

**RESULTS FOR THE HALF YEAR ENDED 31 MARCH 2005**

GROUP PROFITABILITY AND CAPITAL

## PROFITABILITY

### Net Operating Income

Group net operating income increased 1.0% from the September 2004 half, and 1.6% from the March 2004 half.

### Net Interest Income

Banking net interest income fell 1.5% from the September 2004 half and 0.9% from the March 2004 half. The result reflects continued pressure on margins across the Group, partly offset by growth in underlying volumes.

### Volumes by Division

	Half Year to			Fav/(Unfav) Change on Sep 04	
	Mar 05 \$bn	Sep 04 \$bn	Mar 04 \$bn	%	Ex FX % <sup>(2)</sup>
<b>Average interest-earning assets<sup>(1)</sup></b>					
Australian Banking	150.1	142.9	135.5	5.0	5.0
UK Banking	53.5	55.9	50.3	(4.3)	(0.7)
New Zealand Banking	31.1	28.4	26.5	9.5	6.7
Institutional Markets & Services	139.8	133.0	126.7	5.1	7.3
Other <sup>(3)</sup>	(49.6)	(46.4)	(39.8)	(6.9)	(12.7)
<b>Group average interest-earning assets</b>	<b>324.9</b>	<b>313.8</b>	<b>299.2</b>	<b>3.5</b>	<b>4.1</b>

<sup>(1)</sup> Interest-earning assets include intercompany balances.

<sup>(2)</sup> Change expressed at constant foreign exchange rates.

<sup>(3)</sup> Other includes the Wealth Management regional operations, Group Funding, Corporate Centre and Inter-divisional eliminations.

Average interest-earning assets increased \$11.1 billion, or 3.5% on the September 2004 half, primarily representing a \$7.5 billion increase in loans and advances and a \$2.5 billion increase in marketable debt securities.

On a divisional basis, the \$7.5 billion increase in loans and advances on the September 2004 half is primarily driven by the Australian Banking business, and, on a product basis, reflects growth in the Group's housing book and improved business lending. Key factors contributing to this outcome were:

- reflecting stabilisation of housing market share, Australian Banking experienced growth of \$5.1 billion (5.5%) in housing lending on the September 2004 half. Non-housing lending grew \$1.9 billion (4.5%) primarily fixed-rate interest-only term lending and leasing, which increased 7.3% and 5.6% respectively;
- of the growth in New Zealand Banking's average interest-earning assets, \$1.5 billion is due to growth in residential mortgages (up 11.8%, or 9.1% at constant exchange rates to \$14.8 billion), reflecting market share improvements from 15.9% to 16.2%. Non-housing lending grew 8.3%, or 5.6% at constant exchange rates;
- including the Irish Banks, which were sold on 28 February 2005, UK Banking's loans and advances declined 2.5%. Excluding the Irish Banks and at constant exchange rates, average underlying housing loan balances increased 9.5%, reflecting new products and branding strategies, and the move into the third party distribution channel. Average underlying non-housing loan balances were flat, but grew 4.2% at constant exchange rates, with growth in both fixed and variable-rate products; and
- Institutional Markets & Services average loans and advances increased 2.6%, or 5.5% at constant exchange rates on the September 2004 half.

Average marketable debt securities grew \$2.5 billion, or 7.0%, on the September 2004 half. Higher balances of Markets' division assets reflecting business growth in the December 2004 quarter, were reduced in the March 2005 quarter following the Group's strategic decision to release capital invested in low yielding assets.

Refer to Note 5 for further details.

## Net Interest Margin

Group net interest margin declined 10 basis points during the half year from 2.29% to 2.19%, (and compared to the March 2004 half, the net interest margin has declined 21 basis points from 2.40%). Drivers of the decline varied across the Group's businesses.

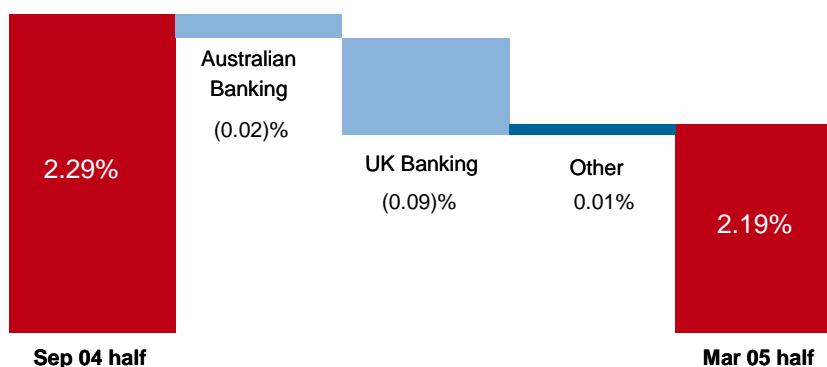
In analysing the divisional results, it should be noted that as part of the annual process for aligning the operating divisions' economic capital usage with the Group's target capital position, capital allocations to the Group's banking divisions were reviewed with effect from 1 October 2004. This impacted the capital allocated to each division and also included an attribution of the interest cost of other forms of capital such as subordinated debt and hybrid equity instruments on a usage basis. The divisional impact on net interest income for the March 2005 half, which is neutral at the Group level is summarised below:

Increase/(Decrease)	\$m
Australian Banking	36
UK Banking	10
New Zealand Banking	(12)
Institutional Markets & Services	9
Group Funding	(43)
<b>Group</b>	<b>-</b>

Including these effects, divisional net interest margin movements on the September 2004 half are summarised as follows:

- Australian Banking's margin declined 4 basis points (9 basis points excluding the capital reallocation). This reflects ongoing competitive pressure on margins, the continuing shift in the balance sheet to lower-margin home loan products, and an increase in wholesale funding;
- UK Banking's margin declined 18 basis points (27 basis points excluding the capital reallocation (4bps) and the benefit of the proceeds from the sale of the Irish Banks (5bps)). This reflects a continuing move to lower-margin housing lending, reduced lending margins (primarily for fixed-rate personal loans, variable-rate mortgages and credit cards), and unfavourable funding costs. In relation to UK Ongoing Operations, the underlying net interest margin declined 20 basis points;
- New Zealand Banking's margin declined 12 basis points (5 basis points excluding the capital reallocation). This has been driven by growth in lower-margin fixed rate products, competitive pressure for lending products (particularly in cards and housing), partly offset by favourable deposit margins, and the results of funding strategies;
- Institutional Markets & Services' margin declined 1 basis point (2 basis points excluding the capital reallocation). This reflects the impact of the prevailing yield curve on income generated in the Markets business and competition in the corporate lending market, partly offset by the reversal of capitalised interest income on a non-accrual loan in the September 2004 half, and favourable changes to the structured finance portfolio; and
- Group Funding's margin declined excluding the capital reallocation reflecting the results of the Group's ongoing funding activity and securitisation programs.

### Net interest margin – contribution to the movement in the Group net interest margin on the September 2004 half (excluding internal capital reallocation)



As a result, on a weighted basis, the division having the greatest impact on the Group's 10 basis point margin decline was UK Banking, contributing 9 basis points of the decline on a weighted basis, with Australian Banking contributing 2 basis points, offset by a 1 basis point increase from Group Funding.

## 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 of the life insurance and investment businesses of the statutory funds of the life insurance companies of the Group (excluding net interest income and investment earnings on shareholders' retained profits and capital of the life insurance businesses). 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	
	Mar 05	Sep 04	Mar 04	Sep 04	Mar 04
	\$m	\$m	\$m	%	%
Net life insurance income	495	523	396	(5.4)	25.0
Investment earnings on shareholders' retained profits and capital (before tax) – <i>see below</i>	63	34	59	85.3	6.8
Interest expense, income tax expense and outside equity interest	(360)	(402)	(281)	(10.4)	(28.1)
<b>Net profit of life insurance funds after outside equity interest</b>	<b>198</b>	<b>155</b>	<b>174</b>	<b>27.7</b>	<b>13.8</b>

Net life insurance income after tax has improved 27.7% on the September 2004 half. This is primarily due to increased investment revenue reflecting the improved performance of global equity markets compared to the September 2004 half, partly offset by an increase in policy liabilities. The increase in fee revenue due to higher average funds under management, and higher annual inforce premiums, partly offset by less favourable claims experience in the March 2005 half have also contributed to the result. The September 2004 half included the recognition of an unfavourable prior year adjustment of \$(40) million.

## Investment Earnings on Shareholders' Retained Profits and Capital of Life Businesses (IORE)

	Half Year to			Fav/(Unfav) Change on	
	Mar 05	Sep 04	Mar 04	Sep 04	Mar 04
	\$m	\$m	\$m	%	%
Investment earnings on shareholders' retained profits and capital (before tax)	63	34	59	85.3	6.8
Income tax expense and outside equity interest	(15)	(7)	(15)	large	-
<b>Investment earnings on shareholders' retained profits and capital</b>	<b>48</b>	<b>27</b>	<b>44</b>	<b>77.8</b>	<b>9.1</b>

Investment earnings generated on shareholders' invested capital in the life insurance statutory funds in the March 2005 half was \$48 million (after-tax), in line with the strong performance of the major stockmarket indices over the half. The September 2004 half was impacted by more subdued equity market returns, with the Asian operations particularly impacted by the significant volatility of the MSCI World Index.

## Other Operating Income

### Movement on September 2004 half

Total Banking other operating income increased by 3.3% (or 4.3% at constant exchange rates) on the September 2004 half to \$2,110 million, which reflects the following factors:

- *Trading income* increased by \$102 million (43%) to \$337 million as a result of improved trading opportunities due to increased volatility in the interest and exchange rate markets, after a particularly challenging September 2004 half; and
- *Loan fees from banking* grew by \$22 million (3%) to \$742 million, reflecting solid bill fee growth in Australia, partly offset by competitive pricing across all regions;

Partly offset by:

- *Money transfer fees* fell \$16 million (3%) to \$479 million as a result of a change in the mix of transactions as customers migrate to lower cost channels;
- *Other income* fell by \$22 million to \$112 million due to the impact of non-recurring items; and
- *Fees and commissions* decreased by \$10 million (3%) to \$366 million largely reflecting changes in Card-related products and activity;

Wealth Management other operating income increased by \$53 million (13%) to \$461 million, reflecting higher management fee income. The March 2005 half was also favourably impacted by the receipt of a \$24 million retrospective profit share payment in the UK, and a \$27 million insurance recovery relating to NAFiM investor compensation payments (received from the Group's captive-insurance company, with no impact at the Group level).

