

Sale of HomeSide Operating Platform to Washington Mutual, Inc.

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Outline

- Overview
- Transaction Summary
- Transaction Details
- Managing the Residual Portfolio
- Financial Impact on National Australia Bank
- Transaction Rationale
- Strategic Priorities
- Summary

Overview

- Sale for A\$3.7 billion of HomeSide's mortgage production and servicing operations for a premium of A\$111 (US\$57 million), using Australian GAAP
- National is retaining the MSR portfolio with a book value of A\$5.2 billion
- Washington Mutual will subservice the MSR portfolio
- MSR portfolio will run-off and or be sold over time
- Sale is neutral to 2002 earnings
- Initial release of A\$150 million in capital

.5150 AUD/USD exchange rate has been uses in all conversions



Overview

Selling the operating platform now allows the National to:

- realise a premium on sale of the operating platform;
- exit the operating business and eliminate the risk associated with further generation of MSR;
- begin to reduce financial exposure to MSR immediately upon settlement;
- dispose of the residual MSR as market conditions improve;
- increase the flexibility to sell the MSR in whole or in part to Washington Mutual or third parties, and;
- free up additional capital through run-off and or sale of MSR.

Transaction Summary

- Washington Mutual to acquire assets of approximately A\$3.7 billion for a A\$111 million premium above the National's carrying value
- Assets acquired by Washington Mutual include:
 - Servicing and technology platform
 - Wholesale, correspondent and consumer direct mortgage production channels including HomeSide's warehouse mortgage pipeline
 - Servicing sites in Jacksonville, Florida and San Antonio, Texas
 - All other corporate assets necessary to conduct HomeSide's business including substantially all the employees of HomeSide

Transaction Summary

- National will retain
 - Existing mortgage servicing rights asset (“MSR”) and related hedges
 - HomeSide’s debt obligations
 - Existing US carry forward losses which will be available to shelter future taxable income
 - The right to use the “HomeSide Lending, Inc” name in countries outside the US
- The transaction is subject to customary regulatory approvals and is expected to close in Q1 2002

Transaction Details

Servicing of the Residual MSR Asset

- Washington Mutual will enter into a subservice agreement with the National to service National's residual MSR assets
- The initial pricing structure is based on standard commercial terms.
- Washington Mutual will also continue to service National's existing Australian mortgages for a period of up to 30 months
- Subservicing agreement will not impact the current value of MSR

Transaction Details

Financial

- Transaction will be neutral to 2002 Group earnings estimates
- Immediately generates capital of approximately A\$150 million
- Future MSR run-off and/or sale will release further capital
- Tax losses retained

Transaction Details

Balance Sheet

	Summary HomeSide Balance Sheet Sep 2001	Sale Adjustments ⁽¹⁾	Residual Assets & Liabilities Sep 2001
Australian GAAP (US\$ Millions)			
Assets			
Cash and Cash Equivalents	703	8	711
Mortgage Loans Held for Sale	1,818	(1,775)	43
MSR	2,683	-	2,683
Accounts Receivable, net	489	(6)	483
Other Assets	504	(96)	408
Total Assets	6,197	(1,869)	4,328
Liabilities			
Accounts Payable and Accrued Liabilities	716	(5)	711
Other Liabilities	4,265	(1,921)	2,344
Total Liabilities	4,981	(1,926)	3,055
Equity			
Paid in Capital	3,199	-	3,199
Retained Earnings	(1,983)	57	(1,926)
Total Equity	1,216	57	1,273

(1) Before triggered and transaction costs.



Managing the MSR Run-off

- National will continue to manage the MSR run-off and related hedge book, advised by BlackRock Financial and Cohane Rafferty (US specialist consultants)
- Hedge continues to perform well and to expectations
- Sale of residual portfolio will be pursued when the market for MSR strengthens

