National

Concise Annual Report 2004

the Year
the Facts
the Future

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www.nabgroup.com

This is a concise report. To view the full annual financial report online, visit the Shareholder Centre at www.nabgroup.com Alternatively, to arrange for a copy of the full annual financial report to be sent to you free of charge, call Shareholder Services on 1300 367 647 in Australia or +61 3 9415 4299 from outside Australia.

*The financial statements and specific disclosures included in the concise financial report have been derived from the annual financial report 2004. The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position, operating, financing and investment activities of the Group as the annual financial report. All figures quoted are in Australian dollars unless otherwise stated.

References to "the National" or "the Company" are to National Australia Bank Limited. The "Group" refers to the National and its controlled entities. References to 2004 are references to the National's financial year ended September 30 2004, and other financial years are referred to in a corresponding manner.

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National Australia Bank Limited ABN 12 004 044 937

National

National Australia Bank

MLC
A National Company

Bank of New Zealand

Clydesdale Bank
Tailored Financial Solutions

Yorkshire Bank
Tailored Financial Solutions

Northern
Tailored financial solutions

National Irish Bank
Tailored Financial Solutions.

the Year
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the Future

ABOUT THE NATIONAL

We are an international financial services organisation that provides a comprehensive and integrated range of financial products and services. Our history traces back to the establishment of The National Bank of Australasia in 1858.

On August 11, 2004, the Group announced it would be structured around three regional businesses: Australia, Europe and New Zealand. These regions include the retail bank brands, Wealth Management and the transactional and custodial operations of the former Corporate & Institutional Banking division. In addition, we have a global business in Institutional Markets & Services, which focuses on debt, risk management and investment products for corporate and institutional customers. The new structure will take effect during the 2005 year.

Our retail bank brands are the National Australia Bank (Australia), Bank of New Zealand (New Zealand), Yorkshire Bank, Clydesdale Bank (United Kingdom), Northern Bank (Northern Ireland) and National Irish Bank (Republic of Ireland).

Our Corporate Principles

Our Corporate Principles have been developed to create and deliver consistently superior value to our:

- Shareholders
- Customers
- Employees
- Communities

Our core beliefs and values are based on the following principles:

- We will be open and honest
- We take ownership and hold ourselves accountable (for all of our actions)
- We expect teamwork and collaboration across our organisation for the benefit of all stakeholders
- We treat everyone with fairness and respect
- We value speed, simplicity and efficient execution of our promises

And we do not have room for people who do not live our principles.

Performance Overview

Serving Our Customers

The facts

As at June 30, 2004, customer and financial adviser numbers were:

■ Number of customers, globally	10,799,297
■ Number of small business customers, globally	765,701
■ Number of salaried financial advisers, globally	740

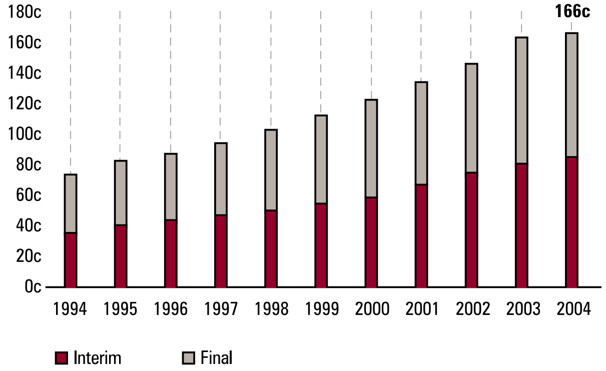
Global Teller, a web-based, customer-centric technology solution, was successfully rolled out in New Zealand, as the initial part of a Group-wide project. Global Teller gives branch staff better customer service capability, as it provides tellers with a customer's full suite of account details. Its roll out in the United Kingdom is currently being planned.

Performance Overview

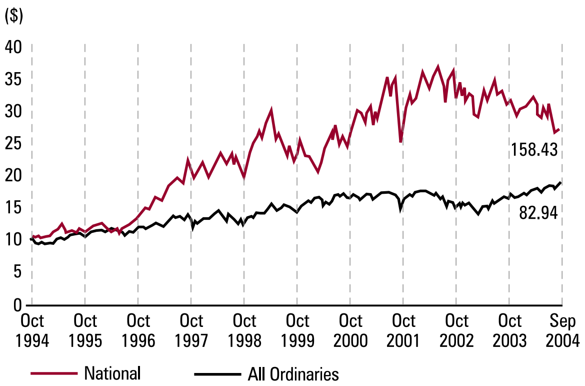
Net profit*	down 19.7% to $3,177 million
Cash earnings (before significant items)	down 15% to $3,461 million
Return on equity (before significant items)	15.8%, down from 18.3%
Diluted earnings per share (before significant items)	down from 244 cents to 220 cents

*Attributable to members of the Company after significant items.

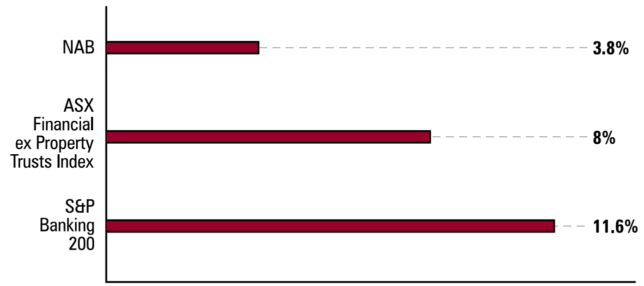
Dividend History



Share Price Performance



Total Shareholder Return (3 year annualised return)#



#Annualised, September 2001 to September 2004, except for ASX Financial, which is for October 2001 to September 2004. Total shareholder return measures the growth in the value of the investment in shares, assuming reinvestment of dividends. The calculation does not take into account tax on returns nor franking credits.

Transforming the National

Leadership
Following the appointment in February 2004 of a new Managing Director and Chief Executive Officer for the Group, John Stewart, and a new Chairman, Graham Kraehe, the National underwent substantial changes at the Board and executive level.

The Board has undergone significant transformation during the past year, following the commitment of the Chairman for fundamental Board renewal in the wake of the foreign currency options trading losses incurred by the National. By the end of December 2004, six new, non-executive Directors and two additional executive Directors will have joined the Board, with another six Directors retiring or resigning during the year. The Board now has an extensive balance of skills and experience, with diversity across industries, geographies, backgrounds and cultures. For details of the Board renewal program, see page 8 of this report.

Following the Board renewal, John Stewart announced a new Group Executive Committee that would lead the National's business and cultural transformation, in conjunction with the Board. Details of the new Group Executive Committee can be found on page 24.

Culture
We introduced our new Corporate Principles to ensure we create and deliver consistently superior value to our customers, shareholders, employees and the communities in which we operate. The new Corporate Principles are underpinned by behaviours that explicitly state what is required to work for the National, and will be standards by which our leaders and upper levels of management will be judged. An overview of the Corporate Principles can be found on page 1 of this report.

Corporate Social Responsibility
This year, the National is producing an externally audited, stand-alone Corporate Social Responsibility Report, benchmarking our economic, social and environmental performance against the Global Reporting Initiative (the global standard for non-financial performance indicators). This is the first time the National has produced such a report, which is available online from December 2004 at www.nabgroup.com For more information on the report, see page 12.

Our Retail Network (as at September 30, 2004)

	Australia	New Zealand	United Kingdom and Ireland#	Total
Number of branches	787	178	614	**1,579**
Other outlets*	433	14	192	**639**
Number of ATMs**/ADMs (automated deposit machines)	1,570	405	1,180	**3,155**
Post office outlets	3,026	-	***	**3,026**
Internet banking	Yes	Yes	Yes	
Phone banking	Yes	Yes	Yes	

* *Includes Private Banking Suites and Business, Agribusiness and Financial Service Centres*
** *Includes non-National branded ATMs*
# *Includes Clydesdale Bank, Yorkshire Bank, National Irish Bank and Northern Bank*
*** *Banking services have been available at 16,000 Post Office outlets to Clydesdale Bank customers in Great Britain since October 1, 2004*

Chairman's Message

This was a year of unprecedented issues and change for the National, triggered by the discovery of $360 million in foreign currency options losses in January 2004.

This led to the resignations of Chairman, Charles Allen, and Managing Director and Chief Executive Officer, Frank Cicutto. This was followed by a Board dispute between Directors over the independence of the investigation into the unauthorised trading.

PricewaterhouseCoopers (PwC) and the Australian Prudential Regulation Authority (APRA) reviewed the circumstances surrounding the unauthorised trading, and the outcomes of those investigations were published in full.

As a consequence, shortly after I was elected Chairman of the National, I made three promises to shareholders:

1. To be open and transparent,
2. To accelerate the renewal of the Board, and
3. Lead by example in creating an open culture in the organisation.

These promises were fundamentally important to building a new National and addressing issues raised by the foreign currency options matter.

Much was done to fulfil these promises.

Open and Transparent

Together with new Managing Director and Chief Executive Officer, John Stewart, I undertook a program of meetings with all our stakeholders to listen to their concerns.

From this, it became clear the National had not been open or transparent enough in the past.

To set a new standard for open and transparent behaviour, the PwC report on its investigation into the foreign currency options matter was provided to our regulators and released in full to shareholders.

This was accompanied by a media conference and briefing for share market analysts at which John Stewart and I presented the outcomes of the PwC investigation.

The appointment of legal firm Blake Dawson Waldron and accounting firm Deloitte ensured independence issues were properly managed.

The APRA report reached broadly the same conclusions as the PwC report. The National is committed to complying fully with all APRA remedial actions and subsequent enforceable undertakings agreed with the Australian Securities & Investments Commission (ASIC).

This disclosure and openness is indicative of the high level of accountability the Board intends to demonstrate and maintain.

Accelerate the renewal of the Board

Shareholders were justifiably upset about the foreign currency options losses and dispute between Directors that became the subject of public debate.

I sincerely regret the concern created and the associated damage to the National's reputation.

As part of the subsequent Board renewal process, Directors Kenneth Moss, Edward Tweddell and Catherine Walter resigned. Due to increased commitments, Dr Brian Clark also resigned.

There was a thorough and exhaustive process involved in selecting new members of the Board.

The addition of Michael Chaney as Chairman-elect and new non-executive Directors Robert Elstone, Danny Gilbert, Paul Rizzo, Jillian Segal and Malcolm Williamson create a Board with a blend of financial services experience from Australia and the United Kingdom. It includes Directors with experience beyond the financial services sector.

Ahmed Fahour, CEO Australia, and Michael Ullmer, Chief Financial Officer, joined John Stewart as executive Directors. This will assist the relationship between Board and management.

The Board has strong credentials to lead our cultural change program and relate well to our stakeholders. We are fortunate to have people with such valuable experience to lead the building of the new National.

I have received a great deal of positive feedback from shareholders about the appointments and Board renewal program.

The Board will be participating in an externally facilitated workshop to agree on the ways in which Directors and the Board will show leadership in the cultural change program.

Chairman-elect, Michael Chaney, plans to retire as CEO of Wesfarmers in July 2005. I look forward to working with him in the transition phase prior to him assuming the Chairmanship in September 2005.

Leading by example to create an open culture

The PwC and APRA reports highlighted the need for cultural change at the National and stressed the need for Board leadership and responsibility in this area.

The Board is working with the management team to lead the cultural change program. All employees have been issued with a Statement of Corporate Principles, and the Board will lead by example in demonstrating these Principles.

The Principles have been supported by an employee awareness campaign and will also be incorporated into performance criteria.

Management committees have been reviewed as part of our review of corporate governance to ensure open and transparent reporting to the Board.

The way forward

I am pleased with the outcome of the Board renewal program. The level of disclosure and the culture change initiatives provide tangible evidence that we are delivering on the undertakings I first made as Chairman.

The Board is determined to lead the culture change program and work together with the Group Executive Committee to build the new National.

I would like to thank my colleagues on the Board, Managing Director and Chief Executive Officer, John Stewart, employees, shareholders, customers and the communities in which we operate for their support in the last 12 months.

Graham J Kraehe
Chairman

CEO's Message

Soon after I became CEO in February 2004, I started to build a new National that would meet the expectations of all stakeholders – employees, shareholders, customers and the communities in which we operate. I did not realise how challenging that would prove to be.

The $360 million in foreign currency options losses released years of pent up anger amongst our stakeholders about the write downs of the HomeSide business in the United States, our poor share price performance and our weak relationship with our communities.

The Board and Group Executive Committee quickly recognised that there were more broadly based issues for the National to address than just fixing our currency options trading systems.

Many things that happened this year as well as the poor overall performance of the Group must concern shareholders. We are also disappointed by what occurred.

I believe in a simple philosophy: Happy staff and communities create happy customers, which in turn means happy shareholders.

During the year I met with about 4,000 staff at specially organised functions, chatted with customers and met with shareholders on various occasions.

This provided me with constructive and thoughtful feedback. I was encouraged by the goodwill expressed toward the National.

But it was clear that we had fundamental issues that needed to be tackled.

The causes of our long-term under-performance falls into four areas:

1. Too bureaucratic and cumbersome

Our business structure was complex and we tended to over-engineer the way we did things. Management lacked ownership and accountability for costs.

This resulted in a high cost structure and poor project management. Some of the write-downs this year reflect this situation.

2. Inward-looking and not customer-focused

The National was operating in silos and there was a lack of divisional cooperation. The customer

segment approach reduced the focus on providing competitively priced products. Lending processes became progressively more complex.

The outcome of this was poor cross-sell performance, customer churn and attrition, and lower margins.

3. A weak compliance framework

The foreign currency options trading losses showed that our people did not have sufficient awareness of our policies, and in some cases policies and procedures were not well developed.

There were processes for monitoring compliance but these were complex and did not allow issues of substance to be identified and escalated.

Individual responsibilities were not clearly defined, especially with regard to managing the consequences of compliance breaches.

The foreign currency options trading losses is one of several examples that demonstrate this problem. Others include the HomeSide losses, the MLC unit pricing compensation, and the High Court Inspectors Investigation into National Irish Bank. These are all symptoms of a weak compliance framework.

The cost of this weakness in our compliance framework is high remediation costs and lost opportunity as management focus has been diverted to rectifying these problems.

4. Major gaps in our cultural fabric

While the National had an agreed set of values, people were not held accountable and values were not reflected in the way people were assessed. Culture change programs were voluntary and there was a lack of visible and consistent leadership in this area.

This led to a focus on achieving short-term profits without regard to the way in which this was done, and low levels of employee engagement.

Our Strategy

We have started to address all these problems.

We are stripping out complexity, improving the focus on project management and streamlining our corporate centre.

Eliminating business silos has increased customer focus. In Australia we have merged the retail bank, Wealth Management and elements of Corporate & Institutional Banking. In the United Kingdom we are implementing the legal entity merger of our Clydesdale and Yorkshire banks.

The work done in conjunction with PricewaterhouseCoopers, the Australian Prudential Regulation Authority (APRA) and the Australian Securities & Investments Commission (ASIC) in relation to the foreign currency options losses has provided a valuable review process for our compliance framework.

A new Board and executive team is committed to leading culture change by example. A new set of Corporate Principles has been developed and sent to every employee.

Our overall goals have to be speed to market, sustainable growth and customer focus.

There is no instant cure. Time is required to allow the work to be done.

I would like to thank all employees for working so hard to deliver what our customers expect and deserve, and thank our shareholders and customers for their support during a difficult year.

I intend to continue listening to all our stakeholders.

The reputation of the new National will be carried on the voices of all our stakeholders.

John M Stewart
Managing Director and Chief Executive Officer

the Board of Directors

The Board has undergone significant transformation during the past year.

Mr Graham J Kraehe
Chairman

Mr John M Stewart
Managing Director and Chief Executive Officer

Mr Peter JB Duncan
Non-Executive Director

Mr Robert G Elstone
Non-Executive Director

Mr Ahmed Fahour
Executive Director and Chief Executive Officer, Australia

In February 2004, the then Chairman, Charles Allen, and Managing Director and Chief Executive Officer, Frank Cicutto, resigned from the organisation. Following this, John Stewart, who was at that time head of the National's European operations and an executive Director on the Board, was appointed Managing Director and Chief Executive Officer. Graham Kraehe, an existing independent non-executive Director, was appointed Chairman.

Following the release of reports in March 2004 by the Australian Prudential Regulation Authority (APRA) and PricewaterhouseCoopers (PwC) into unauthorised foreign currency options trading, the Chairman and Directors committed to fundamental Board renewal. In April 2004, the Chairman announced a program to revitalise the Board and help drive cultural change within the organisation.

Since then, the Chairman announced several appointments to the Board, including:

- Malcolm Williamson, appointed non-executive Director from May 2004
- Paul Rizzo, appointed non-executive Director from September 2004
- Robert Elstone, appointed non-executive Director from September 2004
- Jillian Segal, appointed non-executive Director from September 2004
- Daniel Gilbert, appointed non-executive Director from September 2004
- Ahmed Fahour, appointed Chief Executive Officer, Australia from September 2004 and an executive Director from October 2004
- Michael Ullmer, appointed Chief Financial Officer from September 2004 and an executive Director from October 2004
- Michael Chaney, to be appointed a non-executive Director during December 2004 (and assuming the role of Chairman, September 2005)

Other Board members who resigned or retired from the Board during the year were Catherine Walter (May 2004), Kenneth Moss (August 2004), Edward Tweddell (August 2004) and Brian Clark (August 2004).

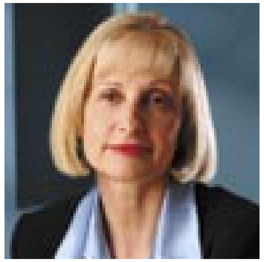
The new Board has a strong diversity of experience across different industries and geographies. It has increased financial services, risk management, regulatory and not-for-profit expertise, and brings a fresh perspective to the National.

Mr Michael Chaney
Non-Executive Director from December 2004

Chairman from September 2005

Mr Daniel T Gilbert
Non-Executive Director

Mr Paul J Rizzo
Non-Executive Director



Ms Jillian S Segal
Non-Executive Director

Mr John G Thorn
Non-Executive Director

Mr Geoffrey A Tomlinson
Non-Executive Director

Mr Michael J Ullmer
Executive Director and Chief Financial Officer

Mr G Malcolm Williamson
Non-Executive Director

Mr Graham J Kraehe

- Non-executive Director since 1997
- Chairman since February 2004

Mr Kraehe brings to the Board almost 40 years' experience in international, diversified industries, including leadership roles at Pacifica Limited and Southcorp Limited. He has extensive Board experience, and is also the Chairman of BlueScope Steel Limited.

Mr John M Stewart

- Executive Director of the National since August 2003
- Managing Director and Chief Executive Officer since February 2004

Mr Stewart brings international banking and finance experience to the Board, having spent 26 years in the United Kingdom banking industry, including leadership positions at Woolwich plc and Barclays plc.

Mr Peter J B Duncan

- Non-executive Director since 2001

Mr Duncan adds vast international experience to the Board, having spent 36 years with Royal Dutch/Shell Group of companies in Australia, New Zealand, South America, Europe and South East Asia.

Mr Robert G Elstone

- Non-executive Director since September 2004

As Managing Director of SFE Corporation Ltd, the holding company of Sydney Futures Exchange Ltd, Mr Elstone has experience in the oversight of derivatives trading and risk management, public policy and regulatory issues.

Mr Ahmed Fahour

- Chief Executive Officer, Australia since September 2004
- Executive Director since October 2004

Mr Fahour brings experience in international economics and financial services, including corporate and investment banking, consumer banking and investment management, predominantly with Boston Consulting Group and Citigroup.

Mr Daniel T Gilbert

- Non-executive Director since September 2004

Mr Gilbert represents an important customer group for the National – small and medium businesses – having co-founded Gilbert + Tobin, a successful Australian law firm. He also brings not-for-profit experience to the Board, through extensive work in social justice issues and the arts.

Mr Paul J Rizzo

- Non-executive Director since September 2004

Mr Rizzo's broad financial management experience and skills, together with a background in banking, adds valuable financial services capabilities to the Board.

Ms Jillian S Segal

- Non-executive Director since September 2004

Ms Segal brings legal and regulatory knowledge to the Board, as a former Commissioner of the Australian Securities & Investments Commission and as a current Director of Australian Stock Exchange Limited.

Mr John G Thorn

- Non-executive Director since October 2003

With almost 40 years' experience at PricewaterhouseCoopers (PwC), Mr Thorn brings insights in professional services and auditing, having been a member of PwC's Global Audit Management Group.

Mr Geoffrey A Tomlinson

- Non-executive Director since 2000

Mr Tomlinson spent almost 30 years with the National Mutual Group (including six years as Group Managing Director and Chief Executive Officer), bringing valuable financial services industry experience to the Board.

Mr Michael J Ullmer

- Chief Financial Officer since September 2004
- Executive Director since October 2004

Mr Ullmer brings more than 30 years' experience in financial, banking and risk management to the Board. As a former partner with Coopers & Lybrand and KPMG, he also contributes significant auditing and financial advisory expertise.

Mr G Malcolm Williamson

- Non-executive Director since May 2004

Mr Williamson brings to the Board extensive international experience in the financial arena as a former Chief Executive Officer of Visa International and having had senior leadership positions across a number of other financial services businesses.