### Movement on March 2004 half

Total Banking other operating income decreased by 0.6% (or 1.6% at constant exchange rates) on the March 2004 half to \$2,110 million, which reflects the following factors:

- *Dividend income* of \$22 million in the March 2004 half no longer received following the sale of investments;
- *Other income* fell by \$10 million to \$112 million due to the impact of non-recurring items;
- *Money transfer fees* fell \$9 million (2%) to \$479 million due to a change in the mix of transactions as customers migrate to lower cost channels; and
- *Trading income* was flat at \$337 million;

Partly offset by:

- *Fleet service fees* grew \$13 million (22%) to \$73 million reflecting business growth and a change in accounting treatment of fleet vehicle registration costs; and
- *Loan fees from banking* grew \$15 million (2%) to \$742 million, reflecting solid bill fee growth in Australian Banking as a result of a 16.5% increase in bill acceptance volumes over the 12 months.

Wealth Management other operating income increased by \$62 million (16%) on the March 2004 half to \$461 million reflecting higher management fee income. The March 2005 half was also favourably impacted by a \$12 million increase in retrospective profit share payment in the UK, and a \$27 million insurance recovery relating to NAFiM investor compensation payments.

## Operating Expenses

### Movement on September 2004 half

Total Banking expenses grew 0.7% (or 1.9% at constant exchange rates) on the September 2004 half, to \$3,246 million. The result is marked by higher personnel and superannuation costs and large one-off items, partly offset by lower discretionary expenditure and amortisation. In particular the result includes:

- costs of \$56 million associated with the Northern Bank robbery in December 2004 (\$49 million recognised in Corporate Centre through the Group's captive-insurance company and \$7 million in the UK Banking results);
- costs of \$49 million associated with the outcome of a legal action in South Korea awarded against the National;
- insurance recoveries of \$27 million payable to NAFiM from the Group's captive-insurance company (no impact at Group level);
- higher superannuation costs of \$25 million, due primarily to a superannuation contribution holiday in Australia reducing September 2004 half pension fund expenses by \$17 million, and a \$5 million increase in New Zealand pension fund expenses;
- higher occupancy costs of \$9 million (3%) driven by the full occupation of the second Docklands building; and
- personnel expenses (excluding superannuation), growing \$8 million (1%), reflecting higher salaries from 1 January 2005 net of a reduction in average staff numbers, and higher performance-based remuneration in the March 2005 half;

Partly offset by:

- the focus on reducing discretionary expenditure and lower project related-spend, including regulatory and compliance projects;
- a reduction in advertising and marketing costs of \$19 million, as the September 2004 half included costs associated with the sponsorship of the 2006 Melbourne Commonwealth Games; and
- lower software amortisation expense of \$7 million following the write-off of capitalised software at 30 September 2004.

Wealth Management operating expenses fell 4.2% on the September 2004 half to \$411 million, reflecting a reduction in staff numbers and lower costs associated with strategic investment expenditure.

### Movement on March 2004 half

Total Banking expenses increased 12.0% (or 10.7% at constant exchange rates) on the March 2004 half year to \$3,246 million, reflecting:

- growth in personnel expenses (excluding superannuation) of \$103 million (7%), due to higher annual salaries and growth in contractor costs mainly associated with compliance projects;
- costs of \$56 million associated with the Northern Bank robbery in December 2004;
- costs of \$49 million associated with the outcome of a legal action in South Korea;
- higher occupancy costs of \$36 million (13%) as a result of annual rent increases and the move to Docklands;
- insurance recoveries of \$27 million payable to NAFiM from the Group's captive insurance company;
- higher superannuation costs of \$25 million, due primarily to a superannuation contribution holiday in Australia reducing March 2004 half pension fund expenses by \$17 million, and a \$7 million increase in New Zealand pension fund expenses; and
- a step-up in project related-spend, including regulatory and compliance projects;

Partly offset by:

- a \$26 million write-off of development work associated with the Integrated Systems Implementation (ISI) program which was included in the March 2004 half; and
- a reduction of \$19 million in the charge to provide for non-lending losses on the March 2004 half.

Wealth Management operating expenses increased 1.5% on the March 2004 half to \$411 million, reflecting higher volume-related expenses, partly offset by the impact of a reduction in staff numbers.

## Asset Quality

The Group's asset quality continued to remain sound during the March 2005 half year. The credit environment during the half was benign and the current outlook is for no significant deterioration.

The disposal of the Irish Banks has decreased the volume of impaired assets and the level of total provisions, however this has had a minor impact on asset quality. In the March 2005 half:

- the Group commenced a review of its credit assessment process to simplify and accelerate the process, resulting in an improved client focus without compromising the quality of the lending decision;
- portfolio-managed facilities totalling \$124 million between 90 and 180 days past due were reclassified from non-accrual to 90 days past due facilities to align with the Australian Prudential Regulatory Authority (APRA) classification;
- the average level of non-accrual loans has remained relatively stable;
- net write offs are lower compared to the September 2004 and March 2004 halves;
- past due volumes have increased following some deterioration in housing and personal loans;
- coverage ratios have improved; and
- the proportion of investment grade non-retail facilities has improved.

