	29		5
	- Europe	10	39	5
Other Projects (original cost less than $10 million)	- Australia	192		3-5
	- Europe	43		3-5
	- New Zealand	25	260	3-5
Total software at 30 September 2004			**655**	

In addition to the above review of the carrying value of software, the Group has also reviewed software amortisation periods and where applicable reduced them to a maximum period of 5 years. Previously, the Integrated Systems Implementation (ISI) Program was amortised over 10 years, and the Group Bank Teller Platform, Siebel Customer Relationship Management (CRM) System (Australia) and Data Warehouse amortised over 8 years.

At this stage, no change in the Group's minimum software capitalisation threshold of $1 million has been made.

General provision for doubtful debts

During the September 2004 half, the Group reviewed the level of general provision for doubtful debts and the application of the associated statistically-based provisioning methodology, taking into account recent experience, industry practice and emerging developments. As a result, the discount rate in the statistical model has been reduced from the shareholder cost of capital to a rate akin to a risk-free debt rate, resulting in a revision to the accounting estimate of the general provision for doubtful debts as at 30 September 2004. This discount rate is used to determine the present value of cumulative probability of default rates used for the purpose of loan provisioning.

The effect of this reduction in discount rate and flow-on impact is a revision in accounting estimate of $292 million ($204 million after tax), which will be treated as a significant expense in the current year.

CAPITAL & PERFORMANCE MEASURES

Performance Measures

Economic Value Added (EVA®)

	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 %
Cash earnings before significant items	1,611	1,850	(12.9)	**3,461**	4,070	(15.0)
Tax rate variance [1]	17	41	(58.5)	**58**	(7)	large
Imputation credits benefit [2]	321	360	(10.8)	**681**	727	(6.3)
EVA® net operating profit after tax	1,949	2,251	(13.4)	**4,200**	4,790	(12.3)
Average shareholders equity	28,550	27,055	5.5	**27,802**	24,111	15.3
Add average cumulative goodwill amortisation	1,773	1,724	2.8	**1,748**	1,648	6.1
Add/(deduct) average significant items	256	(64)	large	**192**	-	large
Deduct average other equity instruments [3]	(6,498)	(6,422)	(1.2)	**(6,461)**	(3,532)	(82.9)
Deduct average cumulative WM revaluation	(253)	(152)	(66.4)	**(202)**	(220)	8.2
Average economic capital	23,828	22,141	7.6	**23,079**	22,007	4.9
Capital charge [4]	(1,310)	(1,273)	(2.9)	**(2,583)**	(2,531)	(2.1)
EVA®	639	978	(34.7)	**1,617**	2,259	(28.4)

(1) *Difference between the EVA® tax rate of 30% and the effective tax rate.*

(2) *Imputation credits are measured at 70% of Australian tax.*

(3) *Other equity instruments are National Income Securities, Trust Preferred Securities, preference share capital and outside equity interest.*

(4) *Cost of capital changed from 11.5% per annum to 11.0% per annum, with effect from 1 April 2004.*

EVA® is a measure designed to recognise the shareholder requirement to generate a satisfactory return on the economic capital invested in the business. If the business produces profit in excess of its cost of capital then value is being created for shareholders.

EVA® is used to measure and evaluate the performance of the National's different operating divisions and is an integral component of incentive compensation, product pricing, assessing investment opportunities and the allocation of resources. Equity is allocated to each business using a risk-adjusted methodology for each division's credit, market and operational risk.

EVA®'s net operating profit after tax is based on cash earnings before significant items (using 30% projected tax rate) plus the calculated benefit of imputation credits earned by paying Australian tax. Capital charge is based on the Group's cost of capital and is applied to a calculated economic capital that is based on average shareholders equity.