Mr Michael Chaney

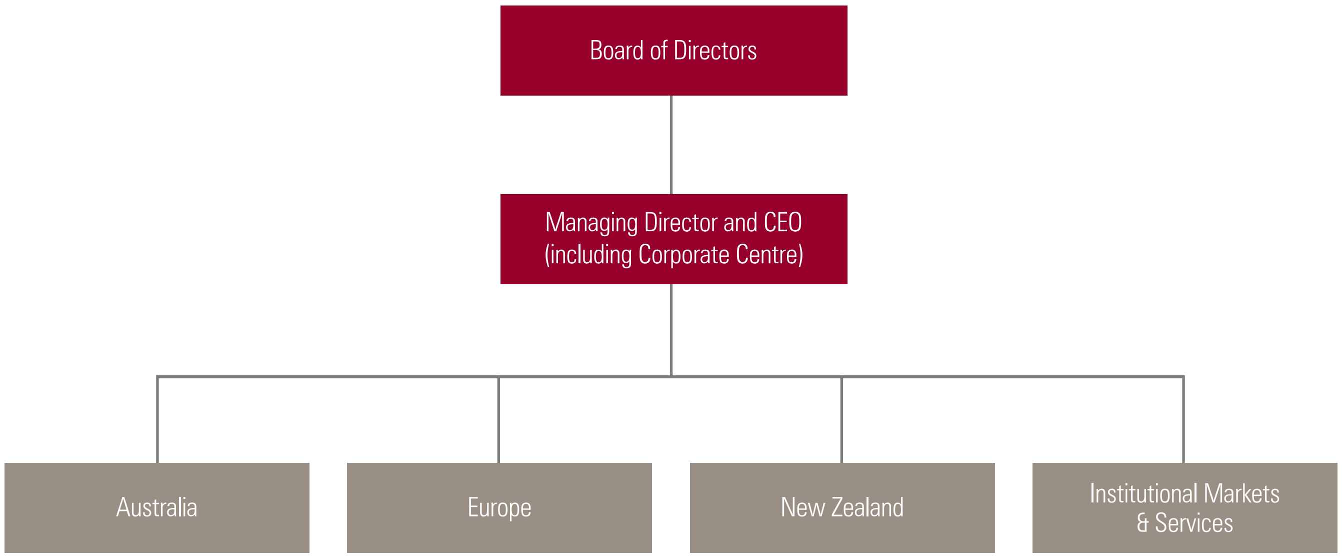
- Proposed non-executive Director from December 2004
- Proposed Chairman from September 2005

Mr Chaney is a highly respected business leader, with substantial experience in finance and other industries. He is the Managing Director and Chief Executive Officer of Wesfarmers Limited until his planned retirement in July 2005.

Further details of Directors' qualifications and experience are available in the Report of the Directors on page 42.

Overview of the National

On August 11, 2004, the National announced it would be moving away from a divisional model to a regional business model. This will enable us to improve integration across divisions and build a more customer-focused organisation. This new model will take effect for the 2005 year.



Australia

Incorporates:
- Retail Banking
- Business Banking
- Wealth Management
- Corporate Banking
- Transactional Solutions
- Custody Services
- Asia

Europe

Incorporates:
- Clydesdale Bank, Northern Bank, Yorkshire Bank, and National Irish Bank
- Wealth Management
- Corporate Banking

New Zealand

Incorporates:
- Bank of New Zealand
- Wealth Management
- Corporate Banking
- Custody Services

Institutional Markets & Services

Incorporates:
- Markets
- Portfolio Management and Syndications
- Credit Products
- Structured Products
- Financial Institutions
- Services
- New York branch

In 2005 the National will be organised around three regional businesses: Australia, Europe and New Zealand. In addition, Institutional Markets & Services is a global line of business, and there are also streamlined corporate centre functions and cross-regional business operations.

Corporate Centre

The global corporate centre includes streamlined functions that support all the regional businesses, including Technology, People & Culture, Finance and Risk Management, Major Projects, Corporate Strategy, and Corporate Affairs.

Australia

The Australian division incorporates retail and business banking (Financial Services Australia), Wealth Management, Australian corporate banking services, Transactional Solutions, Custody Services and Asia.

Europe

In Europe, the National's operations consist of its four United Kingdom and Irish banks (Clydesdale Bank, Yorkshire Bank, National Irish Bank and Northern Bank) and also wealth management services.

New Zealand

Bank of New Zealand incorporates retail and corporate banking, as well as Custody Services. It is proposed that the New Zealand division will also be responsible for providing wealth management products and services.

Institutional Markets & Services

The former Corporate & Institutional Banking, which will be known as Institutional Markets & Services, is a global line of business covering all the National's regions. It incorporates Markets, Portfolio Management and Syndications, Credit Products, Structured Products, Financial Institutions, Services and the New York branch.

People, Leadership and Culture

This year was a major turning point for the National's people, leadership and culture. Public debate and media coverage around the National's culture was high, particularly in the context of the unauthorised foreign currency options trading.

This led to major changes at executive management and Board level, which created an environment in which our emphasis has been on getting the right people in the right jobs and nurturing a culture that focuses on the way things are done – not just the end result.

Our first step was to develop a framework within which all parts of the National will work – our Corporate Principles. These Principles are underpinned by behaviours that explicitly state what is required when working for the National.

We sent a clear message to our people that we reward on both results and behaviours. We broadened the Group Executive Committee performance plans to reflect key aspects of our business performance: employees, customers and community, financials and process quality and capability leverage.

Janette Azzopardi (front), Giovani Cugnetto (seated, rear) and Nadia Montalto (standing), assisting customers at the National's King Street call centre, Melbourne.

"Our goal is having all our people doing things in the right way for our customers."

Elizabeth Hunter EGM People & Culture

All performance plans for upper level management will have the same format and include behaviour and compliance requirements. If either behaviour or compliance is rated unsatisfactory, the individual will lose any potential variable reward, and the performance rating of that person's manager may also be downgraded. This is supported by the global reward strategy that ensures fair and consistent rewards to reinforce the Corporate Principles.

We continued our work to strengthen relationships between managers and direct reports, encouraging more open and honest conversations. Activities included coaching and skill-building around role clarity, setting objectives, regular feedback, linking performance to pay, and realising people's potential through development.

Recognising that senior leaders are the catalysts for change and need to role-model the newly defined behaviours, we concentrated on building leadership capability, recruiting exceptional senior executives and Board members, while continuing to develop internal capabilities.

Building on the success of past leadership programs, we launched a program for first time leaders, 'Leadership Essentials', and an online Masters of Business Leadership with Charles Sturt University. We evaluated and tracked the performance of upper level management against their peers and have taken innovative approaches to developing global leaders.

We asked those not in customer-facing roles to question "What value have I added to the end customer?" each day, and made a concerted effort across the National to concentrate activities around helping our people deliver to customers.

Our workplace relations remained strong and we continued to give our people a voice through union representation and face-to-face forums and feedback lines.

We hosted a global conference of financial services unions – the first of its kind. The outcome of this was a set of principles – "National Australia Group and Global Unions Engagement Strategy". These highlight the strength of our union relationships and the commitment by both parties to a constructive and consultative process.

While there is still some way to go, we have put in place the framework to make the National the company we all wish to work for. Put simply, we believe that if our people are happy, then our customers will be too, which will ultimately reward shareholders.

Corporate Social Responsibility

In 2004 we experienced many challenges that have had a significant effect on our business. Our response has been far reaching, with changes to the Board and management team, and a renewed focus on corporate culture.

Honesty and accountability are fundamental to building trusted stakeholder relationships. Measurement of our corporate social responsibility (CSR) performance is in line with our objective to increase and reward transparency and accountability.

The 2003 Concise Annual Report included our first Stakeholder Scorecard that discussed our performance on key non-financial indicators. This year, we are publishing our first stand-alone CSR Report that is aligned with the Global Reporting Initiative, the global standard for reporting non-financial data. The report has been externally audited.

This section only provides a brief overview of our 2004 CSR priorities while our CSR Report contains a detailed discussion of our broader non-financial performance. It is available on www.nabgroup.com, or by contacting Shareholder Services on 1300 367 647 (Australia only) or +61 3 9415 4299.

Sales and Service Adviser Antonio Ortin with customer, Samantha Burns.

Regulatory relationships

Following the issues the National faced during the year, we have committed to improving the way we communicate and work with all our regulators.

We understand the importance of working with regulators in a trusted and transparent manner. To get the best outcome for the National and its shareholders, we take a "no surprises" approach to dealing with regulatory and regulator issues. This approach has been reinforced through the launch of our Corporate Principles, which include a commitment to deal with all our stakeholders openly, and to take accountability for all our actions. (A full outline of the Corporate Principles can be found on page 1 of this report.)

Governance

Our CSR Global Council consists of executives and management across the Group and is responsible for setting CSR strategy, priorities and policies. It reports to the Group Executive Committee and Board. A regional council in Australia and the leadership teams in New Zealand and Europe lead delivery of our regional priorities.

This structure is supported by Technical Advisory Committees (TACs) that examine specific business and operational issues. The TAC achievements in 2004 included:

- developing and rolling out an environment management system and environmental procurement statement consistent with ISO 14001 (environment)
- examining existing ethical and values processes and informing the development of globally aligned Corporate Principles and behaviours (business ethics)
- examining compliance with the OECD Guidelines for Multinational Enterprises (assessment of global standards)

“Trusted relationships with our stakeholders – customers, regulators, shareholders, employees and the community – are the litmus test for measuring our sustainable success.”

John Stewart **Managing Director and Chief Executive Officer**

The design of the new Australian headquarters at Docklands, Melbourne, encourages openness and teamwork.

Each business also facilitates ongoing stakeholder communication relevant to the communities in which they operate.

Customers

Delivering superior value to customers needs to be top of mind in everything we do, and building a trusted relationship with them is paramount to our business success.

Monitoring customer satisfaction and complaints is critical to understanding our customers’ needs. Our goal is to ensure that information on our products and services is presented in language that is clear and easy to understand. We provide access to financial services to many disadvantaged sectors of the community, including low and vulnerable income groups, people with special access needs and those who live in remote communities.

People

Our people are the key to delivering quality customer service, so we are committed to providing workplace training, guidance and support. We have flexible work practices and a range of health and well-being initiatives to support our workforce.

We encourage and facilitate employee feedback via Employee Opinion Surveys and develop ongoing initiatives to provide, and get a response to, employee feedback.

Community

In recognising the link between economic success and social prosperity, we continued to use our knowledge and resources to strengthen communities.

We have a long tradition of supporting a wide variety of social programs that empower those who are financially disadvantaged or marginalised and provide support through employee volunteer programs that are important to our stakeholders.

Environment

As a global financial institution, we consider the direct and indirect environmental impacts of our decisions. Our policy commitment to the environment can be found in the Corporate Social Responsibility section of www.nabgroup.com

In 2004, we benchmarked our environmental credit risk policies against World Bank and the International Finance Corporation (IFC) Safeguard Policies and found that our risk assessment policies and procedures were comparable to this standard.

International collaboration

To deliver sustainable business solutions that have a positive impact on the environment and society, we collaborate with our global peers. We are:

- a signatory to the United Nations Environment Program for Financial Institutions (UNEP Fi);
- a subscriber to the Global Reporting Initiative (GRI), the United Nations-sponsored body that develops indicators for corporate social responsibility reporting;
- a member of the global GRI/UNEP Fi Working Group, developing environment indicators for the finance sector; and
- a member of the ‘VfU Revision’ working group, which is a group of seven international banks that are working together to develop the global best practice management toolkit and benchmark for direct impacts of finance institutions.

Australia

Financial Services Australia

This year provided challenges for the business, as we experienced some negative impact on the National's brand and reputation following the unauthorised trading in foreign currency options and related issues.

Our share of home loan lending declined, and there was also a decrease in the likelihood of non-National customers choosing the National when selecting a new financial institution. In January 2004, home lending policies were tightened in the face of a slowing property market. Our share of business banking also remained flat over the year.

To drive business growth and development, we focused on improving the customer experience.

Financial Services Australia recorded a net profit# of $1,868 million, which was flat against the previous year.

Customer focus

Despite the issues we faced in business banking, we are a leading supplier of business banking services to the small and medium enterprise market* and to the agribusiness market**.

Business lending volumes increased by 8.8%, with agribusiness lending volumes increasing by 12.8% over the 12 month period.

Anita Petty helps a customer at one of the National's Melbourne CBD branches.

In the 2003 year, changes were made to our relationship platform in our business banking unit. These changes were not well received by customers and we undertook a review of this operating platform. We consequently made modifications to the way we interact with customers and these changes are expected to be in place by early 2005. In our personal banking unit, we pro-actively contacted home loan and deposit customers, generating significant sales opportunities.

We also reached a major milestone during the year, recording more than $100 billion in finance lending for households.

We are reviewing processes and implementing new systems to improve customer service. We completed the rollout of our electronic business lending capability across Australia, which is a time-saving electronic alternative to manual business lending processes.

We reviewed and improved branch and credit processes for frontline staff so they could spend less time on administration and more time serving customers.

A renewed focus on staff sales and service up-skilling was represented through continued investment in skills and compliance training.

“Rebuilding and strengthening the Australian business is the key priority.”

Ahmed Fahour **CEO Australia**

New products and services

We introduced a range of new products during the year:

- SMART accounts, offering flat fee transaction accounts. Available since July 2004, the accounts have grown at an average of more than 1,000 applications per day, with more than 74,700 accounts opened as at September 30 2004
- Two new credit cards, which operate on the American Express network, called the Ant Card with Rewards, providing our best rewards program, and the Ant Card with No Annual Fee
- An improved Farmers Choice Package, providing long-term interest-only finance

We ran a number of competitive marketing campaigns, improving rates for the National Cash Management Accelerator Account, which increased deposits by 15% over a five month period, personal loan campaigns, which saw a 15% lift in sales on the previous year, and a focus on farm management term deposits, which have grown 19% since May 2003.

Building on the success of last year’s Drought Breaker Forum for agribusiness clients, we held an Agri Trade forum, which attracted more than 1,500 customers across 60 locations. A similar event was held for business customers.

We also drove the production of an industry merchant fraud video, which was mailed to more than 10,000 customers and available online to help educate merchants on fraud prevention.

Improving accessibility

We continued to upgrade branches and build Integrated Financial Service Centres (IFSCs), refurbishing 50 branches and building a further 14 IFSCs across Australia. We also opened a Rural Transaction Centre at Quambatook in north-west Victoria.

As part of refurbishment works, ramps, automatic doors, lowered benches and ATMs are installed to assist customers with special needs. More than 630 audio-enabled automatic teller machines (ATMs) for vision impaired customers have been installed, with the remaining ATMs scheduled for completion by 2006.

Motivating staff and building community links

In March 2004, most of our head office staff started relocating to the Australian operations’ new headquarters at Docklands, Melbourne. The building was designed to facilitate teamwork, interaction and productivity, and increase employee motivation by providing an excellent working environment.

Our volunteering initiative of two days paid leave each year for staff to undertake voluntary work in the community continued to gain support, with more than 4,900 days in paid volunteer leave approved over the year.

\# *Net profit attributable to members of the Company before significant items.*

* *Sources: APRA Monthly Banking Statistics, September 2004 – Measured by share of business lending, bills (APRA definitions exclude bank held bills) and business deposits. TNS Business Finance Monitor, September 2004 – Measured by share of business lending and deposits over the 12 months to September 2004 of businesses with less than $100 million turnover.*

** *Source: TNS Business Finance Monitor, September 2004 – Measured by share of agribusiness lending and deposits over the 12 months to September 2004 of businesses with less than $100 million turnover.*

Vickie Ly (Service Specialist) serves a customer at the 330 Collins Street, Melbourne branch.

National Australia Bank

Australia
Wealth Management

Wealth Management's earnings have continued to show signs of recovery in 2004, following a difficult period.

Since 2001, our profits have been impacted by a downturn in investment markets and increased regulatory and compliance costs as a result of a number of regulatory change projects and a heightened focus on our compliance and risk management systems.

In addition, a matter involving unit pricing errors resulted in compensation payments to investors of approximately $68 million. (In 2002, we committed to compensate investors in a number of National Australia Financial Management Limited products that were adversely affected by October 30–31 2001 unit price reductions and two associated historical unit pricing errors. We have continued to work with the Australian Securities & Investments Commission and the Australian Prudential Regulation Authority on remedial actions to resolve this issue.)

In 2004, Wealth Management achieved a net profit* of $425 million, which represented a significant increase of $251 million above the previous year.

We are the largest provider of investment platforms in Australia, with $38,000 million on our MasterKey and MasterKey Custom platforms and 17% market share (*Plan for Life Australian Retail & Wholesale Investments Market Share and Dynamics Report*, June 2004).

We are a major provider of retail life insurance in Australia, with a 13.6% share of annual new individual risk business premiums and a 15.1% share of in force annual premiums (*DEXX&R Life Analysis*, June 2004).

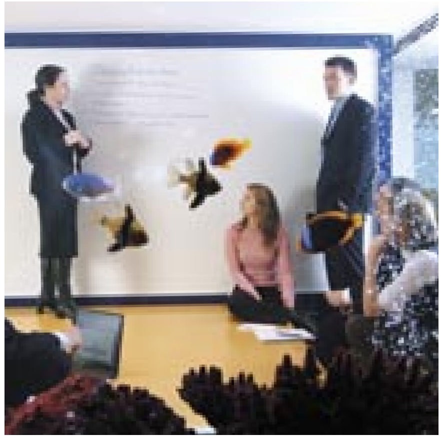
We retained our strong presence in Australian Corporate Superannuation, with 18.9% market share (*Plan for Life, Market Share and Dynamics Report*, June 2004).

During the year the Group acquired a strategic stake in AMP Limited prior to the demerger of its UK businesses. While this resulted in a 5.4% holding in AMP (when aggregated with the Group's existing holding through its wealth management operations), this was below the holding size we had sought. After AMP's demerger, the strategic value of the holding was reassessed and sold in January 2004.

Champion of quality advice

The launch of AdviserCentral to our Australian adviser network marked the next evolution in our delivery of quality advice. This integrated advice platform facilitates the delivery of investment, insurance and debt advice, while providing efficiencies in business processes, enabling advisers to spend more time with their clients.

We implemented a quality advice program in our National Australia Financial Planning business, lifting revenue and productivity and increasing monthly customer referral numbers substantially in 2004.



Staff at MLC's North Sydney office work in a relaxed, open environment.

Our salaried and self-employed, aligned advisers in Australia attained Advanced Diplomas of Financial Services. More than 40% are now accredited as Certified Financial Planners.

IFA Magazine's Best Practice of the Year Competition awarded first place to Haintz Financial Services, an independent practice with a strong relationship with MLC Woodbury Financial Services, which is licensed under our Garvan Financial Planning business, received second place.

Solutions that help deliver customers' lifestyle goals

In Australia, we launched a refreshed Self Managed Super Fund offer through our MasterKey Custom platform, providing a more comprehensive solution for higher net worth investors.

We made it easier for customers to access debt solutions through their financial adviser, with debt sales reaching $1,500 million in 2004.

In the Private Bank we launched a program to deliver premium service and advice for high net worth clients, focusing on customised solutions and flexible relationships.

We simplified our Wealth Protection processes, making insurance more accessible to National customers. This included the development of MasterKey Protection Essentials, a protection offer with a simplified application process, integrated into our investment superannuation platform.

Our UK operations launched the MLC Personal Pension Plan to external financial advisers, extending access to our multi-manager investment process in that market.

An experience that matches the promise

MLC was awarded Insurance Company of the Year for the third year running by *Personal Investor Magazine* Awards for Excellence in Financial Services. MLC was also named Life Insurance Company of the Year at the Australia and New Zealand Insurance Industry Awards by the *Asia Insurance Review* and Best Life Insurance Company at the Australian Banking & Finance Awards.

Long-term shareholder value

In providing outsourced corporate superannuation solutions to corporate customers, Implemented Consulting, JANA, Plum and MasterKey Business Super (all part of our Corporate Solutions team) experienced strong growth. JANA was appointed to provide investment advice to First State Super (NSW) and NRMA Motoring & Services during the year.

We completed the sale of our UK life insurance subsidiary, National Australia Life Company Limited, in order to focus on customer relationship management and distribution, rather than product manufacture.

We also formed a strategic alliance with AXA to offer commercial insurance to business customers of the National's UK banks.

In Asia, China represents a new wealth management market for us, and we opened a representative office in Beijing to test the market and scope opportunities.

* *Net profit attributable to members of the Company before significant items.*

MLC

A National Company

"Wealth Management is focused on providing funds, platforms and services that support the provision of quality financial advice, and help people realise and protect their lifestyle goals."

Steve Tucker **Head of MLC Australia**

Errol Woodbury, principal of Woodbury Financial Services, which is licensed under our Garvan Financial Planning business, helps a client fulfil her financial needs.

Europe

Financial Services Europe

Financial Services Europe's 2004 results reflect the challenges we are facing: customer attrition, pressure on margins and the management of expenses.

We have looked at a range of ways to address these issues, including, in the past, reviewing potential acquisitions, examining potential sale opportunities for the Irish businesses (ongoing at the time of this report's publication) and refocusing our strategy around initiatives to improve the growth, efficiency and quality of the European businesses. We have concentrated on building stronger relationships with customers and sustainable value in our businesses.

Financial Services Europe achieved a net profit* of $536 million, which was 35.8% lower than the previous year.

Growth

Growth initiatives have concentrated on rebuilding our brands, improving sales effectiveness and expanding our distribution into the south east of England.

We have established a network of strategically located Financial Solutions Centres, offering integrated business and private banking services. By the end of September 2004, eight centres had been opened with further expansion planned in 2005.

In September 2004, we announced that Clydesdale Bank had entered into an alliance with the Post Office that allows customers to conduct transactional banking at any of the 16,000 Post Offices in the UK. This took effect from October 2004, and will greatly assist the Financial Solutions Centre network as it allows business customers to deal with their day-to-day banking needs locally.