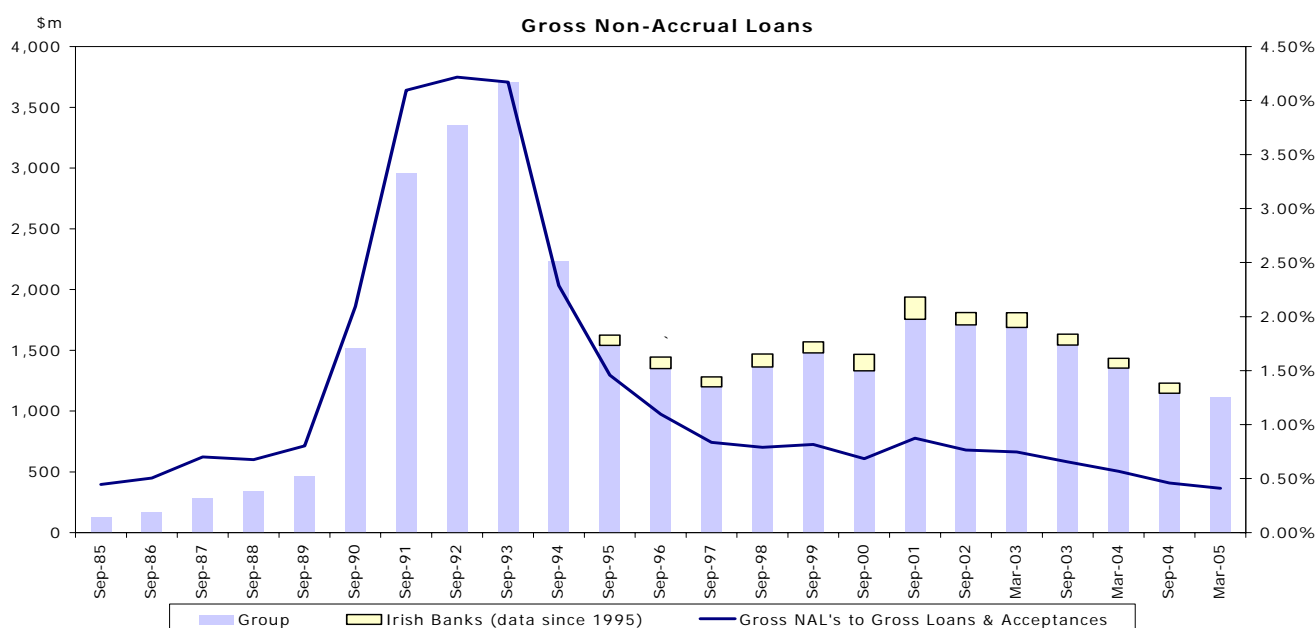
### Movement in gross non-accrual loans and accruing loans past due 90 days (refer note 13)

	Non-accrual \$m	90 days past due \$m
Balance at 30 September 2004	1,230	892
Increase/(Decrease):		
- Sale of Irish Banks	(84)	(3)
- APRA Reclassification	(124)	124
Adjusted balance at 30 September 2004	1,022	1,013
Repayment of large exposure	-	(204)
Underlying movement	93	75
<b>Balance at 31 March 2005</b>	<b>1,115</b>	<b>884</b>

### Non-accrual loans

The APRA reclassification of portfolio-managed facilities past due between 90 and 180 days reduced the balance of non-accrual loans by \$124 million and the sale of the Irish Banks reduced the balance by \$84 million.

In the March 2005 half there was an underlying increase of \$93 million in non-accrual loans. There was a net increase in Australia following the impairment of two large corporate clients totalling \$133 million, which was offset by lower non-accrual loans in the UK.



**Net write offs**

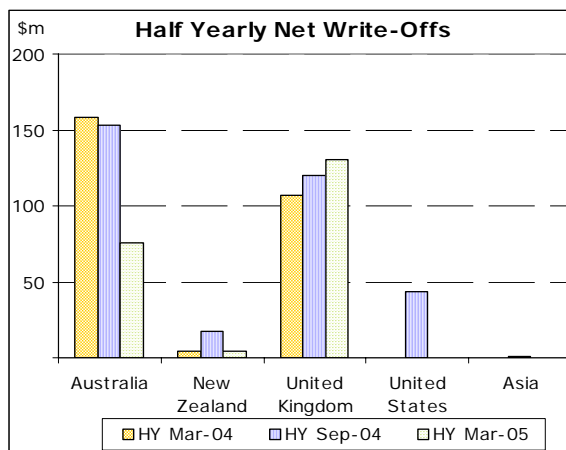
Net write offs in the March 2005 half amounted to \$211 million, which is significantly lower than the September 2004 half year of \$335 million, and the March 2004 half year of \$270 million. Net write offs as a proportion of gross loans and acceptances fell in the March 2005 half from 0.12% (including Irish Banks) to 0.08%.

The improvements in net write offs is consistent with the benign credit environment, stronger asset prices and fewer corporate write offs in the United States and New Zealand.

The improvement of \$43 million in the United States is the result of no further write offs being incurred in the exit of impaired exposures in the power and utility sector, although a provision of \$23 million has been made for one exposure in the half. New Zealand improved by \$13 million as the net write offs in the September 2004 half primarily related to one corporate client.

In Australia, non-retail net write offs fell by 38% following proportionately higher recoveries, while retail net write offs fell by 57%.

Net write offs increased in the UK relating to two corporate clients.

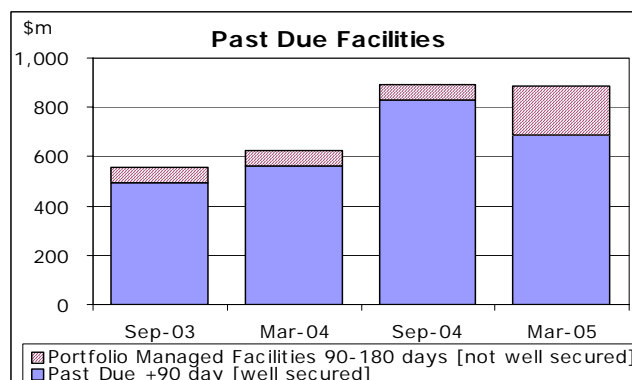


**Accruing loans 90 days past due**

Past due facilities comprise well-secured accruing loans that are more than 90 days past due and portfolio-managed facilities that are not well secured but between 90 and 180 days past due, (refer comment on reclassification above). Excluding the full repayment of one large corporate exposure in Australia of \$204 million and the APRA reclassification, the volume of these facilities increased by \$75 million.