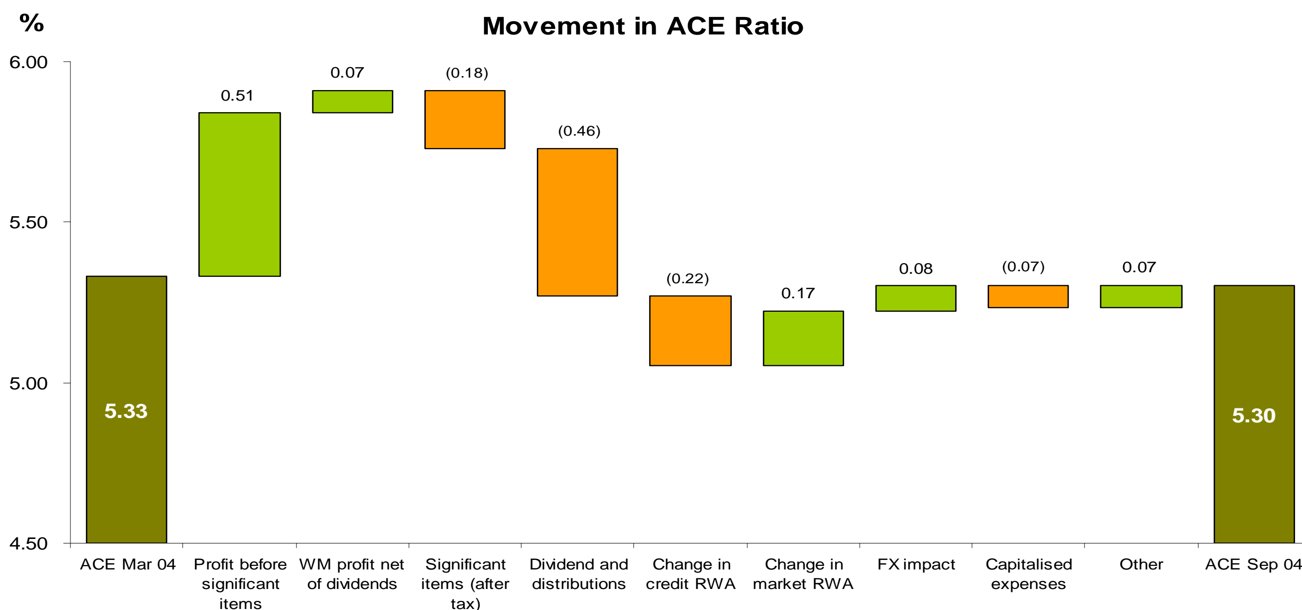
The EVA® result for the September 2004 year has declined by 28.4% on the September 2003 year. This reflects the impact of the fall in cash earnings, and the increased capital charge due to retained earnings growth and the dividend re-investment plan. This has led to a reduction in incentive remuneration levels across the Group in respect of the September 2004 year.

EVA® is a registered trademark of Stern Stewart & Co.

Capital Position

Capital ratios are set out below.

	Target ratio %	As at Sep 04 %	Mar 04 %	Sep 03 %
ACE	4.75 – 5.25	5.30	5.33	4.92
Tier 1	7.0 - 7.5	7.34	7.43	7.76
Total Capital	**10.0 -10.5**	**10.58**	**9.30**	**9.62**



Following a review of the National's capital targets in the second half of 2004, it was decided to target the adjusted common equity to risk-weighted assets (ACE), Tier One and Total Regulatory Capital ratios, and no longer explicitly target the Core Tier One ratio. The change is to focus the Group on only one core equity ratio, being the ACE ratio, and to manage the mix of hybrid equity within tier one by reference to regulatory and rating agency requirements.

The difference in risk-weighted assets between the standard method calculation and the internal method calculation at 30 September 2004 was $10.2 billion, down from $17.9 billion at 31 March 2004. This reduction was due to the netting of exposures allowable under the standard method, for which there was limited opportunity at 31 March 2004; and a reduction in the underlying market risk, as reflected in a 12% reduction in risk-weighted assets calculated under the internal method, from $3,875 million to $3,410 million.

In addition to regulatory capital ratios, the National uses the ACE ratio as a key capital target. It measures the capital available to support the banking operations, after deducting the Group's investment in wealth management operations (refer note 15 for further details). The Group's target range for the ACE ratio is 4.75% to 5.25%. As at 30 September 2004, the ACE ratio was 5.30%, a decrease from 5.33% at 31 March 2004. Refer to note 15 regarding the components of the ACE ratio.

The National achieved its increase in the total capital ratio above 10% through issuing $3.7 billion of subordinated debt in the half year and underwriting the Dividend Reinvestment Plan (DRP) for the interim 2004 dividend. The DRP is maintained and the one-off amendments to the plan for the interim dividend have not been reintroduced. The 0% discount and the 15,000 share cap in place for the final dividend last year continues for the final dividend this year.

The capital position was impacted by the APRA requirement to deduct capitalised expenses from Tier 1 capital. As at 30 September 2004 the relevant capitalised expense amounted to $200 million.