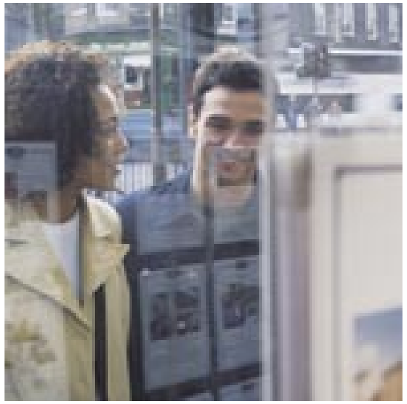
An important aspect of the alliance is the benefit it brings to customers in Scotland, particularly those in rural communities, where there are fewer branches. The alliance with the Post Office will be reviewed before we consider expanding it to include Yorkshire or Northern Banks.

We also entered the intermediary market, selling Clydesdale Bank mortgage products through a range of key broker partners. This provides an opportunity to acquire additional customers who will be offered relationship-managed banking through our Financial Solutions Centres.

In February 2004 we launched a new branding program designed to instil key values – trust, expertise, approachability and empowerment – into every aspect of the customer experience. This included new television commercials shown across Scotland, England and Northern Ireland.

Efficiency

Our efficiency program is focused primarily on improving manufacturing productivity and the standardisation of processes and business operating models. A key initiative was the pilot of



Top: Our integrated Financial Solutions Centre in Reading, England.
Bottom: An image from our new advertising program to instil key brand values with our customers.

a new branch model, which introduced new sales and service structures and further centralised administrative and processing functions to allow staff to focus on customers. This is supported by other initiatives, such as the standardisation and optimisation of employee roles, and improvements to channels such as internet banking, call centres and automatic teller machines.

We made progress in our program to rationalise and enhance products to a single product set supporting multiple brands and distribution channels. We released new current account and offset mortgage products, which will be rolled out further in the UK and Ireland during 2005. We are also rationalising suppliers to deliver better purchasing power, and undertaking a legal entity merger of Clydesdale and Yorkshire Banks in December 2004. This is to simplify structures and reduce associated corporate and support infrastructure costs, with both Clydesdale and Yorkshire brands to remain.

Assisting a customer at Clydesdale Bank.

"We are focused on working more efficiently and being more customer-centred. There is some way to go, but our journey has begun."

Lynne Peacock **Chief Executive Officer, Europe**

Quality

We are aiming to ensure that whatever we do reflects the philosophy that we are a quality business.

The upgrading of our front-end systems to meet the requirements of incoming mortgage regulations will deliver an improved platform for our branch staff and customers. A great deal of work has also been done on developing our talent and leadership quality, while several initiatives, such as the introduction of long-service awards and more flexible working conditions, are supporting our efforts to attract and retain quality staff.

In July 2004 the High Court Inspectors' Report into National Irish Bank was published. The National had been working for more than six years to deal with the issues in the Report, cooperate with the investigation, develop reimbursement schemes and implement a wide-ranging compliance program.

While the work to complete the reimbursement schemes will continue into 2005, the National responded to the issues with integrity and now has a solid foundation from which to meet the needs of customers and satisfy regulators.

Investing in our communities

We continued a long tradition of investing in our communities in the UK and Ireland, coordinating the efforts across our four banks with a focus on financial literacy and youth projects. We launched a national staff grants scheme to recognise and support staff who volunteer their time in their communities.

** Net profit attributable to members of the Company before significant items.*

Clydesdale Bank
Tailored Financial Solutions

National Irish Bank
Tailored Financial Solutions.

Northern
Tailored financial solutions

Yorkshire Bank
Tailored Financial Solutions

New Zealand

Financial Services New Zealand

2004 was characterised by major investment by Bank of New Zealand in products and services and in our retail network.

Bank of New Zealand Whakatane Branch manager Sally Anderson.

Bank of New Zealand[#] is facing increasingly tougher market conditions, characterised by a slow down in the New Zealand economy and a tightening of competition. Partly in response to these conditions, 2004 was characterised by major investment by Bank of New Zealand in products and services and in our retail network.

Financial Services New Zealand's (FSNZ) net profit* was $328 million, an increase of 5.8% on the previous year.

Improving products and services

In March 2004 we launched Smart Money, a low-cost account specifically designed for under 30-year-olds. Together with major improvements we made to Campus Pack, our product aimed at tertiary students, Smart Money seeks to strengthen our position in the youth market over the long term. Smart Money accounts have been opened at the rate of approximately 900 per week[**] from March to September 2004.

In the highly competitive home loan market, we steadily increased our market share, reaching 15.6% of the market in September 2004 (source: Reserve Bank of New Zealand housing system data, September 2004).

While we have continued to perform strongly in most areas of the business market, our share of the small and medium-sized enterprise (SME) market has fallen steadily since 2001. Moreover, this fall in market share has occurred while the number of SMEs in New Zealand has been growing. In late 2004, we piloted a project in Auckland and the South Island to improve in-branch services provided to SMEs. In 2005, we plan to launch a credit card aimed specifically at SME customers, and improvements to accounts are under consideration.

We also launched our internet banking product for SMEs. The product has been designed to meet the specific needs of the SME market, including multiple levels of account access and authorisation, payroll facilities, electronic payments to Inland Revenue, and the ability to download transaction details to accounting packages.

"Bank of New Zealand aims to increasingly set the standard for quality service in retail banking."

Peter Thodey **Managing Director, Bank of New Zealand**

Investing in technology to improve responsiveness to customers
A $25 million investment in new state-of-the-art teller technology, which has been installed in more than 170 branches, extends the range of transactions that can be conducted in branches and improves service times. For employees, the new system is considerably easier to use than the one it replaced.

Our automatic teller machine network was upgraded during the year to lower the average time for a transaction and to make them easier to use.

Improving the customer experience
One of our most successful initiatives in 2004 has been the reintroduction of branch managers to the retail network.

During the 1990s, New Zealand banks centralised responsibility for sales with technical specialists, like mobile mortgage managers, and at the same time introduced new channels, such as internet banking. Over this period the role of branch managers was phased out.

We have recognised the important role of branch managers in ensuring the quality of service delivered in branches and in acting as senior representatives of the bank in the communities we serve. More than 160 branch managers have been appointed to branches during the year, with a brief to continue the improvement in service performance and to lead staff in raising our local profile. Customer response to this initiative has been overwhelmingly positive.

Recognition of improving performance
We have made a concerted effort to raise the standard for service in banking in New Zealand.

During the year, the ACNielsen Consumer Finance Monitor found Bank of New Zealand to be the most improved bank when customers were asked about the quality of overall service from their main bank (source: ACNielsen Consumer Finance Monitor, September 2004).

 # Bank of New Zealand brand is the face of the National's operations in New Zealand. It provides personal, business and agribusiness financial solutions for the National's New Zealand-based customers.
** Net profit attributable to members of the Company before significant items.*
*** Includes existing customers shifting to Smart Money from other products.*

Top: Anna, baby Jack and Dean Bailey with BNZ Agribusiness Manager Greg Blackwood on their Moutoa farm.
Bottom: BNZ Bloodstock Manager Keith Lunn (right) with client Rick Williams at The Oaks Stud.

Bank of New Zealand

Global

Institutional Markets & Services

In August 2004, we announced that the former Corporate & Institutional Banking division would be divided into global and regional divisions.

In the 2005 year, the global business will be known as Institutional Markets & Services (IMS), incorporating Markets, Portfolio Management & Syndications, Credit Products, Structured Products, Financial Institutions, Services and the New York branch. The Corporate Banking, Transactional Solutions and Custody Services will be incorporated into the regional divisions of the Group (with Asia reporting into the Australian region). This will enable us to better service the needs of our corporate customers, ensuring corporate banking is integrated with our other regional operations, while providing specialist institutional services globally.

For the 2004 Concise Annual Report, reporting is based on the former Corporate & Institutional Banking business. During the year, the $360 million foreign currency options trading losses, subsequent regulatory investigations, and changes in leadership and structure all represented significant challenges.

The former Corporate & Institutional Banking division reported a net profit* of $618 million for 2004, 29.5% down on last year.

Risk management

Following the unauthorised foreign currency options trading, we commenced a significant enhancement of our risk management systems and procedures. We are addressing the remedial actions outlined by the Australian Prudential Regulation Authority (APRA) and the Australian Securities & Investments Commission (ASIC) enforceable undertakings, and we are working to produce a pro-active, positive risk management environment.

Serving our clients

Despite a difficult year for the business, in Australia we had significant transactional achievements, including project financing the Cathedral Rocks Wind Farm in South Australia, and becoming the exclusive provider of card acquiring services for BP Australia's retail sites.

International highlights included managing Auckland International Airport's bond transaction, acting as lead arranger in a kangaroo bond issue for a prominent Asian issuer, and building on strong banking relationships, including Robert Wiseman Dairies plc in Europe, who started business in 1948 with funding provided by the Group.

We also introduced several initiatives:

- Flexi Rate Asset Finance Facility (in Australia), providing clients with choices for managing their interest rate risk profile
- Capital guaranteed investment products (in Australia): the OM-IP series of investment products and the AMP Capital China Fund
- The New York branch established a public finance line of credit for states, counties, cities and their political sub-divisions to finance a variety of working capital and capital expenditure needs
- In Europe, Regional Corporate Banking was established to focus on the mid-market sector, working closely with the regional banks. A Structured Asset Finance team and an Asset Leveraged Finance team were also established

From left to right: Chris McKenzie, BP Australia; Richard Coath, BP Australia; Rod Doyle, Associate Director, Corporate Banking NAB; David Brianell, BP Australia.

“The new IMS division will better support our business objective to serve our clients, delivering and continuing to develop an internationally competitive range of products and services.”

John Hooper **EGM, Institutional Markets & Services**

- We launched commodity hedging solutions to the New Zealand business sector in response to increased commodities activity

Our custody business, National Custodian Services, is one of the largest custodians in Australia (measure: assets under custody and administration, source: Australian Custodial Services Association, June 2004).

Transactional Solutions expanded its Australian Client Sales and Service team to provide tailored solutions for clients, as well as investing in its technology and operational support functions. An extensive product development program and a Business Transformation Team were also established in response to increased client demand.

In July 2004, we announced the closure of our UK Custodian Services operations, transferring clients to The Bank of New York Company, Inc. (subject to client approval). The decision (which did not affect the Australian or New Zealand custody businesses) was based on increased price competition and ongoing market consolidation in the UK, which impacted the likelihood of continued profitability in that market.

Developing our people

Investment in our people and a focus on continuous development demonstrated our commitment to learning, with training initiatives offered in leadership, lending accreditation, international financial reporting standards, credit, technical trading strategies and diagnostic selling, among other programs.

Community contributions

IMS fundraising and volunteering during 2004 benefited a number of not-for-profit organisations, including the Leukaemia Foundation (Australia), Cystic Fibrosis Victoria (Australia), Cancer Council (Australia), Royal Children’s Hospital (Australia), Muscular Dystrophy Association (USA), Leukaemia & Lymphoma Society (USA) and the Barbican Centre’s 10th London Australian Film Festival (UK). In Australia, we also sponsored a dynamic training ‘dealing room’ at Monash University.

** Net profit attributable to members of the Company before significant items.*

Top: Robert Wiseman Dairies, UK corporate banking client.
Bottom: Markets Assistant Kelli Sanderson and Manager, Wealth Management Distribution, Markets, Paul Wegener, on the trading room floor in Melbourne.

the Group Executive Committee

The Group Executive Committee is responsible for leading the ongoing transformation of the National towards a more nimble and customer-focused organisation.

John Stewart
Managing Director and Chief Executive Officer

Ahmed Fahour
Chief Executive Officer, Australia

Michael Ullmer
Group Chief Financial Officer

Lynne Peacock
Chief Executive Officer, Europe

Ian MacDonald
Chief Information Officer

Cameron Clyne
Executive General Manager, Customer Solutions

Mike Hamar
Group Chief Risk Officer

Gordon Lefevre
Deputy Group Chief Financial Officer

Gavin Slater
Executive Director, National Australia Group Europe

Peter Scott
Executive General Manager, Wealth Management

Ross Pinney
Executive General Manager, Chief Executive's Office

Peter Thodey
Managing Director, Bank of New Zealand

John Hooper
Executive General Manager, Institutional Markets & Services

Elizabeth Hunter
Executive General Manager, People & Culture

Graeme Willis
Group General Manager, Regulatory Affairs

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Corporate governance

Importance of corporate governance

The Board of directors of the Company (Board) is responsible for the corporate governance of the Company and its controlled entities (the Group). Corporate governance is a matter of high importance in the Company and is undertaken with due regard to all of the Company's stakeholders and its role in the community. Good corporate governance is a fundamental part of the culture and the business practices of the Group. The main corporate governance practices that were in place during the 2004 year, or otherwise as referred to below, are discussed in this section.

The 2004 year has been one of transformation for the Company with the events of this year being a catalyst for renewal for the Group. Six directors resigned during the year, including the Managing Director and Chief Executive Officer, Mr Frank J Cicutto and the Chairman, Mr D Charles K Allen. A new Managing Director and Chief Executive Officer, Mr John M Stewart, and a new Chairman, Mr Graham J Kraehe, were appointed by the Board. Two new executive directors and five new non-executive directors were appointed by the Board up to the end of September 2004. The board renewal program will be completed in December 2004, with the appointment of Mr Michael Chaney as an independent non-executive director. Mr Chaney will take over as Chairman of the Company after he stands down from his current chief executive role of Wesfarmers Limited in September 2005.

An extensive search was undertaken to ensure that the new Board would have an appropriate mix of skills and experience for an international company of the size and complexity of the Group, including depth of knowledge in the banking and financial services industry. In addition, Mr T Kerry McDonald, Chairman of Bank of New Zealand, has been appointed as a consultant to the Board.

Significant changes have also occurred to the executive management of the Company, with seven executive officers resigning during the year. Two new executive directors and two new executive general managers have been appointed from outside the Group. In addition, three new executive general managers have been appointed from within the Group. The new executive team has outstanding credentials to run the Group.

A number of the executive management positions have been restructured with greater clarity of roles and accountability to better drive the strategic direction and the operational goals of the Group. The new Managing Director and Chief Executive Officer has formed a Group Executive Committee comprising himself, the executive directors and the executive general managers. The Group Executive Committee acts as a collegiate body running the total Group and supports the individual divisions.

Integrated governance

During the year under review, considerable attention was given to improving the governance of the Group through improving the quality of reporting to the Board and the development of a more integrated governance system, which aligns the areas of focus for management and the Board. This has involved a review of the management committees, particularly the management risk committees. These developments are ongoing and are designed to identify, examine and escalate problem areas so that appropriate action can be taken in a timely manner.

The Board has approved corporate governance guidelines, which set out the specific roles, duties, responsibilities and rights of the directors of the Company. Each director is expected to have regard to these guidelines in the performance of his or her duties as a director of the Company.

The major processes by which the Board meets its duties are described in this corporate governance statement.

Responsibilities and functions of the Board

The Board has adopted a formal charter that details the functions and responsibilities of the Board, which may be found on the Group's website at www.nabgroup.com The most significant responsibilities of the Board are to:

Stakeholder interests

- serve in the interests of all stakeholders, being the shareholders, customers, regulators, staff and the communities in the geographic regions in which the Group operates;
- build trust in the Group through consistent behaviour, transparency and accountability; and
- establish, review and monitor processes for corporate governance throughout the Group;

Future strategy

- develop an in-depth understanding of each substantial segment of the Group's business;
- review, approve and monitor corporate strategy and plans and review the assumptions and rationale underlying the annual plans;
- make decisions concerning the Group's capital structure and dividend policy; and
- review, approve and monitor major investment and strategic commitments;

Review of past performance

- review business results, monitor budgetary control and review, approve and monitor necessary corrective actions and processes;

Integrity of external reporting

- review and monitor the processes, controls and procedures which are in place to maintain the integrity of the Group's accounting and financial records and statements with the guidance of the Audit Committee;
- review and monitor the reporting to shareholders and regulators, providing objective, comprehensive, factual and timely information to the various markets in which the Company's shares are listed; and
- monitor and receive reports from the Audit Committee in relation to internal controls and internal and external audit reports;

Risk management and compliance

- establish, monitor and review the risk management processes with the guidance of the Risk Committee;
- review and monitor processes for compliance with prudential regulations and standards and other regulatory requirements;
- review and monitor processes for the maintenance of adequate credit quality; and
- review and monitor processes for the documentation and regular review and updating of the Group's risk profile;

Executive review, succession planning and culture

- approve key executive appointments and monitor and review executive succession planning;
- review and monitor the performance of the Managing Director and Chief Executive Officer and senior management;
- review and approve executive remuneration with the guidance of the Human Resources Committee;
- approve all appointments of directors to the boards of controlled entities and appointments made by the Group to non-controlled entities; and
- monitor and influence the culture, reputation and ethical standards of the Group; and

Board performance

- monitor Board composition, director selection, Board processes and performance with the guidance of the Nomination Committee;
- monitor and review the processes to assist directors in having sufficient time to devote to Board matters in order that they discharge their duties effectively; and
- review the charter and its continuing adequacy from time to time.

Composition of the Board

The Board requires that each of its directors possess unquestionable integrity and character. The Nomination Committee assists the Board in identifying other appropriate skills and characteristics required for the Board as a whole and the Board's individual members in order for the Group to fulfil its goals and responsibilities to shareholders and other key stakeholders.

The composition of the Board is based on the following factors:

- the size of the Board will be of a size to assist in efficient decision making;
- the Chairman of the Board should be an independent non-executive director and shall be elected by the directors annually;
- the Chairman must not be a former executive officer of the Group;
- the Board should comprise a majority of independent non-executive directors; and
- the Board should comprise directors with a broad range of expertise, skills and experience from a diverse range of backgrounds.

The Board is comprised of a majority of independent non-executive directors. At the date of this report, there are three executive directors and nine independent non-executive directors. The role of Chairman and the role of Managing Director and Chief Executive Officer are held by two separate individuals. The Chairman is a non-executive director and the Managing Director and Chief Executive Officer is an executive director. The other executive directors are the Chief Executive Officer, Australia and the Chief Financial Officer.

The skills, experience and expertise of the directors are set out in the report of the directors.

Independence of directors

In judging whether a director is independent for the purposes of services on the Board and Board committees of the Company, the Board has regard to the standards adopted by the Board from time to time to assist it in its regular independence determinations. These standards reflect the independence requirements of applicable laws, rules and regulations, including the Australian Stock Exchange (ASX) Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, the corporate governance standards of the New York Stock Exchange, and the US *Sarbanes-Oxley Act of 2002*.

Directors are required to provide all relevant information to allow a regular assessment of independence. The fundamental premise of the standards is that an independent director must be independent of management and free to exercise his or her unfettered and independent judgement.

The non-executive directors meet informally on a regular basis, without the Managing Director and Chief Executive Officer, other executive directors and other members of management being present.

The directors considered by the Board to constitute independent directors are identified, along with their period in office, in the report of the directors.

Disclosure of related party transactions is set out in note 50 in the annual financial report 2004.

Appointment and re-election of Board members

The process for appointing a director is that, when a vacancy exists, the Board, assisted by the Nomination Committee, identifies candidates with the appropriate expertise and experience, using external consultants as appropriate. The most suitable candidate is appointed by the Board but must stand for election by the shareholders at the next annual general meeting of the Company.

During the year, the Board undertook a major board renewal program. In February 2004, Mr Graham J Kraehe was appointed as Chairman, and Mr John M Stewart as Managing Director and Chief Executive Officer, following the retirement of Mr D Charles K Allen as Chairman and non-executive director, and Mr Frank J Cicutto as Managing Director and Chief Executive Officer.

On April 6, 2004, the Chairman announced that the Board was conducting a search for additional non-executive members, particularly with banking and finance sector experience. This resulted in the appointments of Mr Robert G Elstone, Mr Daniel T Gilbert, Mr Paul J Rizzo, Ms Jillian S Segal and Mr G Malcolm Williamson as independent non-executive directors. Mr Ahmed Fahour, Chief Executive Officer, Australia and Mr Michael Ullmer, Chief Financial Officer were appointed as executive directors.

The pending appointment of Mr Michael Chaney as an independent non-executive director in December 2004, and as Chairman in place of Mr Graham J Kraehe on his retirement in September 2005 was also announced.

Also during the year, Dr J Brian Clark, Dr Kenneth J Moss, Dr Edward D Tweddell and Mrs Catherine M Walter resigned as directors.

The Company has formal letters of appointment for each of its directors appointed during the year, setting out the key terms and conditions of the appointments.

The process for re-election of a director is in accordance with the Company's constitution, which requires that, other than the Managing Director and those directors appointed during the year, one-third (or the nearest number to one-third) are required to retire by rotation at each annual general meeting and are eligible to stand for re-election. Those directors appointed during the year to fill any vacancy must retire and stand for election.

Prior to each annual general meeting, the Board will assess the performance of each director due to stand for re-election and determine if the Board will recommend to the shareholders that they vote in favour of the re-election, or otherwise, of each such director. A number of directors have only recently joined the Board and they will stand for election for the first time at the next annual general meeting. Such directors, having only recently been appointed, will not be subject to this performance review process in 2004.

The Board has set a limit of 10 years for which an individual may serve as a director, subject to an annual review after this period. The Board regards this as an appropriate period of service. Directors who have served on the Board for an extended period of time have gained valuable experiences, insights and historical perspectives regarding the Group that would not be easily replaced.

The retirement age for directors is fixed by the Company's constitution at 70 years of age.

Induction and continuing education

Management, working with the Board, provides an orientation program for new directors in order to assist them in fulfilling their duties and responsibilities. The program includes discussions with the Managing Director and Chief Executive Officer, the other executive directors and management, the provision of reading material, tutorials and workshops. These include detail on directors' rights, duties and responsibilities, the Group's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Conduct, its management structure and its internal and external audit.