The application of the APRA classification exemption to portfolio-managed facilities that are not well secured but between 90 and 180 days past due resulted in \$74 million of facilities in Australia and \$50 million in the UK being reclassified from non-accrual to past due in the March 2005 half.

Facilities that are past due but fully secured had an underlying increase of \$68 million, the majority in Australia and relating to the home loan portfolio. Actions are being undertaken to address this, however lending losses are not expected as the facilities are well secured.

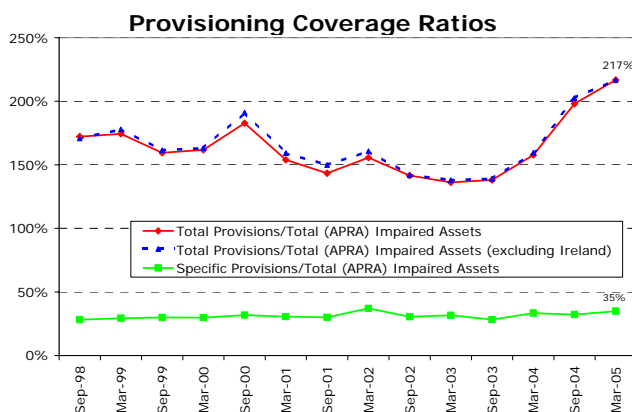


**Provisioning coverage**

The Group's total provisions as a percentage of impaired assets increased by 19% points to 217% over the March 2005 half.

The improvement in cover resulted from a decrease in impaired assets in the Group, primarily due to the reclassification referred to above, while provision levels remained relatively stable.

The ratio of general provisions to risk-weighted assets, excluding housing, increased marginally from 0.99% to 1.00%.

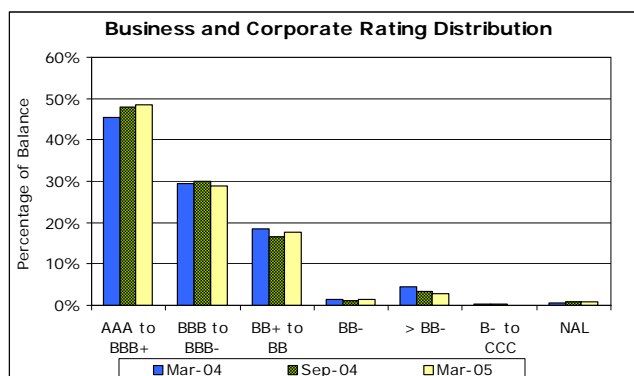


**Trends in the ratings of exposures**

The non-retail segment of the portfolio encompasses Business and Corporate lending.

Over the twelve months to March 2005, the level of investment grade equivalent (AAA to BBB-) facilities held by the Group in its non-retail portfolio increased from 75% of the portfolio to 77%.

The proportion of sub-investment and categorised facilities fell in that time by 1% each.

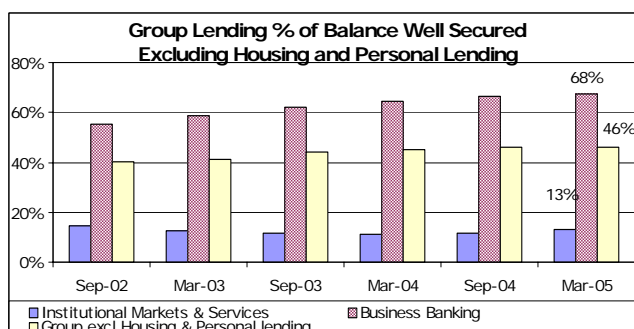


**Trends in the level of non-retail secured lending**

The Group considers a loan to be well secured where bank security is greater than 100% of the facility.

The non-retail segment of the Group continues to build and retain its core of well-secured clients.

In March 2005 half, Business Banking increased its holdings of well-secured facilities by 2% points to 68%. Institutional Markets & Services also increased its proportion by 2% points to 13%.



**Retail portfolio**

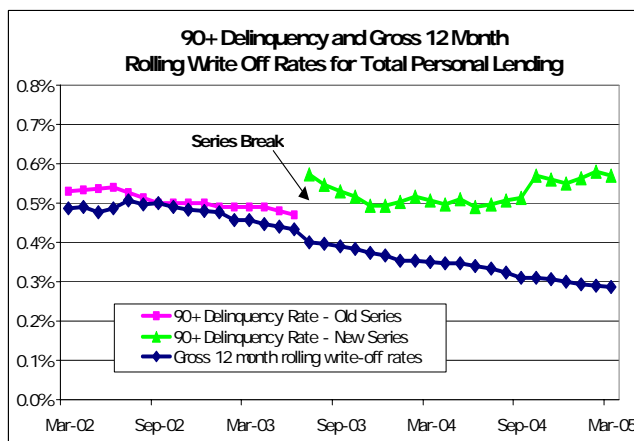
The retail portfolio consists of home loans, credit cards, personal overdrafts and personal loans. Housing remains the dominant product in the portfolio comprising 92% of Group personal lending. Australia is the dominant region holding 75% of the Group's personal lending portfolio.

The credit quality of the retail portfolio is sound, with a high level of well-secured facilities (92%).

90-day delinquencies have remained at a similar level since the transition of home loans from the previous servicing system in September 2004. The movement for the March half is attributable to a small increase in delinquency rates in Australian housing. Although the majority of this segment is well secured, actions are being taken to address the rise in delinquency.