Financial Impact on National Australia Bank

Group Capital Position

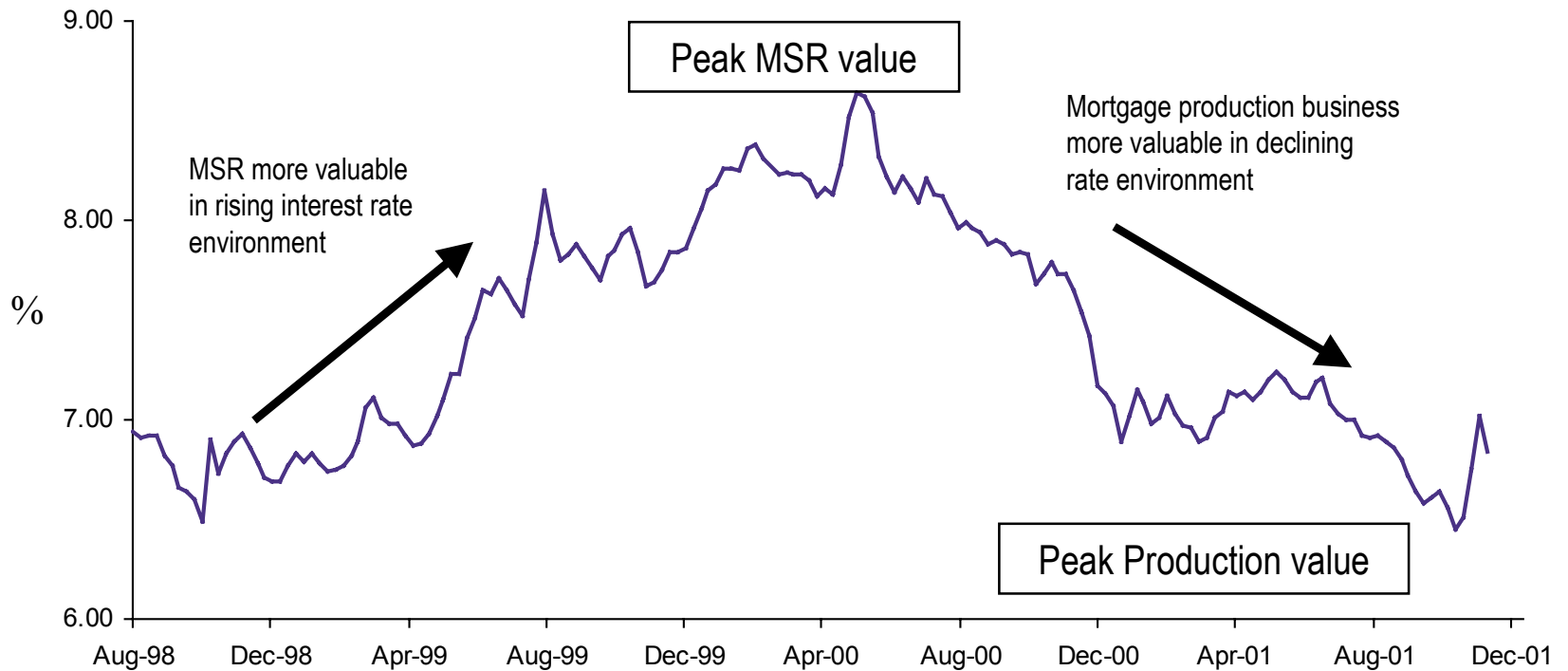
As at Sep 30 2001

	Pre Sale	Pro forma Post Sale
Core Tier 1	6.43%	6.47%
Tier 1	7.47%	7.52%
Tier 2	3.94%	3.97%
Deductions	-1.25%	-1.26%
Total Capital	10.16%	10.23%
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Common Equity / Tangible Assets	5.19%	5.24%



Transaction Rationale

30 Year US Mortgage Rates



(1) US 30 Year National Homeowner Mortgage Rates- Source: Freddie Mac's Primary Mortgage Market Survey (PMMS) of 125 lender's rates.

Transaction Rationale

- Eliminates operational risk of business
- No further MSR purchases
- Increased flexibility to realise value of MSR
- Rising or stable interest rates improve market for MSR
- MSR now easier to manage
- MSR releases further capital as it runs-off or is sold

Strategic Priorities

- Positioning for Growth
- Maintain momentum in core businesses
- Actively manage capital
- Maintain National's market leading AA/Aa1 credit rating
- Earnings targets remain unchanged
 - 10% cash earnings growth from core businesses
 - 2001/02 EPS growth between 7 - 10%

Summary

- Provides exit from the US mortgage business
- Maximises realisable value from divestment of HomeSide
- Reduced risk with remaining asset in run-off mode
- Increased flexibility to sell residual MSR to Washington Mutual or a third party
- No impact on Australian mortgage business
- Strengthens business concentration on core financial services and wealth management
- Sharpens National's geographic focus

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