Management conducts additional presentations and tutorial sessions for directors from time to time regarding the Group, the factors impacting, or likely to impact, on its businesses to assist the non-executive directors in gaining a broader understanding and knowledge of the Group. Directors are also encouraged to keep up to date on relevant topical issues.

Corporate governance (continued)

Board meetings
The frequency of Board meetings and directors' attendance at those meetings is set out in the report of the directors. Directors are expected to prepare adequately for, attend and participate at Board meetings and meetings of committees. Some on-site inspections are conducted in relation to which directors are also expected to attend. The Board meets once each year in Europe, where the Group has a substantial proportion of its assets, and in New Zealand, where there are significant business interests. The amount of work undertaken is considerable. The time requirement varies depending on the number of Board committee meetings and controlled entity board meetings a director attends.

Board performance
The Board's existing governance processes include the regular reviews and evaluation of the performance of the Board with the guidance of the Nomination Committee. An external expert is regularly engaged to review many aspects of the Board's activities and to assist in a continuous improvement process to enhance the effectiveness of the Board. Given the major changes in the composition of the Board during 2004, the external review was deferred until 2005.

The Board also conducts an annual review of individual directors prior to their standing for re-election at the annual general meeting (*refer to 'appointment and re-election of Board members' on page 27*).

Remuneration of directors
The maximum aggregate amount from which non-executive directors may be remunerated is determined by the shareholders. It is possible that this maximum aggregate amount may not be fully utilised in any one year. From this amount, the individual directors are remunerated based on a philosophy of compensating the directors at around the upper quartile of the market, having regard to the size and complexity of the Group.

The remuneration of non-executive directors involves all the non-executive directors receiving part of their remuneration in the form of shares in the Company.

The Human Resources Committee (formerly the Compensation Committee), provides guidance to the Board in respect of these matters.

The remuneration policy for the Board and the remuneration of each director is set out in note 51 of the annual financial report 2004.

Remuneration of senior executives
The Group's remuneration philosophy for senior executives is to reward high levels of sustained performance and contribution through a pay-for-performance model.

Remuneration comprises fixed and variable remuneration components. Variable remuneration, also known as 'at risk' remuneration, comprises short-term incentives and long-term incentives. In general, the Group aims to target the upper quartile of the market for remuneration to ensure the attraction and retention of talented senior executives.

The Human Resources Committee (formerly the Compensation Committee) provides guidance to the Board in respect of these matters.

The remuneration policy for senior executives is set out in note 51 of the annual financial report 2004.

Conflicts of interest
Directors are expected to avoid any action, position or interest that conflicts with an interest of the Group, or gives the appearance of a conflict. A director who has a material personal interest in a matter that relates to the affairs of the Group must give the other directors notice of such interest. Such notice should be provided in writing to the Company Secretary, who is to ensure that the notice is brought to the attention of the other directors.

The *Corporations Act* 2001 (Cth) together with the constitution of the Company provide that a director who has a material personal interest in a matter that is being considered at a directors' meeting cannot be present while the matter is being considered at the meeting or vote on the matter, except in the following circumstances:

- the directors who do not have a material personal interest in the matter have passed a resolution that identifies the director, the nature and extent of the director's interest in the matter and its relation to the affairs of the Company, which states that the remaining directors are satisfied that the interest should not disqualify the director from voting or being present;
- ASIC has made a declaration or order under the *Corporations Act* 2001 (Cth), which permits the director to be present and vote notwithstanding the director's material personal interest;
- there are not enough directors to form a quorum for a directors' meeting because of the disqualification of the interested directors, in which event one or more of the directors (including a director with a material personal interest) may call a general meeting to address the matter; and
- the matter is of a type which the *Corporations Act* 2001 (Cth) specifically permits the director to vote upon and to be present at a directors' meeting during consideration of the matter notwithstanding the director's material personal interest.

However, notwithstanding the exceptions permitted by the *Corporations Act* 2001 (Cth) and the constitution of the Company (as described above), the Group's corporate governance standards provide that generally speaking, when a potential conflict of interest arises, the director concerned does not receive copies of the relevant Board papers and withdraws from the Board meeting while such matters are considered. Accordingly, in such circumstances the director concerned takes no part in discussions nor exercises any influence over other members of the Board. If a significant conflict of interest with a director exists and cannot be resolved, the director is expected to tender his or her resignation after consultation with the Chairman.

Financial services are provided to non-executive directors under terms and conditions that would normally apply to the public. Executive directors are entitled to financial services under terms and conditions that would normally apply to full-time employees. The provision of financial services to directors is subject to any applicable legal or regulatory restrictions, including the *Corporations Act* 2001 (Cth) and the US *Sarbanes-Oxley Act of 2002. Refer to note 50 of the annual financial report 2004 for further information.*

Access to management
Board members have complete and open access to members of management following consultation with the Chairman, and the Managing Director and Chief Executive Officer.

Access to independent professional advice
Written guidelines are in place providing for each director to have the right to seek independent professional advice at the Company's expense, subject to the prior approval of the Chairman.

The Board has the authority to conduct or direct any investigation required to fulfil its responsibilities and has the ability to retain, at the Group's expense, such legal, accounting or other services, consultants or experts as it considers necessary from time to time in the performance of its duties.

Restrictions on share dealings by directors
Directors, officers and employees are subject to the *Corporations Act* 2001 (Cth) restrictions on applying for, acquiring and disposing of securities in, or other relevant financial products of, the Company (or procuring another person to do so), if they are in possession of inside information. Inside information is that information which is not generally available, and which if it were generally available, a reasonable person would expect it to have a material effect on the price or value of the securities in, or other relevant financial products of, the Company.

Further, directors, officers and employees may only trade in the Company's securities (subject to also complying with applicable law) during each of the eight weeks commencing the day following each half yearly results announcement or the date of issue of a prospectus. Directors are further required to discuss their intention to trade in the Company's securities with the Chairman prior to trading.

The directors, officers and employees are also subject to legal restrictions on insider trading in other jurisdictions.

Directors and officers must not trade in the shares of any other entity if inside information on such entity comes to the attention of the director or officer by virtue of holding office as a director or officer of the Company.

Shareholding requirements

Within two months after a director's appointment, the director is required to hold at least 2,000 shares in the Company. Non-executive directors are required to receive at least 10% and up to 40% of their annual remuneration in the form of shares in the Company, under the National Australia Bank Staff Share Ownership Plan, which was most recently approved by shareholders at the Company's annual general meeting in 2003. Such shares are acquired at market prices. Executive directors may receive performance options and performance rights over shares as approved by shareholders and, as a staff member, may also receive shares in the Company.

Details of all shareholdings by directors in the Company are set out in the report of the directors and note 51 of the annual financial report 2004.

Confidential information

The Group has a written policy and fosters an appropriate culture to prevent the disclosure of confidential customer information outside the Group or the use of that information for the financial gain of any other entity (including any entity with which a director has an association). The directors regard the confidentiality of customer information as highly important. When the directors are serving on the boards of other companies and undertaking private transactions, they have regard to their confidentiality obligations at all times.

Board and committee agendas

Board and committee agendas are structured to assist the Board to meet its significant responsibilities. This includes the Board's consideration of strategy and the achievement of financial and other goals. This also includes the Board receiving a detailed overview of the performance and significant issues confronting each business unit and support unit and to identify major risk elements for review to ensure that assets are properly valued and that protective strategies are in place.

Directors receive and discuss detailed financial, operational and strategy reports from management.

During the year, clear guidelines were established to enable matters raised by regulators to be promptly and effectively addressed and referred to the Board where necessary.

Board committees

The Board may establish committees as it considers necessary or appropriate to assist it in carrying out its responsibilities. The Board has established the following committees and has adopted charters setting out the matters relevant to the composition, responsibilities and administration of these committees:

- Risk Committee;
- Audit Committee;
- Nomination Committee; and
- Human Resources Committee.

Other matters of special importance in relation to which Board committees are established include consideration of borrowing programs, projects, capital strategies, major investments and commitments, capital expenditure, delegation of authorities to act, and the allocation of resources.

Risk Committee

Membership

The members of the Risk Committee are:
Mr Peter JB Duncan (Chairman);
Mr Robert G Elstone (joined September 2004);
Mr Paul J Rizzo (joined September 2004); and
Mr John M Stewart (joined February 2004).

It is appropriate that members of the Risk Committee have a range of different backgrounds, skills and experiences having regard to the operations, financial and strategic risk profile of the Group.

Responsibilities and Risk Committee charter

The roles, responsibilities, composition and membership requirements are documented in the Risk Committee charter, which has been approved by the Board and may be found on the Group's website at www.nabgroup.com

The responsibilities of the Risk Committee include:

- reviewing the Group's risk profile within the context of the risk/return profile determined by the Board;
- implementing and reviewing risk management and internal compliance and control systems throughout the Group;
- reviewing the adequacy and effectiveness of the Group's compliance management framework;
- reviewing the balance sheet risk management framework and strategies;
- overseeing the Group's credit policies;
- assessing operational risk limits;
- reviewing business risk management;
- reviewing country lines of credit; and
- reviewing the liquidity policies of the Group.

During the year, considerable attention was given to improving the quality of risk reporting and management in the Group. This involved a review of the management risk committees. New charter and modes of operation were developed for the Group Risk Appetite Committee, the Central Risk Management Committee and the Corporate & Institutional Banking Risk Management Committee. In addition, a new management committee, the Group Operational Risk Committee, was established.

The Risk Committee met on 18 occasions during the year.

The qualifications of the Risk Committee members together with the number of meetings attended by each member during the year are set out in the report of the directors.

More comprehensive details on risk management appear on pages 58 to 63 of the annual financial report 2004.

Audit Committee

Membership

The members of the Audit Committee are:
Mr John G Thorn (Chairman) (joined October 2003);
Mr Peter JB Duncan;
Mr Daniel T Gilbert (joined September 2004); and
Mr Paul J Rizzo (joined September 2004).

All members of the Audit Committee must be independent, non-executive directors. Independence for these purposes is determined in accordance with the standard adopted by the Board, which reflects the independence requirements of applicable laws, rules and regulations, including the Australian Stock Exchange Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, the New York Stock Exchange and the United States *Sarbanes-Oxley Act of 2002*.

Corporate governance (continued)

Members are appointed for an initial term of three years. Membership is reviewed every three years and periodic rotation is encouraged whereby no more than one member each year can resign as a result of periodic rotation.

The Audit Committee must consist of at least three members. For a period of five days during the year, the Audit Committee had only two members due to timing differences relating to the resignation and appointments of directors.

It is considered appropriate that members of the Audit Committee be financially literate and have a range of different backgrounds, skills and experiences having regard to the operations, and financial and strategic risk profile of the Group. The Board recognises the importance of the Audit Committee having at least one member with appropriate accounting or financial expertise, as required by applicable laws, best practice guidelines and listing standards. All members of the Audit Committee are financially literate.

The Chairman of the Board cannot be a member of the Audit Committee.

The qualifications of the Audit Committee members together with the number of meetings attended by each member during the year are set out in the report of the directors.

Audit Committee financial expert

The Board has determined that Mr John G Thorn is an 'audit committee financial expert' and is independent as defined in the listing standards of the New York Stock Exchange. Although the Board has determined that Mr John G Thorn has the requisite attributes defined under the rules of the Securities & Exchange Commission (SEC), his responsibilities are the same as those of the other Audit Committee members. He is not an auditor or accountant, does not perform 'field work' and is not an employee of the Company. The SEC has determined that an audit committee member who is designated as an audit committee financial expert will not be deemed as an 'expert' for any purpose as a result of being identified as an audit committee financial expert. The Audit Committee is responsible for the oversight of management in the preparation of the Group's financial statements and financial disclosures. The Audit Committee relies on the information provided by management and the external auditor. The Audit Committee does not have the duty to plan or conduct audits or to determine that the Group's financial statements and disclosures are complete and accurate. These are the responsibility of management and the external auditor.

Responsibilities and Audit Committee charter

The Audit Committee's role, responsibilities, composition and membership requirements are documented in the Audit Committee charter, which has been approved by the Board and may be found on the Group's website at www.nabgroup.com The charter is reviewed at least annually.

The Audit Committee is responsible for review and oversight of:

- the integrity of the accounting and financial reporting processes of the Group;
- the Group's external audit;
- the Group's internal audit; and
- compliance with applicable accounting standards to give a true and fair view of the financial position and performance of the Group.

The Audit Committee met on 15 occasions during the year.

The Audit Committee has the authority to conduct or direct any investigation required to fulfil its responsibilities and has the ability to retain, at the Company's expense, such legal, accounting or other advisers, consultants or experts as it considers necessary from time to time in the performance of its duties.

External auditor

The Audit Committee is responsible for the selection, evaluation, compensation and, where appropriate, replacement of the external auditor, subject to shareholder approval where required. Responsibilities of this nature are a departure from the Australian Stock Exchange Corporate Council Principles of Good Corporate Governance and Best Practice Recommendations which provide that the Audit Committee should recommend to the Board the appointment and removal of the external auditor. The reason for the departure is that US laws and regulations require that these responsibilities rest with the Audit Committee.

During the year, the Company announced that it intended to change its external auditor, subsequent to the year ended September 30, 2004. The Audit Committee then undertook a thorough process to select a new auditor to commence from the 2005 year. In July 2004, the Chairman of the Audit Committee announced that Ernst & Young had been selected to become the new external auditor of the Group. Shareholders will be asked to approve the appointment of the new external auditor at the Company's annual general meeting on January 31, 2005.

The Audit Committee is to ensure that the external lead audit partner and concurring review partner are rotated off the Group's audit after no more than five years and are not reassigned to the Group's audit for at least five years.

The Audit Committee meets with the external auditor throughout the year to review the adequacy of the existing external audit arrangements with particular emphasis on the scope, quality and independence of the audit. The Audit Committee meets with internal audit representatives, the external auditor and the consulting actuary separately, without the presence of management, at least annually.

The Audit Committee receives assurances from the external auditor and the consulting actuary that they meet all applicable independence requirements.

For a discussion of certain services provided by the external auditor in connection with problem loan reviews and the Company's related internal review of auditor independence refer to 'certain services provided by the external auditor – matters related to independence' on page 19 in the 'business overview' section of the annual financial report 2004.

Audit Committee pre-approval policies and procedures

The Audit Committee is responsible for the oversight of the work of the external auditor. To assist it in discharging its oversight responsibility, the Audit Committee has adopted an External Auditor Independence Policy which requires it, among other things, to pre-approve all audit and non-audit services to be provided by the external auditor. The External Auditor Independence Policy incorporates auditor independence requirements of applicable laws, rules and regulations and has been promulgated throughout the Group.

In accordance with the External Auditor Independence Policy, the external auditor may only provide a service to the Group if:

(i) the external auditor is not prohibited from providing that service by applicable auditor independence laws, rules and regulations;
(ii) in the opinion of the Audit Committee, the service does not otherwise impair the independence of the external auditor;
(iii) in the opinion of the Audit Committee, there is a compelling reason for the external auditor to provide the service; and
(iv) the service is specifically pre-approved by the Audit Committee.

The Audit Committee may set an annual fee limit for each type of audit or non-audit service to be provided by the external auditor. Unless the Audit Committee approves otherwise, the fees paid or due and payable to the external auditor for the provision of non-audit services in any financial year must not exceed the fees paid or due and payable to the external auditor for audit services in that year.

The Audit Committee may delegate to the Audit Committee Chairman or any other member of the Audit Committee the authority to pre-approve audit and non-audit services to be provided by the external auditor. The decision of any delegate to specifically pre-approve any audit or non-audit service is presented to the Audit Committee at its next scheduled meeting. The Audit Committee has delegated the authority to pre-approve audit and non-audit services to the Audit Committee Chairman.

Details of the services provided by the external auditor to the Group and the fees paid or due and payable to the external auditor for those services are set out in the report of the directors and note 52 in the annual financial report 2004.

Confidential financial submissions

The Audit Committee has established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters. It is a responsibility of the Audit Committee to ensure that employees can make confidential, anonymous submissions regarding such matters (*refer to the 'Whistleblower Protection Program' section on page 33*).

Nomination Committee

Membership

The Nomination Committee's members are:
Mr Graham J Kraehe (Chairman);
Mr Peter JB Duncan;
Mr Robert G Elstone (joined September 2004);
Mr Ahmed Fahour (joined October 2004);
Mr Daniel T Gilbert (joined September 2004);
Mr Paul J Rizzo (joined September 2004);
Ms Jillian S Segal (joined September 2004);
Mr John M Stewart;
Mr John G Thorn (joined October 2003);
Mr Geoffrey A Tomlinson;
Mr Michael J Ullmer (joined October 2004); and
Mr G Malcolm Williamson (joined May 2004),
acting in committee.

The Nomination Committee has authority from the Board to sub-delegate its authority to a Sub-Committee, comprised of a minimum of three members of the Nomination Committee, to examine, review, consider and recommend such matters, relevant to the Nomination Committee charter, as the Nomination Committee may consider appropriate from time to time. During the year, a Nomination Sub-Committee was established to assist the Nomination Committee and the Board in the selection of directors as part of the board renewal program.

The number of meetings attended by each member during the year is set out in the report of the directors.

Responsibilities and Nomination Committee charter

The Nomination Committee's role, responsibilities, composition and membership requirements are documented in a Nomination Committee charter, which has been approved by the Board, and which is available on the Group's website at www.nabgroup.com

The responsibilities of the Nomination Committee are to:

- monitor, review and make recommendations to the Board regarding its performance;
- monitor, review and make recommendations to the Board as necessary and appropriate regarding the objectives for and assessment of the performance of the Managing Director and Chief Executive Officer, Chief Executive Officer, Australia and Chief Financial Officer;
- review and make recommendations to the Board as appropriate, with regard to:
  - the size and composition of the Board;
  - the criteria for Board membership and desirable qualifications, experience and domicile for individual new appointees to the Board;
  - the induction program for new directors;
  - the continuing education program for directors; and
  - identification of potential candidates for appointment to the Board; and
- review the Nomination Committee's charter, as well as its composition, annually.

Succession planning

The Nomination Committee reviews the succession planning for the Board and senior management and reports to the Board on such issues.

Human Resources Committee

Membership

The Human Resources Committee's (formerly the Compensation Committee) members are:
Mr Geoffrey A Tomlinson (Chairman) (joined August 2004);
Ms Jillian S Segal (joined September 2004); and
Mr John G Thorn (joined November 2003).

The number of meetings attended by each member during the year is set out in the report of the directors.

Responsibilities and Human Resources Committee charter

The Human Resources Committee's role, responsibilities, composition and membership requirements are documented in a Human Resources Committee charter, which has been approved by the Board and may be found on the Group's website at www.nabgroup.com

The responsibilities of the Human Resources Committee are to:

- monitor, review and recommend to the Board, as necessary and appropriate:
  - the remuneration, superannuation and incentive policies and arrangements for the Managing Director and Chief Executive Officer and for senior executives who report directly to the Managing Director and Chief Executive Officer;
  - the remuneration arrangements for non-executive directors on the Board;
  - the recruitment, retention and termination policies and procedures for senior executives;
  - key executive appointments and executive succession planning (including one or more reports and presentations to the Board each year); and
- oversee the general remuneration strategy of the Group; and
- monitor the culture and reputation and review the behavioural standards of the Group on a regular basis, and report and submit recommendations to the Board.

The Human Resources Committee has delegated authority from the Board to approve:

- changes to the factors regarding the measurement of short-term performance, which impacts incentives and the EVA® share plan;
- incentive pool amounts for general incentive programs;
- offers under existing share, option and performance rights plans, including setting the terms of issue and approving the issue of securities in the Company in connection with such offers (within the aggregate number of securities approved by the Board); and
- fees payable to non-executive directors of controlled entity boards of the Company.

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Performance review

The Board reviews performance and sets the remuneration package applicable to the Managing Director and Chief Executive Officer, the Chief Executive Officer, Australia and the Chief Financial Officer, following recommendations from the Human Resources Committee. This performance review involves meeting established performance-based criteria structured on increasing shareholder value.

The remuneration policy for senior executives is set out in the report of the directors.

Controlled entities

The activities of every company in the Group are overseen by their own board of directors.

Directors of each of these controlled entities are provided with Corporate Governance Guidelines, which have been approved by the Board. The Corporate Governance Guidelines set out the specific roles, duties, responsibilities and rights of the directors of controlled entities. Such guidelines set out the key expectations that the Board would have of the boards of controlled entities. The guidelines have been specifically tailored for the different types of entities depending on the nature of their business and their activities.

Mr Geoffrey A Tomlinson is the Chairman of National Wealth Management Holdings Limited, and certain wealth management controlled entities, due to his in-depth background and expertise in wealth management and insurance business. Mr G Malcolm Williamson is the Chairman of National Australia Group Europe Limited and of Clydesdale Bank PLC and Yorkshire Bank PLC. Directors of controlled entities are normally selected from among the outstanding business people in the local market in which the entities operate. A primary pre-requisite to the Board having confidence in the activities of a controlled entity board is to have a high quality controlled entity board with a commitment to the Group's objectives. There is a standing invitation to all of the Company's directors to attend any board meeting of a controlled entity through consultation with the Chairman. Such visits are undertaken to develop a broader understanding of the Group's total operations.