The gross 12 month rolling write off rate has continued to decline to 0.29%, as a result of generally higher levels of equity in households.

The data series excludes the Irish Banks.



**Taxation**

Total Banking's effective tax rate on cash earnings before significant items has increased from 28.5% in the September 2004 half to 30.4%. This is impacted by the Group's international activities to which a wide range of tax rates are applied, and certain costs incurred in respect of the legal action in South Korea and the Northern Bank robbery, in relation to which no future income tax benefit has been raised.

**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). At that time, the National also informed that the ATO was considering its position in respect of interest deductions claimed by the National on its ExCaps for the years 2001 to 2003.

In May 2005 the National received amended assessments from the ATO for the years 2001 to 2003. The ATO assessments are for \$135 million of primary tax and interest and penalties of \$98 million (after-tax), a total of \$233 million (after-tax).

The National has also received amended assessments from the ATO for the years 1998 to 2001 disallowing certain costs associated with the issue of the ExCaps. These assessments are for \$6 million of primary tax and interest and penalties of \$6 million (after-tax), a total of \$12 million (after-tax). Should the ATO also disallow issue costs claimed in 2002 and 2003, the further primary tax assessed would be approximately \$2 million. Interest and penalties may also be imposed.

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 previous 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 intends to adopt the same position in relation to the most recent amended assessments.

The Group has not tax-effected interest paid on the ExCaps after 1 October 2003 whilst the tax treatment is in dispute. As a result, a permanent difference of \$16 million has been recognised in determining income tax expense for the 2005 half.

### **TrUEPrS<sup>SM</sup> 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<sup>SM</sup> 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 the 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<sup>SM</sup> 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.

*TrUEPrS<sup>SM</sup> is a service mark of Merrill Lynch & Co., Inc.*

### **New Zealand structured finance transactions**

The New Zealand Inland Revenue Department (IRD) is carrying out a review of certain structured finance transactions in the banking industry.

Subsidiaries of the Group have received amended tax assessments for the 1998 and 1999 years from the IRD with respect to certain structured finance transactions. The amended assessments are for income tax of approximately NZ\$47 million. Interest will be payable on this amount, and the possible application of penalties has yet to be considered by the IRD.

The IRD has also issued Notices of Proposed Adjustments in respect of these and similar structured finance transactions for the 2000, 2001 and 2002 years. These notices do not create a tax obligation for the National, but advise of the IRD's intention to issue amended assessments for those years.

The New Zealand Government has introduced new legislation, to take effect from 1 July 2005, which addresses their concerns with banks entering these transactions. All of the National's structured finance transactions that are the subject of the IRD's review will have terminated by that date.

If the IRD issues amended assessments for all transactions for periods up to 30 June 2005, the maximum sum of primary tax, which the IRD might claim for all years is approximately NZ\$416 million. In addition, as at 31 March 2005, interest of NZ\$102 million (net of tax) will be payable.

The National is confident that its position in relation to the application of the taxation law is correct and it is disputing the IRD's position with respect of these transactions. The National has obtained legal opinions that confirm that the transactions complied with New Zealand tax law. The transactions are similar to transactions undertaken by other New Zealand banks.

The financial effect of the unpaid balance of the amounts owing under the amended assessments has not been brought to account in the financial statements for the March 2005 half.

## Significant Items

### ***Net profit on sale of Northern and National Irish Banks***

On 28 February 2005 the sale of National Europe Holdings (Ireland) Limited (the UK holding company of Northern Bank and National Irish Bank) to Danske Bank A/S was completed on terms consistent with the original sale announcement on 14 December 2004. This generated a net profit on sale after all disposal costs including taxation of \$1,073 million.

There will be a post-closing adjustment in accordance with terms of the sale agreement and the National will have certain indemnification obligations and standard warranties that survive completion of the sale. The National will provide transitional services to Danske Bank A/S in respect of the Northern Bank and National Irish Bank operations to assist in the smooth transition of ownership of those businesses. These transitional services will be provided at cost and are expected to be in place for up to eighteen months.

### ***Restructuring expenses***

During the March 2005 half, the Group incurred restructuring expenses and provisions totalling \$403 million. Details are set out below:

Half year to 31 March 2005	Redundancies		Occupancy	Other	Total
	No.	\$m	\$m	\$m	\$m
Total Australia	1,036	91	-	30	<b>121</b>
Total UK	1,700	185	61	20	<b>266</b>
Total New Zealand	23	1	-	-	<b>1</b>
Institutional Market & Services	27	7	-	3	<b>10</b>
Other (including Corporate Centre)	7	1	-	4	<b>5</b>
<b>Total Group</b>	<b>2,793</b>	<b>285</b>	<b>61</b>	<b>57</b>	<b>403</b>

#### **Australian restructuring**

Restructuring expenses of \$121 million have been booked in the Australian region in the March 2005 half. This includes staff redundancy costs of \$91 million covering 1,036 positions, of which 210 have exited in the March 2005 half (\$22 million) and 826 have been provided for (\$69 million). The remaining \$30 million relates to other costs incurred in restructuring and integrating the Australian businesses. This includes costs related to reorganisation of new management teams and managing the integration process, as well as writing off the asset value of decommissioned systems.

Further restructure costs will be provisioned by the Australian region in the second half as it continues to develop the integration program for its businesses.

#### **UK restructuring**

On 30 March 2005, the National announced it would book a provision of \$266 million (GBP109 million) to cover restructuring initiatives currently underway in the UK operations. This covers costs to streamline operations, which will lead to reductions in staffing levels of 1,700 positions during the next 12 to 18 months and the reconfiguration of the distribution networks to meet the changing needs of customers.

Further details may be obtained from the Company's ASX Announcement and European Restructure presentation on 30 March 2005, which are available on the Group's website at [www.nabgroup.com](http://www.nabgroup.com)

#### **New Zealand, Institutional Markets & Services and Other restructuring**

Restructuring initiatives are currently being finalised and provisions will be booked in the second half of the 2005 year.

### ***Reversal of provision in relation to foreign currency options trading loss***

In January 2004, the National announced that it had identified losses relating to unauthorised trading in foreign currency options of \$360 million before tax. Following a detailed review of the residual risk in the remaining portfolio, it has been determined that \$34 million (\$24 million after tax) be written back to profit in the March 2005 half.

### ***Reversal of 2002 provision in relation to restructuring***

During 2002, the Group recognised restructuring costs from the Positioning for Growth (PfG) initiatives. In the March 2005 half, excess provisions totalling \$9 million (\$6 million after tax) were written back to profit, leaving a residual provision of \$12 million.

## BALANCE SHEET & CAPITAL

### Assets and Liabilities

#### Lending

	As at			Fav/(Unfav) Change on	
	31 Mar 05	30 Sep 04 <sup>(1)</sup>	31 Mar 04 <sup>(1)</sup>	Sep 04	Mar 04
	\$m	\$m	\$m	Ex FX %	Ex FX %
Housing (net of securitisation)					
Australia	98,142	91,259	88,845	7.5	10.5
UK	15,289	14,716	12,796	7.6	18.8
New Zealand	15,399	14,328	12,263	9.5	19.2
Asia	617	610	574	9.4	9.4
<b>Total housing</b>	<b>129,447</b>	120,913	114,478	7.8	12.4
Term lending	81,560	78,819	73,742	4.9	9.4
Other lending	40,109	39,443	37,804	3.7	5.1
Bill acceptances	21,567	16,343	14,987	32.0	43.9
<b>Total lending (gross loans &amp; acceptances)</b>	<b>272,683</b>	255,518	241,011	7.9	12.3

<sup>(1)</sup> Proforma information – excludes lending assets of the Irish Banks, which were sold on 28 February 2005.

Housing lending (net of securitisation) has increased by 7.8% from 30 September 2004 to \$129.4 billion supported by continued strong residential mortgage markets across all regions.

In Australia, housing lending has experienced encouraging growth with market share stabilising at 14.4%. Although growth in the Australian housing sector has slowed compared to the previous half, demand for home loans remains strong. Housing lending growth has mainly occurred within 100% offset home loan products and fixed rate loans as customers choose to lock in interest rates during a rising interest rate environment.

In the UK, housing lending has increased 7.6% (excluding the impact of the sale of the Irish Banks) reflecting the success of the brand program, new product launches and the move into the third party distribution channel using selected brokers to sell products to the target market.

In New Zealand, housing lending grew 9.5% over the half, with market share growing from 15.9% at September 2004 to 16.2% at March 2005. This performance reflects BNZ's implementation of a consistent and targeted home loan strategy, including the 'Unbeatable' campaign.

Business lending volumes have grown over the half, particularly in Australia, reflecting business confidence and the restoration of risk settings, particularly in fixed rate lending and in leasing products. Personal lending also grew due to increased seasonal spending, promotional offers and specific campaigns, such as the Visa 'Mini Card' campaign in Australia.

Bill acceptances have increased 32.0%, however, excluding the impact of the buy-back of the Company's-accepted bills, bill acceptance volumes have grown 5.8% over the half. Australian Banking volumes have increased 10.0% as they continue to be a preferred product for business customers as a result of favourable pricing arrangements and flexibility.

#### Marketable Debt Securities

Marketable debt securities (trading, available for sale and investment securities) decreased \$8,460 million or 21.0% during the March 2005 half. The reduction in these securities follows the Group's strategic decision to release capital invested in low yielding assets so as to improve returns in the Institutional Markets & Services business.

#### Deposits and Other Borrowings

Excluding National Irish Bank Limited and Northern Bank Limited which were sold on 28 February 2005, total deposits and other borrowings decreased 0.5% over the half.

Total deposits (excluding the Irish banks) grew \$3,775 million or 2.0% during the March 2005 half. Sound growth occurred in retail deposit volumes (saving and transaction deposits), particularly in Australia, following the successful launch in July 2004 of new flat fee transaction account offerings. Growth was also

experienced in New Zealand where retail deposit market share increased by 30 basis points during the March 2005 half, as a result of continued steady improvements in brand awareness and preference.

Other borrowings (excluding the Irish banks) have decreased by \$5,679 million (29.5%), reflecting the current strategy of lengthening and broadening the maturity profile of the Group's debt portfolio. This has resulted in a higher reliance on bonds, notes and subordinated debt issues, rather than on the Group's commercial paper and other short-term debt programs. The lower funding requirements also reflect the release of capital invested in low yielding assets.