Communicating with shareholders

Strategy

The Group aims to be open and transparent with all stakeholders, including the owners of the business – the shareholders (direct and indirect). Plain English communications and easy access to company information are important objectives of the Company's communications strategy. Information is communicated to shareholders regularly through a range of forums, publications and online. These include:

- the Company's annual general meeting, which will be held in Melbourne on January 31, 2005;
- notices and explanatory memoranda of annual general meetings;
- the concise annual report (unless a shareholder has requested not to receive this);
- the annual financial report (for those shareholders who have requested a copy);
- disclosures to the stock exchanges in Australia, London, New York, New Zealand and Tokyo, and to ASIC and the US SEC;
- letters from the Managing Director and Chief Executive Officer or the Chairman to specifically inform shareholders of key matters of interest;
- during the year the Chairman wrote to shareholders to advise them of the unauthorised foreign currency options trading matter and subsequent actions taken by the Board and of the steps being taken to overhaul the membership of the Board. The reports of PricewaterhouseCoopers and APRA into the unauthorised foreign currency options trading and the Company's response to these reports were placed on the Group's website at www.nabgroup.com (*For further information refer to the 'report of the directors' on page 42);* and
- the Group's website at www.nabgroup.com, where there is a Shareholder Centre which includes access to Company announcements, media releases and investor presentations.

In addition to the registered shareholders, there are many thousands who have invested indirectly through the Group's funds management products, and through the funds management products of a large number of organisations. The Group encourages these beneficial owners to take an active interest in the affairs of the Group by visiting the Group's website at www.nabgroup.com Beneficial owners and others may also access the Shareholder Centre. Shareholders are encouraged to address questions to the Chairman, which will be responded to at the annual general meeting.

Meetings

The notice of annual general meeting provides details of the location, time and date of the meeting, the business to be considered by shareholders and details about each candidate standing for election or re-election as a director of the Company. On average, these meetings attract around 1,000 shareholders and stakeholders. For those shareholders who are unable to attend the meeting, the Company provides a webcast. The Company's external auditor attends this meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Continuous disclosure

The Board's policy is that shareholders are informed of all major developments that impact on the Group. There is a detailed continuous disclosure policy in place, which is intended to maintain the market integrity and market efficiency of the Company's shares listed on international stock exchanges. The Company has established written policies and procedures designed to manage the Company's compliance with the continuous disclosure obligations imposed by the various stock exchanges on which the Company's securities are listed (including the ASX) and to attribute accountability at a management level for that compliance.

Australian Stock Exchange Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations

The Company believes that throughout the 2004 year, it has complied with all of the Recommendations contained in the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, with the exception of:

- the Code of Conduct was placed on the Company's website on July 27, 2004, and was therefore not publicly available for the full financial year, as recommended;
- the Insider Trading Policy was placed on the Company's website on November 11, 2003, and was therefore not publicly available for the full financial year, as recommended;
- during the period from August 28, 2004 to September 1, 2004 (inclusive), the Audit Committee was comprised of two members, rather than three members as recommended. No actions were taken by the Audit Committee during that period. On September 2, 2004, the composition of the Audit Committee was increased to four members;
- a performance review of the full Board did not take place during the 2004 year due to the major changes in the composition of the Board during the year; and
- under Recommendation 7.2 of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, the Managing Director and Chief Executive Officer, and the Chief Financial Officer are required to state to the Board in writing that the certifications they give to the Board under Recommendation 4.1 (as to the integrity of the Company's financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board, and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects. The certifications given by the Managing Director and Chief Executive Officer, and the Chief Financial Officer refer to the matters arising from their evaluation of the Company's disclosure controls and procedures as set out on page 63 of the annual financial report 2004, being the discovery of unauthorised trading in foreign currency options, reporting of non-accrual loans and 90 days past due loans, cross-border outstandings and organisational and cultural change.

Comparison of the Company's practices with the New York Stock Exchange Corporate Governance Standards

The New York Stock Exchange recently instituted a broad regime of corporate governance requirements for New York Stock Exchange listed companies. Under section 303A of the New York Stock Exchange Listing Manual (the New York Stock Exchange Corporate Governance Standards), non-US companies are permitted to follow the corporate governance requirements of their home country in lieu of the requirements of the New York Stock Exchange Corporate Governance Standards, except for certain requirements pertaining to audit committees, and certain disclosure obligations. One of those disclosure obligations is to compare the corporate governance practices of the Company with those required of domestic US companies under the New York Stock Exchange Corporate Governance Standards, and to disclose significant differences. The significant differences identified are as follows:

- Audit Committee – since the Company is not required to prepare annual proxy statements under US law, the Company does not prepare an audit committee report for inclusion in such annual proxy statements. Further, the Risk Committee, rather than the Audit Committee, has responsibility for the discussion of policies with respect to risk assessment and risk management;
- Nomination Committee – the Nomination Committee is not composed solely of independent directors; and
- Equity compensation plans – the Company is not required under Australian law to provide shareholders with the opportunity to vote on new equity compensation plans. It is also not required by Australian law to provide shareholders with the opportunity to vote on material revisions to existing equity compensation plans (as listed in note 38 to the annual financial report 2004) other than in respect of certain changes to the terms of options that require shareholder approval under ASX Listing Rule 6.23. However, the issue of shares to directors (whether pursuant to an equity compensation plan or otherwise) is subject to approval of shareholders.

Additionally, the Company sought and obtained shareholder approval in 2002 for the purposes of ASX Listing Rule 7.2 so that issues of securities under certain equity compensation plans are excluded from the calculation of whether the Company has issued share capital in excess of the 15% limit imposed by ASX Listing Rule 7.1. However, this is not mandatory as a company may choose to not have the plans approved in this way.

Ethical standards

During the year, the Board worked with management to develop a new set of Corporate Principles, which are to be used as the basis for the Group's core beliefs and values. The five principles are:

- we will be open and honest;
- we take ownership and hold ourselves accountable (for all of our actions);
- we expect teamwork and collaboration across our organisation for the benefit of all stakeholders;
- we treat everyone with fairness and respect; and
- we value speed, simplicity and efficient execution of our promises.

A range of activities have and will continue to be introduced throughout the Group to provide a deeper understanding of the new Corporate Principles. Measures will also be introduced to monitor whether employees are living these principles and behaving appropriately and consistently.

A new reward strategy and a new performance management process that are aligned to the Group's principles have been developed and will form the basis of the way employees' performance will be measured and rewarded from the 2005 year.

The Corporate Principles are reinforced by the Company's Code of Conduct, which requires the observance of strict ethical guidelines. The Code of Conduct applies to all employees of the Group, as well as to directors, and temporary workers. In addition, the Board charter also governs the conduct of the Board and each director. The Code of Conduct covers:

- personal conduct;
- honesty;
- relations with customers;
- prevention of fraud;
- financial advice to customers;
- conflict of interest; and
- disclosure.

The Group regularly reviews its relationships with the external suppliers of goods and services. Organisations with high ethical standards are favourably considered. Where there is transition of management between the Group and major suppliers or customers, appropriate confidentiality and independence issues are addressed in both principle and process.

The Board supports the code of conduct issued by the Australian Institute of Company Directors.

In addition, the Group has adopted a Code of Conduct for financial professionals which applies to the Managing Director and Chief Executive Officer, Chief Financial Officer and all employees serving in finance, accounting, tax or investor relations roles. This code of conduct is available on the Group's website at www.nabgroup.com

The Company strongly supports the Code of Banking Practice 2003 of the Australian Bankers' Association, which includes:

- major commitments and obligations to customers;
- principles of conduct; and
- the roles and responsibilities of an independent external body, the Code of Compliance Monitoring Committee, which investigates complaints about non-compliance.

Whistleblower Protection Program

The Group has a Whistleblower Protection Program established for the confidential reporting of issues of unacceptable or undesirable conduct. The system enables disclosures to be made to a protected disclosure officer by the Group's employees, or, where applicable, if the matter is highly sensitive and the employee believes it more appropriate, direct to the Audit Committee.

The Group does not tolerate known or suspected incidents of fraud, corrupt conduct, adverse behaviour, legal or regulatory non-compliance, or questionable accounting and auditing matters by its employees.

Nor does the Group tolerate taking reprisals against those who come forward to disclose such conduct. The Group will take all reasonable steps to protect employees who make such disclosures from any reprisal or detrimental action following the disclosure.

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Human Resources Committee

(formerly Compensation Committee)

Role

The Human Resources Committee's (Committee) membership, responsibilities, authority and activities are documented in the Committee charter, which has been approved by the Board. A full copy of the charter is available on the Group's website at www.nabgroup.com

In summary, the responsibilities of the Committee are to:

- monitor, review and recommend to the Board, as necessary and appropriate:
  - the remuneration, superannuation and incentive policies and arrangements for the Managing Director and Chief Executive Officer and for senior executives who report directly to the Managing Director and Chief Executive Officer;
  - the remuneration arrangements for non-executive directors on the Board;
  - the recruitment, retention and termination policies and procedures for senior executives;
  - key executive appointments and executive succession planning (including one or more reports and presentations to the Board each year); and
- oversee the general remuneration strategy of the Group; and
- monitor the culture and reputation and review the behavioural standards of the Group on a regular basis, and report and submit recommendations to the Board.

The Committee has delegated authority from the Board to approve:

- changes to the factors regarding the measurement of short-term performance, which impacts incentives and the EVA® share plan;
- incentive pool amounts for general incentive programs;
- offers under existing share, option and performance rights plans, including setting the terms of issue and approving the issue of securities in the Company in connection with such offers (within the aggregate number of securities approved by the Board); and
- fees payable to non-executive directors of controlled entity boards.

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The Committee met seven times throughout the year. Attendance at those meetings is set out in the report of the directors. The Chairman of the Board, the Managing Director and Chief Executive Officer, the Executive General Manager, People & Culture and General Manager, Workplace Solutions attend the Committee meetings by invitation and have assisted the Committee in its deliberations, except on matters associated with their own remuneration.

Advisers

External specialist remuneration advice is sought in respect of remuneration arrangements for non-executive directors of the Board (and its subsidiary boards in Australia and overseas) and senior executives of the Group and general reward advice is sought on an ad hoc basis. Principal advisers include Egan Associates, Mercer Consulting and PricewaterhouseCoopers.

Membership and meetings

The following outlines the member composition of the Committee during the year:

Current members	Former members
Mr Geoffrey A Tomlinson (Chairman from August 2004)	Dr Edward D Tweddell (Chairman until December 2003)
Mr John G Thorn	Dr Kenneth J Moss (Chairman until August 2004)
Ms Jillian S Segal (joined September 2004)	Dr J Brian Clark

Reward policy

Previously at the Company, each element of reward (fixed remuneration, short-term incentive, long-term incentive, performance management and talent management) was considered separately and at different times of the year. This year the Committee and management reviewed each of the reward policies with a view to integrate and realign policy.

This has resulted in an integrated global reward strategy that covers all elements of reward at the Company.

As part of this review, the reward philosophy and policy were refreshed and, where required, amended. The following outlines the new Group-wide philosophy and principles.

During the year, the Committee has reviewed and amended the Group's reward philosophy and principles in response to internal and external factors. One change included a broader scope for the Committee and a consequent name change from the Compensation Committee to the Human Resources Committee.

The following reward statements reflect the new position and the way in which the Group's reward strategy will be managed.

It is also important to note that the Committee regularly reviews the reward philosophy and principles to ensure they remain contemporary with and reflective of accepted market practice, both in Australia and in the international jurisdictions in which the Group operates.

Reward philosophy
The Group's overall philosophy is to manage a total reward framework (including fixed remuneration, short-term incentive (STI), and long-term incentive (LTI)) designed to:

- focus on creating value for shareholders by rewarding employees based on enhancement of shareholder value through improvements in earnings per share (EPS), Economic Value Added (EVA®) and total shareholder return (TSR);
- differentiate performance and recognise future potential;
- create an environment where people can be motivated with energy and passion;
- motivate, attract and retain top talent to deliver superior performance;
- provide rewards, benefits and conditions that are competitive within the specific markets in which the Group operates;
- provide fair and consistent rewards across the organisation, which support corporate values; and
- recognise capabilities brought to roles and promote opportunities for career and professional development.

Reward principles

- the highest performers and those of the greatest value to the Group should receive the greatest reward.
- a greater emphasis on at risk reward (STI & LTI) as a component of total reward, with the emphasis increasing with levels of responsibility/criticality of role (see target reward mix) and with amounts above on target remuneration being provided in shares with restrictions on trading (subject to any legal or taxation constraints).
- key performance indicators that include financial and non-financial measures (management and development of talent, behaviour, etc).
- performance is recognised for all individuals and/or teams by:
  - linking performance outcomes to incremental market percentiles for fixed remuneration, and also using an 80%-120% compensation ratio around the selected percentiles;
  - contribution to Group performance measured by improvements in EPS (70%) and EVA® (30%) for short-term incentives, and TSR (100%) for long-term incentives; and
  - employee ownership through employee share plans to build a partnership between employees and other shareholders.
- fixed remuneration is now generally targeted to market median levels being paid in the finance industry in the relevant global markets in which the Group operates; where other markets (eg specialist markets) are more appropriate, these are used.
- commencement buy-outs are only entered into with the appropriate approval. Any amounts agreed to be provided on commencement must be based on evidentiary information.

Linking total reward to performance
During 2004, the Committee and management have extensively reviewed the Group's performance management framework. Three major enhancements to that framework were initiated for the 2005 year onwards:

- calibration of key performance indicators at the commencement of the performance period, which define what performance looks like;
- the introduction of a peer review (round table) process. This process validates performance at the end of the period by calibrating it relative to the performance of other individuals; and
- the introduction of quality gates, being threshold compliance and behaviour measures. If an individual fails either gate then no incentive can be provided.

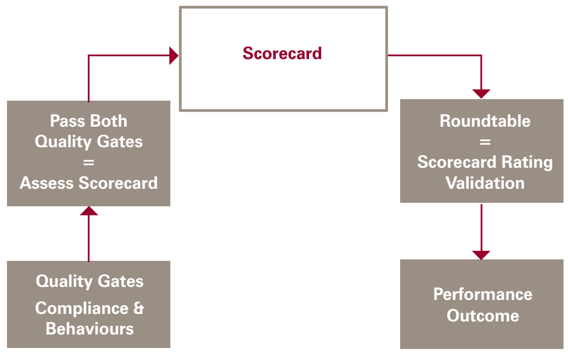
This is a significant shift in approach as the quality gates are separate from the scorecard and have over-arching control. All employees will be required to achieve the behavioural and compliance quality gates and this will be progressively implemented over the next two years commencing with management employees and above in 2005.

The peer review process will allow for performance to be differentiated and will bias the outcome to those with the best performance and potential. It also identifies those employees who require development and those who are poor performers.

The peer review helps to standardise the achievements of each relevant employee. The reward strategy is designed to provide superior rewards to those employees with the best relative performance. For those employees this means:

- fixed remuneration levels at a higher market percentile rather than the median, which is standard across the Group;
- a greater proportion of the short-term incentive reward pool (the overall value of which is determined by improvements in EPS and EVA® against target); and
- an allocation of a long-term incentive (the value of which is significantly impacted by improvements in the Group's TSR performance).

Performance management flow



The structure of total reward

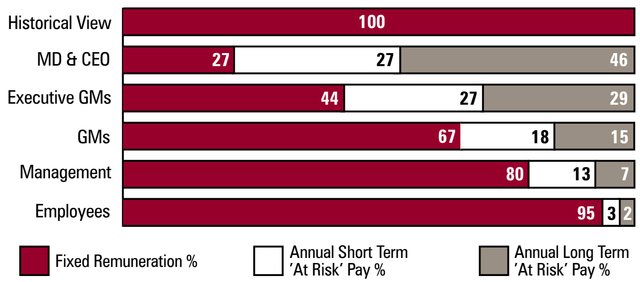
During 2004, the Committee conducted a review of the different reward elements for executives, including all aspects of total reward, and how reward, talent and performance management inter-link and operate at the Group. In the past, there has been more of an emphasis on fixed remuneration and short-term incentive rewards, including above target amounts that were made in cash only.

Total reward now clearly encompasses three main components as described below. The target reward mix emphasises at risk rewards (short-term and long-term incentives), increasing with the level of responsibility and/or criticality of the role. From 2005 amounts above target are provided in Company shares with restrictions on trading (subject to any legal or taxation constraints).

Target reward mix
The target total reward mix for the Managing Director and Chief Executive Officer is 25-30% fixed remuneration, 30-35% short-term incentive, and 40-50% long-term incentive. The target total reward mix for the senior executive team is 40-65% fixed remuneration, 20-30% short-term incentive and 15-35% long-term incentive.

The following table shows the actual average reward mix for each level for 2004 (although an individual's mix may vary in accordance with

Target reward mix



Remuneration at the National (continued)

market relativity and appropriate management approval). The journey to this current reward mix started many years ago from a position of 100% fixed remuneration.

Fixed remuneration
Fixed remuneration reflects the scope of the role and the level of skill and experience of the individual and is generally referenced to the median of the applicable remuneration market, with higher outcomes for the best performing individuals. The Group operates in a number of countries and business segments and fixed remuneration reviews aim to achieve equitable outcomes for employees in comparable roles within the context of the different geographical and specialist remuneration markets in which the Group competes for top executive talent.

Short-term incentive
In previous years, including 2004, the short-term incentive for senior executives related solely to the EVA® performance of the Group. The weighting between EVA® performance and individual performance varied depending on the nature of the specific executive role. Under that program, a pre-defined EVA® performance weighting for an individual flowed through automatically with only the non-financial component being variable based on the individual's achievement of objectives.

This methodology has been reviewed by the Committee and changed, as detailed below.

The short-term incentive outcomes under the EVA® approach for the year ended September 30, 2004 would have been close to zero on average. Given this outcome relative to employee effort, the Board applied discretion to provide a small incentive pool, the distribution of which was applied using rigorous individual performance criteria. The amount distributed to specified executives was 30% of 2004's total short-term incentive payments ($3.1 million in 2004; $10.6 million in 2003). The average for individual payments against target was also 34%. Individual payments to specified executives can be viewed in note 51 of the annual financial report 2004.

The Committee conducts a regular review of all aspects of total reward for executives, including the short-term incentive program. The Committee made changes which will be implemented from the 2005 financial year. These include broadening the basis for determining the short-term incentive pool, which will now be driven by both EPS (70%) and Group EVA® (30%).

The new incentive program is structured to reward achievement against key individual, business and Group annual performance outcomes. Target amounts are set relative to the applicable remuneration market for executive incentive purposes. The performance of the Group from 2005 will be measured by growth in EPS and EVA® and determines the pool available for payments (subject to Board approval), while the performance of an individual executive, against their scorecard of performance measures, determines their share of the available pool.

For management employees and above, a threshold level of performance and the achievement of behavioural and compliance quality gates are required before any short-term incentive rewards can be earned. Relative individual performance may give rise to anywhere between zero and two times the target incentive amount being earned, with only the most outstanding performers (less than 5% of employees) receiving amounts at the top end of the scale. Also, subject to any legal or taxation constraints, all above-target rewards are to be provided in the Company's shares with restrictions on trading for at least one year, provided threshold performance is achieved over the subsequent performance year. The Committee believes that this will instil an appropriate focus on Group performance beyond the current year, make certain that quality gates are consistently achieved, and encourage a suitable level of shareholding by executives.

The Managing Director and Chief Executive Officer and the executive directors are required to receive at least half of any short-term incentive payment in the form of Company shares, subject to shareholder approval. Where practicable (and subject to any legal or taxation constraints), employees may choose to receive the whole or part of their short-term incentive in cash, superannuation contributions or Company shares, or a combination of these. The shares are provided under the National Australia Bank Staff Share Ownership Plan and are generally held in trust for between three and ten years (unless the employee leaves the Group earlier). Employees receive dividends in relation to these shares while they are held in trust. They are forfeited if the participant's employment is terminated due to serious misconduct involving dishonesty.

Long-term incentive
Long-term incentive (in the form of performance options and performance rights) has become a key mechanism for recognising executive potential and talent at the Company.

Managing executive talent
During 2004, the Company introduced a sophisticated executive talent process, with the twin aims of enabling superior succession planning for the organisation (and management of business continuity risk) and career development for individuals. This process identifies and tracks employees who contribute to the Group's high performance capability, and is now an essential element of employee engagement and the motivation of top talent.

The executive talent review follows on from the performance management framework (outlined above) and assesses individual executives against a matrix of business outcomes, leadership behaviours and potential capability. The latter dimension measures the individual's capacity to progress to the next level of management complexity within a given timeframe.

On an ongoing basis, the Committee will now review the talent and succession plans for the top two levels of management twice each year.

Linking talent management and long-term reward
Prior to 2004, long-term incentives (in the form of performance options) were allocated within a total number of performance options approved by the Board each year. In determining individual allocations, general regard was given to market and peer relativities, with a significant amount of discretion by management.

The introduction of the executive talent review and the resulting individual talent assessments, now provide a solid, objective basis for determining appropriate long-term rewards. Through this process, individual long-term incentive allocations now transparently recognise current contribution, future capability and potential contribution to the Group's performance over coming years.

Market relativity drives the value of long-term reward for each talent matrix outcome for each management level (based on a numerical pricing model as detailed in note 38 of the annual financial report 2004). The model takes account of factors including the option or performance right exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share, the expected life of the option or performance right, and the probability of the performance hurdle being reached.

Delivery of long-term reward
Long-term incentive rewards may be provided in the form of Company shares (subject to various restrictions), performance options and performance rights (essentially low-exercise price performance options) at the discretion of the Board.

Shares issued as a long-term incentive reward are held in trust until various time and/or performance criteria are achieved (dividends are normally received by the individual while the shares are in trust). Performance options and performance rights are rights to acquire Company shares, if and when specified time and performance hurdles are achieved. The performance hurdles ensure that executive rewards are linked directly to the total shareholder return (TSR) of the Group (as described above), and are, therefore, aligned to the outcomes experienced by other shareholders over a specified timeframe (from September 30, 2004 this will generally be three to five years). The value of any long-term incentive reward is also heavily dependent on the market value of the Company's ordinary shares at the time of exercise (if and when any securities vest).

Along with moving to link the distribution of long-term incentives to talent review outcomes (as detailed above), the Committee introduced performance rights in 2003. The combination of performance options and performance rights is designed to reduce the number of securities issued (i.e. fewer performance rights are issued as they have a higher financial value than traditional performance options). Performance rights also allow for continued motivation of employees in times when the Group outperforms its peers, but for reasons not related to performance, the share price may be low.

Review of the long-term incentive

During 2004, the Committee has again considered the structure of long-term reward in helping to drive appropriate management behaviours and to reinforce cultural change. In determining appropriate changes to the existing program, the Committee sought advice from external experts in the field and considered best practice in the Australian and international markets.

The Committee decided to enhance several aspects of the performance hurdle that applies to the performance options and performance rights. These changes have been implemented with effect from a grant made on September 30, 2004 and will apply to all future grants until amended by the Committee. The nature of the changes is outlined below, with full details of the old and current performance hurdle provided in note 38 to the annual financial report 2004.

The Committee has also reviewed and tightened the conditions under which executives may be allowed to retain some or all performance options and performance rights (subject to the performance hurdle) when they cease employment with the Group (generally only considered in cases such as contract completion, redundancy, retirement, or due to death or total and permanent disablement).

Changes to the performance hurdle from September 2004

Life of performance options and performance rights

The Committee considered the eight-year maximum life of the Company's performance options and performance rights, and decided to reduce this term to five years. From the September 2004 grant, the normal expiry date of the performance options and performance rights will now be on the fifth anniversary of the effective date (normally the grant date). The three-year restriction period from the effective date will generally still apply (before the performance hurdle starts to be tested), with a subsequent two-year period to achieve the performance hurdle.

When an eight-year life was introduced in 2000, it was considered to allow more time for the performance hurdle to be achieved, and, therefore, help to focus executives' decision making on results over a longer timeframe, clearly underscoring the difference between the role of short- and long-term reward. The Committee's current view is that a five-year life will continue to address these issues, but may also better contain the potential benefit received on exercise. In today's environment, it is generally accepted that senior management decision making should be focused on the next three to five years. In line with this, the Group has also recently recruited several individuals at Executive General Manager and General Manager level, with fixed-term contracts of four years.

Relative performance against peer group companies

For grants prior to September 2004, the performance hurdle compares growth in the Company's total shareholder return (averaged over 30 trading days) since the effective date with that of 50 of the companies in the S&P/ASX100, determined at the relevant date, excluding the Company. For grants from September 2004, only half of the performance options and half of the performance rights will vest with reference to this peer group. The vesting of the other half of the securities will depend on the Group's TSR growth relative to the top financial services companies in the S&P/ASX200, excluding the Company. TSR is measured by share price growth and adding back return to shareholders including dividends over the relevant period.

Peer group selection attempts to approximate the types of companies that investors might choose as an alternative to investing in the Company. The Committee believes that the considerations of the Company's investors are better represented by the two peer groups in tandem. This also prevents the possibility of all of the securities vesting with employees even if the Group performs poorly relative to other organisations in the financial services business sector.

The size of the peer group(s) is also an important consideration as a larger peer group helps to reduce the effects of volatility over time, and any changes in the peer group composition due to liquidations, etc, should have less of an impact.

Requiring sustained performance in the top half of the peer companies

The number of performance options or performance rights that may be exercised, if any, depends on the relevant ranking of the Company compared with the peer group(s).

For grants prior to September 2004, vesting of the performance options and performance rights occurred from the median to the upper quartile, with 50% of the securities vesting at the median (50th percentile) of the peer group, and 100% vesting at the 75th percentile (and above). The relevant percentile ranking only had to be achieved on one day during the performance period, but each day's ranking was based on data smoothed over a period of thirty working days (to limit the possibility of a short-term spike in the share price influencing the percentage of vesting).

The Committee has further tightened the performance hurdle, with reference to views held by shareholders and expert consultants. Therefore, from the September 2004 grant, vesting of the performance options and performance rights will commence from the 51st percentile to the 76th percentile, with 50% of the securities vesting at the 51st percentile of the peer group, and 100% vesting at the 76th percentile (and above). Further, each day's relevant percentile ranking will still be based on data smoothed over a period of thirty working days, but the ranking will be required to be maintained for 30 consecutive days of testing before the related vesting will occur. Refer to note 38 of the annual financial report 2004.

Reward for executive directors

Managing Director and Chief Executive Officer

The Committee monitors, reviews and recommends to the Board, remuneration, superannuation and incentive policies and structure and the quantum of the remuneration package, superannuation arrangements, short-term incentives and long-term incentives for the Managing Director and Chief Executive Officer.

The Managing Director and Chief Executive Officer's reward arrangements are developed by the Committee, within the Group's reward strategy, with advice from independent remuneration specialists based on comparisons with other large corporations, and taking into consideration the relevant principles of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Guidelines and other relevant pronouncements.

Remuneration at the National (continued)

Through the use of appropriate short-term and long-term incentive programs, these arrangements from 2005 also take account of the achievement of EPS growth, EVA® growth for the Group, the National's TSR performance , and specific behavioural and financial key result areas that are agreed between the Board and the Managing Director and Chief Executive Officer.

Summary of remuneration of the Managing Director and Chief Executive Officer – Mr John Stewart

Mr Stewart receives annual fixed remuneration, short-term incentive remuneration and long-term incentive remuneration.

Annual fixed remuneration is a total amount of $2,230,000. This amount is reviewed annually. A portion of Mr Stewart's fixed remuneration may be taken in the form of packaged benefits (such as a motor vehicle, parking and accommodation) and is inclusive of fringe benefits tax and superannuation contributions.

The Group is not required by Australian law to provide superannuation contributions in connection with Mr Stewart's employment due to the type of Australian visa issued to him. However, under the employment agreement, the Group agrees to pay annual superannuation contributions to the National Australia Bank Group Superannuation Fund. Those contributions form part of Mr Stewart's fixed remuneration of $2,230,000. Mr Stewart may, in lieu of receiving those Australian superannuation benefits, elect to participate in a pension or other scheme in the United Kingdom. Again any such payments form part of Mr Stewart's fixed remuneration.

Mr Stewart's short-term incentive remuneration is determined annually in accordance with the Group's short-term incentive plan. Each year the Board agrees or determines reasonable performance measures and targets for use in assessing Mr Stewart's performance. After the end of each financial year, the Board reviews Mr Stewart's performance by reference to these measures and targets. Mr Stewart's short-term incentive target for the 2004 year was set at 100% of his fixed remuneration. This short-term incentive target is determined annually by the Board, but cannot be less than the target for the preceding year.

For 2004, Mr Stewart's short-term incentive reward of $1,445,000 (which is 24% less than his target) was determined by reference to the financial performance of the Group and the achievement of milestones against the measures announced to shareholders on March 12, 2004, which included management changes, improved risk and control frameworks and cultural change. Most of this reduction in Mr Stewart's incentive is due to the Group's financial performance for 2004.

For the 2005 year, the target remains at 100% of fixed remuneration. The extent to which Mr Stewart receives a short-term incentive, and its quantum relative to the target, is dependent upon the extent to which he achieves his performance targets for the year, an assessment by the Board of his overall contribution to the development of the Group and the extent to which he achieves financial targets set by the Board. The Board may in its discretion award a reasonable and appropriate short-term incentive reward in excess of the target for exceptional performance in any year.

At least one-half of the short-term incentive remuneration must be provided in the form of Company shares. The issue of these shares is subject to shareholder approval. The shares are provided under the National Australia Bank Staff Share Ownership Plan and are held in trust for Mr Stewart under the terms of that plan. While the shares are held in trust, Mr Stewart is entitled, through the trustee, to receive dividend payments and to exercise voting rights attaching to the shares. The shares may be forfeited in limited circumstances. The shares will be restricted from trading for the duration of Mr Stewart's employment agreement.

The long-term incentive component of Mr Stewart's remuneration comprises his eligibility to participate in offers of performance options and performance rights under the National Australia Bank Executive Share Option Plan No.2 and the National Australia Bank Performance Rights Plan respectively, subject to shareholder approval. Approval is proposed to be sought from shareholders for the granting of 900,000 performance options and 210,000 performance rights under the respective plans at the Company's annual general meeting to be held on January 31, 2005. (The $30.41 exercise price for each share option is the volume weighted average price of fully-paid ordinary shares of the Company traded on the ASX during the week up to and including February 2, 2004, being the effective date of Mr Stewart's employment contract.) Performance rights have a nominal exercise price of $1.00 for all performance rights exercised by the holder on a single day. It is not proposed to make any further grants of performance options or performance rights to Mr Stewart during the term of his employment. If Mr Stewart resigns during the first 18 months of the employment agreement, these performance options and performance rights will lapse. If resignation occurs after 18 months, Mr Stewart will retain the performance options and performance rights on a pro-rated basis calculated from Mr Stewart's appointment date of February 2, 2004 to the date of termination. In the latter case, the performance options and performance rights will have two years from the date of resignation to satisfy the performance conditions after which they will lapse if not exercised. The performance hurdle is detailed in note 38 of the annual financial report 2004.

Mr Stewart may be considered for participation in other staff share schemes as the Board may determine. All issues of Company securities to Mr Stewart are subject to applicable legal and listing rule requirements to obtain shareholder approval.

Mr Stewart is entitled to participate in other benefits that are normally provided to executives employed by the Company.

Summary of remuneration of Chief Executive Officer, Australia – Mr Ahmed Fahour

The appointment of Mr Fahour as Chief Executive Officer, Australia, was the result of a worldwide search for a senior executive to head up and manage the Group's three main businesses in Australia comprising financial services, corporate and institutional banking and wealth management. The remuneration package offered to secure Mr Fahour's services was structured in accordance with the Group's pay for performance framework. Advice from one of Australia's foremost executive remuneration consultants acknowledges that there is no role in any leading financial institution in Australia, other than the chief executives of the three other leading banks with similar accountability and Mr Fahour's position assumes a responsibility in relation to employee numbers and scope of profits, having regard to revenues, assets and profits, which substantially exceeds those of other financial institutions (apart from the three other leading banks).

Mr Fahour receives annual fixed remuneration, short-term incentive remuneration, long-term incentive remuneration and certain commencement benefits in accordance with the Group's reward policy.

Annual fixed remuneration is $1,500,000, which will be reviewed annually, with the next review around October 2005. A portion of Mr Fahour's fixed remuneration may be taken in the form of packaged benefits (such as a motor vehicle and parking), and is inclusive of fringe benefits tax and superannuation contributions.

Mr Fahour's short-term incentive remuneration is determined annually in accordance with the Group's short-term incentive program, as amended from time to time. As described above, this program has recently been reviewed with the reward pool being funded from growth in earnings per share (70%) and EVA® (30%). Mr Fahour's annual target short-term incentive is set at 130% of his fixed remuneration. At least half of any incentive awarded will be provided in ordinary shares, the issue of which is subject to shareholder approval. Short-term incentive remuneration is not guaranteed as it is subject to the achievement of a combination of the Group's performance target and Mr Fahour's individual performance target.

The long-term incentive component of Mr Fahour's remuneration comprises his eligibility to participate in an offer of performance options and performance rights under the National Australia Bank Executive Share Option Plan No.2 and the National Australia Bank Performance Rights Plan respectively, as amended from time to time. Long-term incentive rewards are not guaranteed, as they are subject to annual assessments. On the cessation of Mr Fahour's employment with the Group, the retention of any performance options and performance rights granted to him during his employment with the Company will be determined in accordance with the terms of grant under the respective plans.

Following his appointment as a director, all issues of Company securities to Mr Fahour are subject to applicable legal and listing rule requirements to obtain shareholder approval.

One-off commencement benefits

In order to secure Mr Fahour, as part of the Group's employment offer, the Group agreed to compensate Mr Fahour for most of the value he was entitled to from his previous employer but which was forfeited by Mr Fahour as a consequence of his resigning and joining the Group. This is a practice observed by many large corporates. Accordingly, Mr Fahour received the following one-off benefits shortly after his commencement with the Group:

- 160,000 performance options[(1)] and 40,000 performance rights[(1)], which were subject to approval by the Board, and were granted on September 30, 2004. Mr Fahour will be eligible to exercise the performance options and performance rights after three years but before five years from the effective date, provided the applicable performance hurdles are met during the two-year exercise period. The hurdle is detailed on page 37. Mr Fahour will retain the performance options and performance rights on the termination of his employment with the Group on notice by the Group or due to redundancy, death, total and permanent disablement or on the expiration of his employment agreement and these securities will remain subject to the applicable performance hurdles. Mr Fahour will forfeit the performance options and rights on resigning from the Group or on summary termination or serious misconduct;
- $2,000,000 in Company shares, issued under the National Australia Bank Staff Share Ownership Plan (the "Share Plan") on September 30, 2004 (75,216 shares were issued at an issue price of $26.59[(2)]). One quarter of the shares will "vest" (that is, will not be subject to forfeiture on resignation) on each anniversary of his commencement date with the Group;
- $6,000,000 in Company shares, issued under the Share Plan on September 30, 2004 (225,649 shares were issued at an issue price of $26.59[(2)]). All the shares will be free from restriction on his resigning from the Group, or on completion of the original term of his employment agreement, or if he ceases employment with the Group due to death or total and permanent disablement. However, Mr Fahour will forfeit any interest in the shares in the event of serious misconduct or summary termination;
- a cash amount of $3,857,000 (gross)[(3)] in relation to the incentive forgone by Mr Fahour; and
- a reimbursement of up to $385,000[(4)] associated with the sale of Mr Fahour's principal residence in the US and with the purchase of a principal residence in Australia. Other associated relocation costs will be met by the Group in accordance with the Group's international relocation policy.

The one-off commencement benefits negotiated by the Group follow a principle that is commonly used by large corporates in attracting top executive talent. With regard to the offer of Company shares, the negotiations included the application of time hurdles that are more onerous than the original terms of release in respect of the equity issued to Mr Fahour by his former employer. That is, the shares have a combination of time-based vesting hurdles with all the shares vesting at the expiration date of Mr Fahour's employment agreement. The performance options and performance rights granted to Mr Fahour are subject to the Group's standard total shareholder return hurdle. The final value of these equity-based commencement benefits is dependent on the Company's share price at the expiration of Mr Fahour's employment agreement.

The above one-off commencement benefits are not an ongoing part of Mr Fahour's compensation.

Mr Fahour is eligible to participate in other benefits that are normally provided to executives who are employed by the Company.

(1) The exercise price for each share option and performance right was the volume weighted average price of fully-paid ordinary shares of the National traded on the ASX during the week up to and including September 1, 2004 namely $26.59. Performance rights have a nominal exercise price of $1.00 for all performance rights exercised by the holder on a single day.
(2) The issue price for each share was the volume weighted average price of fully-paid ordinary shares of the National traded on the ASX during the week up to and including September 1, 2004 namely $26.59.
(3) Payment made in September 2004.
(4) Reimbursement of approximately $355,000 was made in September 2004.

Summary of remuneration of the Chief Financial Officer – Mr Michael Ullmer

The Group's employment offer to Mr Ullmer was structured in accordance with the Group's pay for performance framework and each element of remuneration was benchmarked against other leading companies and international banks in terms of level of remuneration and total reward mix.

Mr Ullmer receives annual fixed remuneration, short-term incentive remuneration, long-term incentive remuneration and certain commencement benefits.

Annual fixed remuneration is $1,000,000, which will be reviewed on October 1, 2005 and thereafter on an annual basis. A portion of Mr Ullmer's fixed remuneration may be taken in the form of packaged benefits (such as a motor vehicle and parking) and is inclusive of fringe benefits tax and superannuation contributions.

Mr Ullmer's short-term incentive remuneration is determined annually in accordance with the Group's short-term incentive program, as amended from time to time. Mr Ullmer's annual target short-term incentive is set at 100% of his fixed remuneration. At least half of any incentive awarded will be provided in the form of ordinary shares in the Company, the issue of which is subject to shareholder approval. Short-term incentive remuneration is not guaranteed as it is subject to the achievement of a combination of the Group's performance target and Mr Ullmer's individual performance target.

The long-term incentive component of Mr Ullmer's remuneration comprises his eligibility to participate in an offer of executive performance options and performance rights under the National Australia Bank Executive Share Option Plan No.2 and the National Australia Bank Performance Rights Plan respectively, as amended from time to time. Long-term incentive rewards are not guaranteed, as they are subject to annual assessments. On cessation of Mr Ullmer's employment with the Group, the retention of any performance options and performance rights granted to him during his employment with the Group will be determined in accordance with the terms of grant under the respective plans.

Following his appointment as a director, all issues of Company securities to Mr Ullmer are subject to applicable legal and listing rule requirements to obtain shareholder approval.

Remuneration at the National (continued)

One-off commencement benefit

As part of the Groups's employment offer, the Group agreed to grant Mr Ullmer 100,000 performance options[1] and 25,000 performance rights[1] as a one-off commencement benefit on joining the Group. These performance options and performance rights, which were approved by the Board, were granted to Mr Ullmer on September 30, 2004. Mr Ullmer will be eligible to exercise the performance options and performance rights after three years but before five years from the effective date provided that the applicable performance hurdles are met during the two-year exercise period. The hurdle is detailed on page 37. Mr Ullmer will retain the performance options and performance rights on the termination of his employment with the Group on notice by the Group or due to redundancy, death, total and permanent disablement or on the expiration of his employment agreement, and these securities will remain subject to the applicable performance hurdles. Mr Ullmer will forfeit all of these performance options and performance rights on resigning from the Group in the event of serious misconduct or on summary termination. The above one-off commencement benefit is not an ongoing part of Mr Ullmer's compensation.

The Group will meet reasonable expenses associated with the relocation of Mr Ullmer and his family from Sydney to Melbourne in accordance with the Group's domestic relocation policy.

Mr Ullmer is eligible to participate in other benefits that are normally provided to executives who are employed by the Company.

(1) The exercise price for each share option is the volume weighted average price of fully-paid ordinary shares of the National traded on the ASX during the week up to and including September 1, 2004 namely $26.59. Performance rights have a nominal exercise price of $1.00 for performance rights exercised on a particular day, irrespective of the number exercised on that day.

Reward for executives

The reward strategy for senior executives of the Group is closely aligned to that of the Managing Director and Chief Executive Officer in order to promote consistent, clear reward messages, and to align remuneration outcomes across the executive team. This alignment is provided under the Group's reward strategy, which provides a common framework for reward, talent, and performance management across the Group. Reward levels are set in line with advice from independent remuneration consultants to ensure that they are in line with general market practice, and are appropriately competitive in order to attract and retain top executive talent.

Specified executives' service agreements

Remuneration and other terms of employment for the specified executives (including executive directors) are formalised in service agreements. Each of these agreements provides for performance-related cash bonuses, and fringe benefits plus other benefits, including participation where eligible, in performance option and performance rights plans. Details of the term of employment and the fixed remuneration and short-term incentive arrangements for the specified executives as at September 30, 2004 are set out below:

Name	Term of agreement	Fixed pay[1] $	Target short-term incentive[2]	Entitlement to long-term incentive[3]	Termination benefits[4]
Cameron A Clyne [5]	No fixed term (contract commenced August 9, 2004)	525,000	65%	Yes	12 months fixed pay
Ahmed Fahour [6]	4 years from September 1, 2004 (option of renewal for one further year)	1,500,000	130%	Yes	12 months fixed pay
John E Hooper [7]	No fixed term	700,000	130%	Yes	3 months fixed pay
Ian G MacDonald	No fixed term	722,000	100%	Yes	15 months fixed pay
Lynne M Peacock [8]	No fixed term (contract commenced May 10, 2004)	GBP420,000	80%	Yes	12 months fixed pay
Ross E Pinney	No fixed term	740,000	100%	Yes	18 months fixed pay
Peter B Scott	No fixed term	771,000	100%	Yes	12 months fixed pay
Gavin R Slater [9]	No fixed term	345,000	40%	Yes	15 months fixed pay
John M Stewart [10]	3 years from February 2, 2004 (option of renewal for one further year)	2,230,000	100%	Yes	12 months fixed pay plus 6 months notice
Peter L Thodey [11]	No fixed term	NZD560,000	70%	Yes	1 months fixed pay
Michael J Ullmer [12]	4 years from September 1, 2004 (option of renewal for one further year)	1,000,000	100%	Yes	12 months fixed pay
Graeme D Willis [13]	No fixed term	445,000	45%	Yes	15 months fixed pay

(1) Fixed pay is fixed remuneration inclusive of superannuation and fringe benefits.

(2) Target short-term incentive is subject to achievement of individual and Group performance goals with the target percentage (of fixed pay shown above) being earned for an on-target performance. At least half of Mr Stewart's, Mr Fahour's and Mr Ullmer's short-term incentive awards will be delivered in shares, subject to shareholder approval. Other specified executives may elect for part of any STI reward to be provided in shares.

(3) Long-term incentives are paid in the form of performance options and performance rights and are subject to the achievement of performance hurdles.

(4) Termination benefits vary depending upon the circumstances of termination. Termination benefits shown are payable where the National terminates the specified executive's employment agreement on notice and without cause, and makes payment in lieu of notice. Generally, termination benefits are not payable on resignation, summary termination or unsatisfactory performance. Performance options and performance rights generally lapse 30 days (or such shorter time as determined at the time of grant) after cessation of employment unless otherwise determined by the Board. In certain circumstances and depending on the terms of grant, in cases such as contract completion, death, retirement, retrenchment, redundancy or total and permanent disablement, the Board may consider each case on its individual merits and may allow the executive to retain some or all of their performance options and/or performance rights for a period of time no later than the relevant expiry date of the securities. Vesting and exercise of the securities generally remain subject to the applicable performance hurdle. Certain shares held in trust are forfeited on termination for serious misconduct involving dishonesty.