### ***Bonds, notes and subordinated debt***

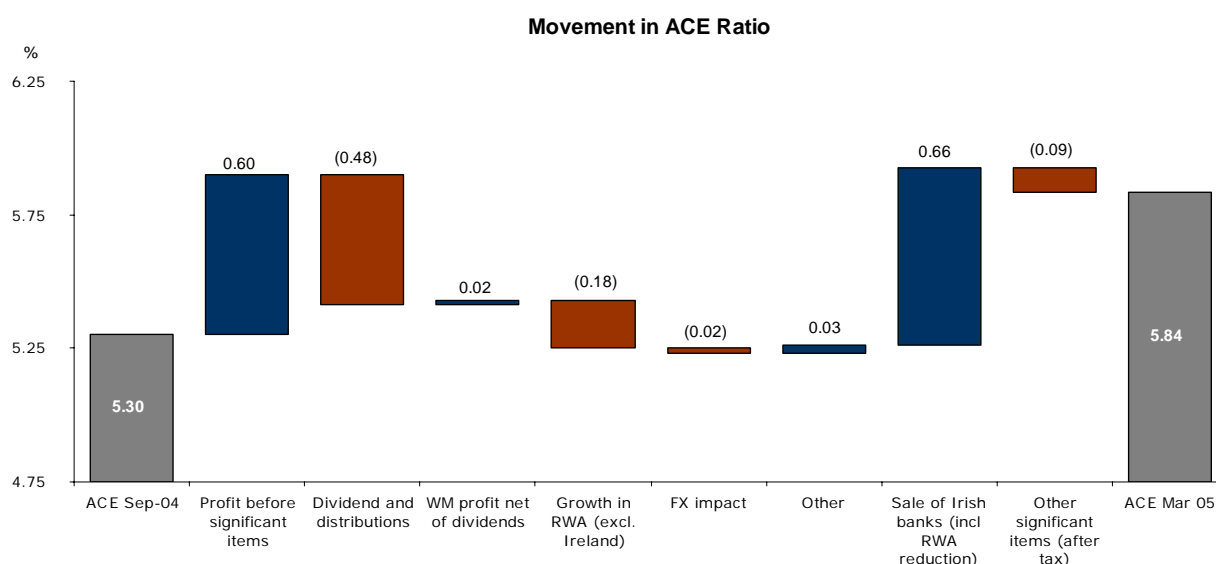
Bonds, notes and subordinated debt increased \$3,963 million (12.2%) during the March 2005 half. The National has a number of funding programs available, and the increase reflects further issues of the Group's Euro and Domestic medium-term notes programs, undertaken to fund asset growth and re-finance of maturing short-term and long-term debt. The increase also reflects the Group's current strategy of lengthening the maturity profile of the Group's debt issues.

## **Capital Position**

Capital ratios and risk-weighted assets are set out below.

	Target ratio %	As at		
		31 Mar 05 %	30 Sep 04 %	31 Mar 04 %
ACE ratio	4.75 – 5.25	5.84	5.30	5.33
Tier 1 ratio	7.0 - 7.5	8.30	7.34	7.43
<b>Total capital ratio</b>	<b>10.0 -10.5</b>	<b>11.37</b>	<b>10.58</b>	<b>9.30</b>

	As at		
	31 Mar 05 \$m	30 Sep 04 \$m	31 Mar 04 \$m
Risk-weighted assets – credit risk	266,854	273,189	256,489
Risk-weighted assets – market risk	12,294	13,616	21,750
<b>Total risk-weighted assets</b>	<b>279,148</b>	<b>286,805</b>	<b>278,239</b>



There has been no change to the National's target capital ranges during the March 2005 half.

In addition to regulatory capital ratios, the National uses the adjusted common equity (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. As at 31 March 2005, the ACE ratio was 5.84% an increase from 5.30% at 30 September 2004. *Refer to note 17 regarding the components of the ACE ratio.*

The Group's capital ratios have increased during the period and are above the Group's stated target ranges at 31 March 2005. This principally reflects the sale of the Irish Banks, which occurred on 28 February 2005. The banks were sold for \$2.5 billion, generating a net profit on sale after all disposal costs of \$1.1 billion. In addition to the profit component, the sale also increased the capital ratios as a result of the reduction in risk-weighted assets of approximately \$12 billion. In total, the impact of the sale increased the ACE ratio by 66 basis points, the tier 1 ratio by 77 basis points and the total capital ratio by 90 basis points as at 31 March 2005.

During the March 2005 half the Group commenced an initiative to reduce low return risk-weighted assets in the Institutional Markets & Services business.

As directed by APRA, the National currently uses the standard method to calculate the market risk capital component of risk-weighted assets. During the March 2005 half there was a reduction of \$1,322 million in the market risk component of risk-weighted assets. Using the internal model method, which was applied prior to 31 March 2004, the market risk component of risk-weighted assets at 31 March 2005 amounted to \$3,127 million, down from \$3,410 million at 30 September 2004. The effect of using the standard method to calculate the market risk component of risk-weighted assets was an increase of \$9,167 million (compared to \$10,206 million at 30 September 2004).

### **Trust Preferred Securities II**

On 23 March 2005, the Group raised US\$800 million (A\$1,014 million net of issue costs) through the issue of 800,000 Trust Preferred Securities of US\$1,000. The securities qualify as tier 1 capital of the National. Each Trust Preferred Security pays a semi-annual non-cumulative distribution, in arrears equal to 5.486% per annum until 23 March 2015. After that date the securities will pay a quarterly non-cumulative distribution at the annual rate of 1.5375% over 3 month US\$ LIBOR.

### **Impact of the Australian Equivalents of International Financial Reporting Standards (AIFRS) on Regulatory Capital – effective 1 January 2006**

On 24 February 2005, APRA issued a discussion paper that outlines how APRA proposes to address the prudential implications of a number of specific AIFRS related changes. APRA's proposals have potential impacts for the capital position of the National and all the other Australian financial institutions. *Refer to page 12 for further details.*