(5) One-off compensation on joining the Group comprising 55,000 performance options and 13,750 performance rights were granted on September 30, 2004.

(6) One-off compensation on joining the Group comprising: (a) 160,000 performance options and 40,000 performance rights granted on September 30, 2004; (b) 75,216 shares (with a value on issue of approximately $2,000,000) issued on September 30, 2004 under the National Australia Bank Staff Share Ownership Plan of which 25% will no longer be subject to forfeiture on resignation, on each anniversary of his commencement date; (c) 225,649 shares (with a value on issue of approximately $6,000,000) also issued under the National Australia Bank Staff Share Ownership Plan; (d) cash payment of $3,857,000 made in September 2004; (e) approximately $355,000 associated with the sale of his US residence and the purchase of a principal residence in Australia. Performance options and performance rights granted will lapse immediately on resignation or in the event of summary termination or serious misconduct.

(7) On appointment as Acting Executive General Manager Corporate & Institutional Banking, fixed pay was not increased but three tranches of shares with varying conditions on their issue were awarded under the National Australia Bank Staff Share Ownership Plan with the first tranche of 1,627 shares issued on July 19, 2004 and the second tranche of 2,440 shares on September 20, 2004. Prior to appointment, participated in the Corporate & Institutional Banking bonus plan for the first half of the year. Upon appointment, short-term incentive is based on previous incumbent's incentive pro-rated to September 30, 2004. The percentage STI shown applies to his new role as Executive General Manager, Institutional Markets and Services.

(8) For the purpose of this table only, fixed pay is expressed in GBP as per Ms Peacock's employment agreement, on average, AU$1 bought GBP0.4055.

(9) On appointment as Group General Manager three tranches of shares with varying restrictions on trading were awarded under the National Australia Bank Staff Share Ownership Plan with the first tranche of 1,186 shares issued on July 19, 2004.

(10) In addition to fixed pay, approval to the granting of 900,000 performance options and 210,000 performance rights will be sought at the 2004 annual general meeting on January 31, 2005.

(11) For the purposes of this table only, fixed pay is expressed in New Zealand dollars as per Mr Thodey's employment agreement. On average, AU$1 bought NZ$1.13 for the year.

(12) One-off compensation on joining the National comprising 100,000 performance options and 25,000 performance rights granted on September 30, 2004.

(13) On appointment as Acting Executive General Manager Risk, fixed pay was not increased but three tranches of shares with varying conditions on their issue were awarded under the National Australia Bank Staff Share Ownership Plan with the first tranche of 1,830 shares issued on July 19, 2004. Upon appointment, short-term incentive is based on previous incumbent's incentive pro-rated to September 30, 2004. The percentage STI shown applies to his former role as Chief Credit Officer.

Non-executive directors

Remuneration policy

The fees paid to non-executive members of the Board are based on advice and data from the Group's remuneration specialists and from external remuneration advisers. This advice takes into consideration the level of fees paid to board members of other major Australian corporations, the size and complexity of the Group's operations, the activities of the Group and the responsibilities and workload requirements of Board members.

Fees are established annually for the Chairman and non-executive directors. Additional fees are paid, where applicable, for participation in Board committees and for serving on the boards of controlled entities.

The total fees paid to non-executive members of the Board, including fees paid for their involvement on Board committees and controlled entity boards, are kept within the total approved by shareholders from time to time. Shareholders approved a maximum fee pool of $3.5 million at the Company's annual general meeting held on December 19, 2003.

At the Company's annual general meeting held in December 2003, shareholders approved the continuation of the non-executive directors' share arrangement under the Non-Executive Director's Share Plan (which is operated through the National Australia Bank Staff Share Ownership Plan). Under this arrangement, shares are provided to non-executive directors as part of their remuneration (a minimum of 10% of fees), rather than receiving total cash. The shares are either issued or acquired on-market on behalf of participants and allocated to non-executive directors on dates determined by the trustee of the National Australia Bank Staff Share Ownership Plan in its sole discretion.

Agreements between the Group and certain of the non-executive directors provided that upon, and in the consequence of, each of these directors ceasing to be a director by reason of retirement or death, the Group should pay a lump-sum retirement allowance. This retirement benefit, as approved by shareholders, was based on period of service, as follows:

- **Less than 15 years**

One-third of the average yearly emoluments paid by the Group to the director:

(a) during the last three years of service; or

(b) when the period of such service is less than three years, during that period, for each completed year of service and proportionately for part of a year, as a non-executive director; or

- **15 years or more**

Five times the average yearly emoluments paid by the Group to the director during the last three years of service as a non-executive director.

During 2002, the Board decided not to enter into any new contractual obligations to pay retirement allowance benefits to non-executive directors appointed after December 31, 2002. At the Company's annual general meeting held on December 19, 2003, a proposal was approved permitting directors of the Company and its controlled entities who had accrued retirement benefits to apply those benefits frozen as at December 31, 2003 to either cash (to be paid on retirement), to additional superannuation contributions or to the acquisition of Company shares (to be held in trust until retirement). Directors' fees for these directors have been increased to reflect the cessation of the retirement benefits program. For those non-executive directors who would have no entitlement to a retirement allowance benefit, their directors' fees have been set at this higher level. All directors now have flexibility in relation to their remuneration, including the opportunity to set aside additional Company superannuation contributions.

Report of the directors

The directors of National Australia Bank Limited (the Company) present their report, together with the financial statements of the Group, being the Company and its controlled entities, for the year ended September 30, 2004.

Directors

The Board of directors (the Board) has power to appoint persons as directors to fill any vacancies. Other than the Managing Director and those directors appointed during the year, one-third (or the nearest number to) are required to retire by rotation at each annual general meeting and are eligible to stand for re-election together with those directors appointed during the year to fill any vacancy who must retire and stand for election.

Details of directors of the Company in office at the date of this report, and each director's qualifications, experience and special responsibilities are below:

- **Mr Graham J Kraehe**

AO, BEc, FAICD
Mr Kraehe was appointed Chairman in February 2004 and has been a non-executive director since 1997. He is the Chairman of the Nomination Committee.
Experience
38 years in the wine, automotive and diversified manufacturing industries. Managing Director of Pacifica Limited from 1985 until 1994. Managing Director and Chief Executive Officer of Southcorp Limited from 1994 until early 2001.
Directorships of listed entities within the last three years
Chairman of Bluescope Steel Limited – director since May 2002 and director of Djerriwarrah Investments Limited since July 2002. He was a director of Brambles Industries from December 2000 to March 2004 and a director of The News Corporation Limited from January 2001 to April 2004.

- **Mr Peter JB Duncan**

BE (Chem) (1st Class Hons), DBS (with Distinction)
Mr Duncan was appointed a non-executive director in 2001. He is Chairman of the Risk Committee and is a member of the Audit Committee and the Nomination Committee.
Experience
36 years with Royal Dutch/Shell Group of companies, including senior finance and general management positions in Australia, New Zealand, South America, Europe and South East Asia. He was Chairman of the Shell Group of Companies in Australia and New Zealand. Former Chairman of the Australian Institute of Petroleum.
Directorships of listed entities within the last three years
Orica Limited since June 2001 and GasNet Australia Limited since October 2001. Director of Woodside Petroleum Limited from May 1999 to February 2002.
Other directorships
Commonwealth Scientific and Industrial Research Organisation (CSIRO). Chairman of Scania Australia Pty Limited. President of the Australian German Association.

- **Mr Robert G Elstone**

BA (Hons), MA (Econ), MCom
Mr Elstone was appointed as a non-executive director in September 2004. He is a member of the Risk Committee and the Nomination Committee.
Experience
24 years in financial and senior management roles and has been Managing Director and Chief Executive Officer of SFE Corporation since 2000. Formerly Finance Director of Pioneer International Limited from 1995 to 2000 and Chief Financial Officer of Air New Zealand Limited from 1991 to 1994. Mr Elstone is an Honorary Fellow of the Finance and Treasury Association and has completed the senior development programmes at the Harvard and Stanford business schools.
Directorships of listed entities within the last three years
SFE Corporation since May 2000.
Other directorships
SFE Corporation related entities, including the Sydney Futures Exchange, SFE Clearing Corporation and Austraclear Limited.

- **Mr Ahmed Fahour**

BEc (Hons), MBA
Mr Fahour was appointed as Chief Executive Officer, Australia in September 2004 and an executive director in October 2004. He is a member of the Nomination Committee.
Experience
17 years in economics and finance, most recently as Chief Executive Officer, Australia and New Zealand, Citigroup in 2004, and he held senior management positions in Citigroup from 2000 to 2003. Previously Managing Director, iFormation Private Equity Group and a director of the Boston Consulting Group from 1995 to 1999.
Other directorships
Rip Curl Group Pty Ltd since July 2004.

- **Mr Daniel T Gilbert**

LLB
Mr Gilbert was appointed a non-executive director in September 2004. He is a member of the Audit Committee and the Nomination Committee.
Experience
30 years in commercial law, specialising in technology and corporate law. Currently Managing Partner of Gilbert + Tobin, which he co-founded in 1988.
Other directorships
Chairman of the Australian Film, Television and Radio School. Director of Bangarra Dance Theatre.

- **Mr Paul J Rizzo**

BCom, MBA
Mr Rizzo was appointed a non-executive director in September 2004. He is a member of the Audit Committee, the Risk Committee and the Nomination Committee.
Experience
36 years in banking and finance. Formerly Dean and Director of Melbourne Business School from 2000 to 2004, Group Managing Director, Finance and Administration, Telstra Corporation Limited from 1993 to 2000, senior roles at Commonwealth Bank of Australia from 1991 to 1993, Chief Executive Officer of State Bank of Victoria in 1990 and 24 years with Australia and New Zealand Banking Group from 1966 to 1990.
Directorships of listed entities within the last three years
Bluescope Steel Limited since May 2002. He was a director of NM Rothschild Australia Holdings Ltd from 2001 to 2003.
Other directorships
Consultant director to Mallesons Stephen Jaques.

- **Ms Jillian S Segal**

BA, LLB, LLM (Harvard)
Ms Segal was appointed a non-executive director in September 2004. She is a member of the Human Resources Committee (formerly the Compensation Committee) and the Nomination Committee.
Experience
24 years as a lawyer and regulator, most recently at the Australian Securities & Investments Commission from 1997 to 2002 as Commissioner and then Deputy Chairman and as Chairman of the Board of the Banking & Financial Services Ombudsman from 2002 to 2004. In 2002 she was a Panel Member of the Dawson Review into Trade Practices Act. She was an environmental and corporate partner and consultant at Allen Allen & Hemsley and worked for Davis Polk & Wardwell in New York.
Directorships of listed entities within the last three years
Australian Stock Exchange Limited since July 2003.
Other directorships
Member of the Australia Council's Major Performing Arts Board.

■ **Mr John M Stewart**
BA, ACII, FCIB
Mr Stewart was appointed Managing Director and Chief Executive Officer in February 2004 and has been an executive director since August 2003. He is a member of the Risk Committee and the Nomination Committee.
Experience
26 years in banking and finance in the United Kingdom including four years as Group Chief Executive of Woolwich PLC until its acquisition by Barclays PLC in 2000 when he was appointed Deputy Group Chief Executive of Barclays PLC.

■ **Mr John G Thorn**
FCA
Mr Thorn was appointed a non-executive director in October 2003. He is Chairman of the Audit Committee and a member of the Human Resources Committee and the Nomination Committee.
Experience
37 years in professional services with PricewaterhouseCoopers, over 20 years as a partner responsible for significant international and Australian clients. Australian National Managing Partner and a member of the Global Audit Management Group until 2003.
Directorships of listed entities within the last three years
Caltex Australia Limited since June 2004 and Salmat Limited since September 2003.

■ **Mr Geoffrey A Tomlinson**
BEc
Mr Tomlinson was appointed a non-executive director in 2000. He is Chairman of National Wealth Management Holdings Limited. He is Chairman of the Human Resources Committee and a member of the Nomination Committee.
Experience
29 years with the National Mutual Group, six years as Group Managing Director and Chief Executive Officer until 1998.
Directorships of listed entities within the last three years
Chairman of Funtastic Limited – director since May 2000 and Programmed Maintenance Services Limited – director since August 1999. Deputy Chairman of Hansen Technologies Limited, director since March 2000 and a director of Amcor Limited since March 1999 and Mirrabooka Investments Limited since February 1999. He was a director of Reckon Limited from June 1999 to August 2004, Lako Pacific Limited from March 2000 to June 2002 and Neverfail Springwater Limited from April 1999 to September 2003.

■ **Mr Michael J Ullmer**
BSc (Maths) (Hons), FCA, FAIBF, ASA
Mr Ullmer was appointed Chief Financial Officer in September 2004 and an executive director in October 2004. He is a member of the Nomination Committee.
Experience
32 years in banking and finance, including seven years with Commonwealth Bank of Australia as Group Executive, Institutional and Business Services from 2002 to 2004 and Group Executive, Financial and Risk Management from 1997 to 2002. Formerly Partner of Coopers & Lybrand from 1992 to 1997 and 20 years with KPMG including partner from 1982 to 1992.
Other directorships
Director of Sydney Symphony Orchestra.

■ **Mr G Malcolm Williamson**
Mr Williamson was appointed a non-executive director in May 2004. He is a member of the Nomination Committee and is a non-executive chairman of National Australia Group Europe Limited and on the boards of the Company's main controlled entity boards in Europe.
Experience
37 years in banking and finance in the United Kingdom and the United States. He served with Barclays Bank PLC from 1957 to 1985, reaching the position of Regional General Manager, London. This was followed by a period as a member of the Post Office board and Managing Director of Girobank PLC. In 1989 he joined Standard Chartered PLC and became Group Chief Executive. In 1998 he moved to the United States and took up the role of President and Chief Executive Officer of Visa International, which he held until 2004.
Directorships of listed entities within the last three years
Chairman, CDC Group PLC since July 2004, Chairman, Brittanica Group PLC since October 2004 and non-executive director, Securicor PLC since April 2004.

Secretaries of the Company
Details of company secretaries of the Company in office at the date of this report, and each company secretary's qualification and experience are below:

■ **Mr Garry F Nolan**
MBus, FAICD, FCIS, FAIBF, ASIA, CFTP (Snr)
Joined the Group in 1970 and has held the position of Company Secretary since 1992. He has senior management experience in financial management, capital markets, corporate strategy, new business development, corporate restructuring, board affairs, corporate governance, shareholder services and globalisation of business. The Company Secretary advises and supports the Board and is the Chief Governance Officer.

■ **Mr Brendan T Case**
BEc, GDipAppFin, Dip Fin Plan, CPA, ACIS, ASIA
Joined the Group in 1997 and has held the position of Associate Company Secretary since 2003. He is Head of the Risk Committee and the Audit Committee Secretariat.

■ **Ms Susan E Crook**
BA, LLB, MBA, FCIS, FSIA, MAICD
Joined the Group in 2000 as Associate Company Secretary and Head of the Australian Secretariat. She is responsible for the Australian head office companies. She is the current National President of Chartered Secretaries Australia.

Board changes
In February 2004, Mr Graham J Kraehe was appointed as Chairman and Mr John M Stewart as Managing Director and Chief Executive Officer. Also in February 2004, Mr D Charles K Allen resigned as Chairman and non-executive director and Mr Frank J Cicutto resigned as Managing Director and Chief Executive Officer.

On April 6, 2004, the Chairman announced that a process of Board renewal would be undertaken. As a result, Mr Robert G Elstone, Mr Daniel T Gilbert, Mr Paul J Rizzo, Ms Jillian S Segal and Mr G Malcolm Williamson were appointed as non-executive directors during the year. Further, in October 2004 Mr Ahmed Fahour and Mr Michael J Ullmer were appointed as executive directors.

Also during the year, Dr J Brian Clark, Dr Kenneth J Moss, Dr Edward D Tweddell and Mrs Catherine M Walter resigned as non-executive directors.

Further, the Company announced that Mr Michael Chaney will join the Board as a non-executive director from December 2004 and be appointed Chairman in September 2005.

Directors' and officers' indemnity

The Company's constitution

Article 21 of the Company's constitution provides:

Every person who is or has been an officer is entitled to be indemnified out of the property of the Company to the 'relevant extent' against:

- every liability incurred by the person in the capacity as an officer (except a liability for legal costs); and
- all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil, criminal or of an administrative or investigatory nature, in which the officer becomes involved in that capacity,

unless:

- the Company is forbidden by statute to indemnify the person against the liability or legal costs; or
- an indemnity by the Company of the person against the liability or legal costs would, if given, be made void by statute.

The reference to the 'relevant extent' means to the extent and for the amount that the officer is not otherwise entitled to be indemnified and is not actually indemnified.

The Company may also pay, or agree to pay, whether directly or through an interposed entity, a premium for a contract insuring a person who is or has been an officer against liability incurred by the person in their capacity as an officer, including a liability for legal costs, unless:

- the Company is forbidden by statute to pay or agree to pay the premium; or
- the contract would, if the Company paid the premium, be made void by statute.

The Company may enter into a contract with an officer or former officer to give:

- effect to the rights of the officer or former officer conferred by Article 21; and
- an officer or former officer access to papers, including those documents provided from or on behalf of the Company or a related body corporate of the Company to the officer during their appointment and those documents which are referred to in such documents or were made available to the officer for the purpose of carrying out their duties as an officer.

Article 21 does not limit any right the officer otherwise has. In the context of Article 21, 'officer' means a director, secretary or executive officer of the Company or of a related body corporate of the Company.

The existing and former directors, secretaries and executive officers of the Company and of its related bodies corporate are indemnified in terms of Article 21.

The Company has executed deeds of indemnity in terms of Article 21 in favour of each non-executive director of the Company and each non-executive director of a related body corporate of the Company.

The Company has, under deeds of settlement and release, indemnified former officers, Mr Cicutto, Mr Laing and Mr R McKinnon in respect of reasonable costs and expenses arising from defending certain claims and proceedings that may arise with respect to their employment with the Company. *For more detailed summaries of the deeds of settlement and release, refer to pages 243 to 244 of the annual financial report 2004.*

Directors' and officers' insurance

During the year, the Company, pursuant to Article 21, paid a premium for a contract insuring all directors, secretaries, executive officers and officers of the Company and of each related body corporate of the Company. The insurance does not provide cover for the independent auditors of the Company or of a related body corporate of the Company.

In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered by the insurance, the limit of indemnity and the amount of the premium paid under the contract.

Principal activities and significant changes in nature of activities

The principal activities of the Group during the year were banking services, credit and access card facilities, leasing, housing and general finance, international banking, investment banking, wealth management, funds management, life insurance, and custodian, trustee and nominee services.

Review of operations and group results

Financial performance

Net profit attributable to members of the Company of $3,177 million in 2004, decreased $778 million or 19.7% compared with 2003. Net profit of $3,551 million in 2004, decreased $396 million or 10.0% compared with 2003.

Significant items are those individually significant items included in net profit. The current year result included the following after tax significant items:

- foreign currency options trading losses of $252 million (*refer to 'significant changes in the state of affairs' for further information*);
- write-down of impaired application software of $307 million;
- charge to provide for doubtful debts of $204 million as a result of a revision of an accounting estimate;
- net profit of $315 million on sale of strategic shareholdings in St George Bank Limited, AMP Limited and HHG PLC; and
- net profit of $64 million on write-back of a provision for costs related to the sale of SR Investment, Inc.

The 2003 result included no significant items.

Net profit attributable to members of the Company before significant items of $3,561 million in 2004, decreased $394 million or 10.0% compared with 2003.

Net interest income of $7,191 million in 2004, was $228 million or 3.1% lower than 2003. This was driven by a decrease in the net interest margin from 2.53% to 2.35%, partly offset by lending growth. The fall in margin largely resulted from the strong growth in lower margin mortgages and fixed rate lending within the retail banking business, as well as a reduction in contribution from the Markets and Specialised Finance divisions of Corporate & Institutional Banking.

Net life insurance income increased by $568 million from $444 million in 2003 to $1,012 million in 2004. This was driven by an increase in investment earnings resulting from improved performance in global equity markets and favourable claims experience, partially offset by an increase in policy liabilities.

Other banking and financial services income of $4,831 million in 2004, was $179 million or 3.6% lower than 2003. This outcome reflects:

- lower trading income;
- a reduction in money transfer fees;
- the negative impact of the Reserve Bank of Australia credit card interchange fee reform in Australia effective October 31, 2003;
- lower dividend income following the sale of strategic shareholdings in January 2004;
- the inclusion in the prior year of a one-off benefit on the restructure of the hedging swaps on the TrUEPrS[SM] preference shares;
- flat loan fees from banking; and
- growth in the Fleet Management and custody businesses following recent acquisitions.

The movement in the excess of net market value over net assets of life insurance controlled entities was a loss of $137 million in 2004, an improvement of $23 million from 2003, impacted by the effect of assumption and experience changes underlying the valuation, and the impact of the Group's election to consolidate under the Australian tax consolidations regime.

Personnel, occupancy and general expenses of $6,812 million in 2004, were $458 million or 7.2% higher than 2003. This outcome reflects:

- increased costs associated with the European defined pension funds, partly offset by a superannuation contribution holiday in Australia reducing Australian defined contribution superannuation expenses;

- higher personnel costs (excluding pensions) reflecting salary increases and growth in staffing levels;
- growth in costs associated with major Group-wide projects – Basel II and International Financial Reporting Standards;
- higher occupancy costs as a result of annual rent increases and relocation costs;
- increased advertising and marketing costs, including the sponsorship of the 2006 Melbourne Commonwealth Games;
- higher software amortisation across the business reflecting prior year investment in infrastructure; and
- $22 million (after tax) write-off of development work associated with the Integrated Systems Implementation program in the first half.

The charge to provide for doubtful debts (before significant items) of $559 million in 2004, was $74 million or 11.7% lower than 2003. The charge was favourably impacted by the continued focus on credit quality across the business.

Income tax expense relating to ordinary activities of $1,190 million in 2004, was $491 million or 29.2% lower than 2003. Income tax expense has been impacted by Wealth Management products and international activities, to which a wide range of tax rates are applied. In addition, the decision to elect to consolidate under the Australian tax consolidation regime resulted in a tax benefit of $150 million recognised in the 2004 year, due to the reset tax values of assets of life insurance subsidiaries within the Wealth Management business. Further, the income tax expense has been impacted by the decision not to book a tax benefit on the interest expense relating to exchangeable capital units following the receipt of an Australian Taxation Office assessment.

Financial position

Total assets at September 30, 2004 increased to $411,309 million from $397,471 million at September 30, 2003. Excluding the impact of exchange rate movements, total assets (in Australian dollar terms) grew $9,600 million or 2.4% during the year.

The growth in total assets was primarily driven by the growth in net loans and advances, investment securities and investments relating to the life insurance business, which offsets declines in due from other financial institutions, due from customers on acceptances, trading derivatives and available for sale securities. Net loans and advances increased $22,101 million or 9.8% from $225,735 million at September 30, 2003 to $247,836 million at September 30, 2004. Excluding the effect of exchange rate movements, net loans and advances increased by $19,086 million or 8.3% during the year. This increase primarily reflects strong growth in housing lending across all regions and solid other term lending growth.

Total liabilities at September 30, 2004 increased to $381,543 million from $370,260 million at September 30, 2003. Excluding the impact of exchange rate movements, total liabilities (in Australian dollar terms) increased $7,226 million or 1.9% during the year.

The growth in total liabilities was primarily driven by growth in deposits and other borrowings, as well as bonds, notes and subordinated debt and life insurance policy liabilities, which offset declines in due to other financial institutions, liability on acceptances and trading derivatives. Deposits and other borrowings increased by $19,558 million or 9.7% to $220,752 million at September 30, 2004, compared with $201,194 million at September 30, 2003. Excluding the effect of exchange rate movements, deposits and other borrowings increased by $17,390 million or 8.6% during the year. The increase primarily relates to growth in term deposits, as well as an increase in other borrowings relating to commercial paper. Bonds, notes and subordinated debt increased by $8,316 million or 34.3% to $32,573 million at September 30, 2004. This increase reflects an increase in the issue of Euro and subordinated medium-term notes, as a result of the Group's increased capital requirements.

Total equity in the Group increased from $27,211 million at September 30, 2003 to $29,766 million at September 30, 2004. Total parent entity interest in equity increased by $1,493 million from $24,407 million at September 30, 2003 to $25,900 million at September 30, 2004. The movement in total equity was impacted by an increase in contributed equity of $463 million to $10,191 million (2003: $9,728 million), reflecting share issues and dividend reinvestment of $1,355 million, including the underwriting of the dividend reinvestment plan, partially offset by $162 million impact of the on-market share buy-back of ordinary shares and $730 million on the buy-back of preference shares (refer to 'significant changes in the state of affairs' for further information). Further, the reserves balance increased by $301 million to $1,194 million (2003: $893 million), primarily reflecting positive movements in the foreign currency translation reserve. In addition, the movement in total equity included an increase in retained profits of $729 million to $14,515 million and an increase in outside equity interest of $1,062 million.

For a more detailed review of the operations of the Group, and the results of those operations, refer to pages 3 to 68 of the annual financial report 2004.

Dividends

The directors have declared a final dividend of 83 cents per fully paid ordinary share, 100% franked, payable on December 8, 2004. The proposed payment amounts to $1,287 million.

Dividends paid since the end of the previous financial year:

- the final dividend for the year ended September 30, 2003 of 83 cents per fully paid ordinary share, fully franked, paid on December 10, 2003. The payment amount was $1,250 million; and
- the interim dividend for the year ended September 30, 2004 of 83 cents per fully paid ordinary share, fully franked, paid on July 14, 2004. The payment amount was $1,253 million.

Information on the dividends paid and declared to date is contained in note 4 of this concise financial report.

The franked portion of these dividends carry imputation tax credits at a tax rate of 30%, reflecting the current Australian company tax rate of 30%. For non-resident shareholders of the Company for Australian taxation purposes, the unfranked portion of the dividend will be paid from the Company's foreign dividend account. Accordingly, for non-resident shareholders the unfranked portion of the dividend will not be subject to Australian withholding tax.

The extent to which future dividends will be franked, for Australian taxation purposes, will depend on a number of factors including the proportion of the Group's profits that will be subject to Australian income tax and any future changes to Australia's business tax system as a result of the Australian Commonwealth Government's tax reform initiatives.

Significant changes in the state of affairs

Foreign currency options losses

In January 2004, the Company announced that it had identified losses relating to unauthorised trading in foreign currency options and had established a structured process to review and resolve all issues arising from this matter. The Company took steps to manage the options trading position and a third party investigation into this matter was conducted by PricewaterhouseCoopers (refer below). The Company also responded to related requests for information from Australian and UK authorities and regulators and the United States SEC.

Based on its assessment, the Company announced a total loss of $360 million before tax, or $252 million after tax, arising from the unauthorised foreign currency options trading. This total loss consisted 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. The Company recognised the total losses during the 2004 year.

The key points from the PricewaterhouseCoopers 'Investigation into foreign exchange losses at National Australia Bank' report dated March 12, 2004 included:

- the total loss arising from foreign currency options trading announced on January 27, 2004 was $360 million;
- the losses arising from the foreign currency options trading increased significantly between September 2003 and January 2004;
- four traders on the foreign currency options desk exploited loopholes and weaknesses in systems and processes to hide trading losses and protect bonuses;
- the traders' activities were contrary to the Company's strategy of building customer-focused business;
- the foreign currency options trading losses were reported to management by several junior employees;
- no customers were directly or indirectly affected by the foreign currency options trading losses;
- in the Corporate & Institutional Banking Market's division there was:
  - inadequate management supervision;
  - significant gaps in back office monitoring functions;
  - escalation processes that did not work properly;
  - weaknesses in control procedures;
  - failure in risk management systems; and
  - an absence of appropriate financial controls;
- there was not a suitable compliance culture within this area of the Company and a tendency to suppress bad news rather than be open and transparent about problems;
- warning signals, both inside the Company and from the regulators and other market participants, were not properly acted upon; and
- the Board had overall responsibility for corporate governance, including safeguarding stakeholder interests and reviewing and monitoring risk management and compliance.

The complete PricewaterhouseCoopers report is available on the Group's website at www.nabgroup.com

APRA has also provided to the Company a report on its investigation into irregular currency options trading. That report identified problems and issues in respect of management supervision, adherence to risk management systems and controls, internal governance procedures and the culture of the Company similar to those described above.

APRA has also specified in its report a number of remedial actions required to be implemented. These include the following:

- *Culture* – the Board is required to review cultural norms within the Company and clearly articulate the standards of behaviour, professionalism and openness it expects of the organisation; the Board is required to develop policies that promote and support 'whistle-blowing'; the Board is required to review incentive arrangements to ensure that these promote behaviours that have appropriate regard to risk;
- *Governance* – the Board, its committees and executive risk committees are required to clarify the appropriate escalation channels available to enable the Board and its committees to deliberate on serious risk issues. The Board must establish more transparent risk reporting systems and place greater reliance on independent checks and balances on executive management to enable it to discharge its duties appropriately;
- *Limit frameworks* – the Board is required to review, and formally approve, all market risk limits in the Markets division of Corporate & Institutional Banking; limit policies should clearly specify mandatory (or 'hard') limits; trigger levels (or 'soft' limits) should also be specified; all limit excesses – whether 'hard' or 'soft' – must have a defined response;
- *Markets* – the respective roles and responsibilities of the Markets division of Corporate & Institutional Banking and the Market Risk division of Risk Management in respect of risk analysis and escalation of risk issues needs to be clearly specified and distinct from each other;
- *Market risk* – reporting lines in, and responsibilities of, the Market Risk and Prudential Control (MR&PC) role are required to be streamlined in order to ensure that adequate attention is devoted to market risk issues; roles and responsibilities in MR&PC are required to be clarified and confer an unambiguous mandate; and the process surrounding the approval of product usage authorities is to be reviewed to ensure that all relevant risk management issues are covered;
- *Operations* – in relation to its Corporate & Institutional Banking Operations division (part of Corporate & Institutional Banking Services), the Company is required to review: all confirmation and reconciliation procedures; operational procedures followed by Operations division staff – especially as regards interaction with the front office; and reporting of transactional and other statistical information;
- *Finance* – the Finance division is to be assigned responsibility for data integrity; analysis of the components of reported profit and loss data; and critical questioning of discrepancies. The Finance division is also required to review and formally document the materiality thresholds applicable to each desk; and
- *Quantitative support* – a number of reforms are required to formalise and enhance the role played by the Quantitative Support division of Corporate & Institutional Banking in model validation and testing.

The complete APRA report is available on the Group's website at www.nabgroup.com

Following the release of the PricewaterhouseCoopers and APRA reports, the Board announced a four point action plan to fully address all of the issues associated with the foreign currency options trading losses:

Board changes:

- the Board accepted that it was ultimately responsible for the culture and reputation of the Company;
- the Company's former Chairman, Mr D Charles K Allen, and former Managing Director and Chief Executive Officer, Mr Frank J Cicutto, have both resigned;
- the Board has appointed additional directors with banking experience (*refer to Board changes on page 43*);
- the Board, through its Risk Committee, has endorsed a revised governance framework for the management risk committees within Corporate & Institutional Banking; this has included common guiding principles, strengthening of the charters, common operating procedures, increased market risk representation, and a defined risk monitoring, approval and oversight process; and
- the Board is enhancing existing governance processes including the annual review of Board performance (*refer to corporate governance – Board performance section on page 26*) and the review of individual directors prior to their standing for re-election at the annual general meeting (*refer to corporate governance – appointment and re-election of Board members on page 27*).

Management changes:

- primary responsibility for the unauthorised trading in foreign currency options rests with four members of the foreign currency options desk and they were summarily dismissed from the Company. The former Head of Foreign Exchange in the Markets division, who was the direct supervisor of the four traders, was also dismissed;
- a number of other employees within the Company were transferred or counselled as a result of the events surrounding the unauthorised foreign currency options trading; and
- the employment of certain individuals was also reviewed. Those who left the Company include: the former Executive General Manager, Corporate & Institutional Banking, Mr Ian F Scholes, the former Head of Markets division, Mr Ron Erdos, and the former Executive General Manager, Risk Management, Mr Christopher D Lewis. These positions have subsequently been filled.

Risk and control frameworks:

- the Company will continue to refine its risk management framework to get a more appropriate balance between management and policing functions. Management has already reviewed value at risk limits and reduced the level of risk exposure. Enhanced policies surrounding limit management, compliance and adherence have been introduced;

- weaknesses in the control procedures continue to be rectified. This includes analysis of daily trading profits and accounts, reporting of all large and unusual transactions, investigations of all off-market rates on high risk transactions, critical review of revaluation rates sourced from third parties and a stronger back office function that properly checks all transactions;
- the management team has reviewed responsibilities between business units to ensure that there are clear reporting lines and accountabilities between Risk Management, Operations and Finance functions; and
- further, the progress in addressing the issues is being reported regularly to the Risk Committee and the Board at each meeting.

Culture:

- the Company is accelerating its cultural change agenda. The development of a new set of Corporate Principles has been the foundation for driving the desired cultural change. The organisation now has a single, consistent framework with clearly articulated behaviours. *Refer to corporate governance – ethical standards for details of the Corporate Principles on page 33;*
- a principles benchmark survey, utilising the organisational cultural Inventory (OCI), is being used as a cultural measure. This survey (in conjunction with the Hewitt Engagement Survey) provides an externally validated and reliable measurement of culture. The Group Executive Committee and Board have supported the ongoing use of the principles benchmark survey/OCI for at least the next five years;
- a new Performance Management Framework has been put in place. The introduction of 'quality gates' which demand minimum levels of compliance and behaviours, will drive increased accountability, and behavioural change; and
- the Company will continue to encourage and protect whistleblowers. *Refer to 'Whistleblower Protection Program' on page 33 for details of the Company's program.*

APRA has also required that the Company's internal target total capital adequacy ratio is to rise to 10% until such time as APRA is satisfied that all material weaknesses identified in this report have been rectified. APRA has also withdrawn the Company's approval to use an internal model to determine market risk capital.

The Company's currency options desk will also remain closed to corporate business and proprietary trading until substantial progress has been made to redress the issues raised by APRA in its report.

The Company has made good progress in its program to implement these required actions according to timeframes agreed with APRA. As of November 30, 2004 of the 81 remedial actions required, 25 have been closed and a further 43 have been responded to by the Company.

The Company will remain under close supervision by APRA until all outstanding actions are implemented.

Enforceable undertakings

On October 20, 2004 the Group announced that it had provided ASIC with a range of undertakings that relate to the foreign currency options trading losses that occurred in January 2004. The Group has given undertakings to review key systems and controls across businesses which operate under the primary Australian Financial Services Licence (AFSL) applicable to the Company's Australian banking business.

In summary, the undertakings cover three main areas:

- identifying, recording and informing ASIC of any future breaches of the Group's AFSL;
- ensuring that there are appropriate procedures relating to the role of responsible officers of the Group; and
- ensuring that there are appropriate procedures relating to the role of representatives of the Group.

The enforceable undertakings require the Group to carry out work that is in line with current regulatory requirements within a specific timeframe, as agreed with ASIC and to provide reports on each of the areas identified.

A project structure has been developed that will report directly to the Chief Executive Officer, Australia.

Redemption of Trust Units Exchangeable for Preference Shares™ (TrUEPrS℠) and buy-back of shares issued in connection with the TrUEPrS℠

On January 22, 2004 the Company bought back 36,008,000 fully paid non-converting non-cumulative preference shares of the Company that were issued in connection with the issue of 18,004,000 Trust Units Exchangeable for Preference Shares™ (TrUEPrS℠) in 1998. The TrUEPrS℠ were redeemed on the same date. The financial effects of the buy-back, redemption and dissolution of the capital raising structure included a reduction in contributed equity of $730 million, a reduction in cash of $582 million and a net increase in retained profits and reserves of $148 million.

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

Events subsequent to balance date

At the Company's annual general meeting to be held on January 31, 2005 the Company will seek shareholder approval to buy back the total of 20,000,000 unpaid preference shares of the Company issued in connection with the issue of 20,000,000 National Income Securities of the Company. National Income Securities comprise a note and a preference share. Subject to shareholder approval and the consent of APRA, the buy-back of the preference shares will be for nil consideration, but will be conducted simultaneously and in conjunction with the redemption of each note for $100 plus any unpaid accrued interest. As part of the Group's ongoing capital management, such a buy back may enable the Group to replace the National Income Securities with a more efficient and cost effective source of capital. No decision to buy back the National Income Securities has yet been taken, but this could occur at any time after shareholder approval is obtained, subject to obtaining the consent of APRA.

No further matter, item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report that, in the opinion of the directors, has significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Future developments

In August 2004, the Group announced a number of changes to the structure of its business operating model and executive management team. The new business operating model will be run along regional lines and will be effective during the 2005 year. *Refer to page 9 of the 'business overview' section of the annual financial report 2004.*

The Company announced on July 19, 2004 that it had selected Ernst & Young to become the new external auditor of the Company for the 2005 year. Shareholders will be asked to approve the new auditor at the Company's annual general meeting to be held on January 31, 2005.

Environmental regulation

The operations of the Group are not subject to any particular and significant environmental regulation under a law of the Australian Commonwealth Government or of a state or territory, but the Group can incur environmental liabilities as a lender. The Group has developed credit policies to ensure this is managed appropriately.

Rounding of amounts

Pursuant to Class Order 98/100 made by the Australian Securities and Investments Commission (ASIC) on July 10, 1998, the Company has rounded off amounts in this report and the accompanying concise financial report to the nearest million dollars, except where indicated.

Proceedings on behalf of the Company

There are no proceedings brought or intervened in, or applications to bring or intervene in proceedings, on behalf of the Company by a member or other person entitled to do so under section 237 of the *Corporations Act* 2001 (Cth).

Remuneration policy and relationship to Company performance

This report outlines the remuneration policy for directors and secretaries of the Company and senior executives of the Group.

Non-executive directors

The fees paid to non-executive directors of the Board are based on advice and data from the Company's remuneration specialists and from external remuneration advisers. This advice takes into consideration the level of fees paid to board members of other major Australian corporations, the size and complexity of the Group's operations, the activities of the Group and the responsibilities and workload requirements of Board members.

Because the focus of the Board is on the long-term strategic direction of the Company, there is no direct link between non-executive director remuneration and the short-term results of the Company. The fee pool is periodically proposed to shareholders at the annual general meeting for approval. Shareholders approved an increase in the fee pool of $1.3 million to a maximum of $3.5 million at the Company's annual general meeting held on December 19, 2003.

Fees are established annually for the Chairman and other non-executive directors. Additional fees are paid, where applicable, for participation in Board committees and for serving on the boards of controlled entities. The total fees paid to members of the Board, including fees paid for their involvement on Board committees and controlled entity boards, are kept within the total approved by shareholders from time to time.

At the Company's annual general meeting held in December 2003, shareholders approved the continuation of the non-executive directors' share arrangement under the Non-Executive Directors' Share Plan (which is operated through the National Australia Bank Staff Share Ownership Plan). Under this arrangement, shares are provided to non-executive directors as part of their remuneration, (a minimum 10% of fees) rather than receiving cash. The shares are either issued or acquired on-market on behalf of participants and allocated to non-executive directors on dates determined by the trustee of the National Australia Bank Staff Share Ownership Plan in its sole discretion.

Agreements between the Company and certain of the non-executive directors provided that upon, and in the consequence of, each of these directors ceasing to be a director by reason of retirement or death, the

Non-executive director emoluments (current and former non-executive directors at September 30, 2004)

The following table shows details of the nature and amount of each element of the emoluments of each non-executive director of the Company relating to services provided in the 2004 year. Total retirement benefits paid during the year relating to benefits accrued in current and prior years are set out in footnote (3) below.

No options or performance rights have been granted to non-executive directors during or since the end of 2004 as part of their remuneration.

	Primary			Post-employment		Equity		Other		
	Cash salary and fees (1)	Bonus	Non-monetary benefits	Superannuation (2)	Retirement benefits (3)	Shares (4)	Performance options and rights	Termination benefits	Other	Total
	$	$	$	$	$	$	$	$	$	$
Current										
GJ Kraehe	284,017	-	-	25,562	27,369	67,883	-	-	-	404,831
PJB Duncan	154,598	-	-	13,913	11,385	27,971	-	-	-	207,867
RG Elstone	12,224	-	-	-	-	1,246	-	-	-	13,470
DT Gilbert	11,215	-	-	1,009	-	1,246	-	-	-	13,470
PJ Rizzo	13,746	-	-	-	-	1,401	-	-	-	15,147
JS Segal	8,868	-	-	798	-	985	-	-	-	10,651
JG Thorn	143,843	-	-	12,946	-	26,750	-	-	-	183,539
GA Tomlinson	208,313	-	-	18,576	33,074	79,356	-	-	-	339,319
GM Williamson	212,610	-	-	-	-	-	-	-	-	212,610
Former										
DCK Allen	110,537	-	-	9,948	83,710	35,567	-	-	-	239,762
JB Clark	84,522	-	-	7,607	11,132	39,453	-	-	-	142,714
KJ Moss	112,309	-	-	10,108	26,836	39,493	-	-	-	188,746
ED Tweddell	138,761	-	-	12,489	18,153	11,176	-	-	-	180,579
CM Walter	92,506	-	-	8,325	116,650	6,775	-	-	-	224,256

(1) Non-executive directors' remuneration represents fees in connection with their roles, duties and responsibilities as non-executive director, and includes attendance at meetings of the Board, Board committees and boards of controlled entities and includes payments of $109,219 to Mr Tomlinson and $164,410 to Mr Williamson in respect of services performed as non-executive directors of controlled entity boards and committees.

(2) Reflects compulsory Company contributions to superannuation and includes contributions of $9,739 to Mr Tomlinson in respect of services performed as a non-executive director of controlled entity boards and committees.

(3) Former directors received retirement benefits upon cessation of their directorship with the Company. No further retirement benefits were accrued by these directors beyond January 1, 2004 in accordance with shareholder approval at the Company's annual general meeting on December 19, 2003 to freeze contractural entitlements. The following accrued entitlements were paid to former directors: Mr Allen, $1,166,928; Dr Clark, $76,447; Dr Moss, $151,014; Dr Tweddell, $270,620; and Mrs Walter, $663,512. The value of accumulated retirement benefits which will be provided to current directors in the form of shares is: Mr Kraehe, $279,680; Mr Duncan, $104,855; and Mr Tomlinson, $272,608. From December 31, 2003 neither new nor existing non-executive directors are entitled to additional retirement benefits.

(4) Includes shares to the value of $42,388 provided to Mr Tomlinson in respect of services performed as a non-executive director of controlled entity boards and committees.

Company should pay a lump sum retirement allowance. This retirement benefit, as approved by shareholders, was based on period of service, as follows:

- **Less than 15 years**
  One third of the average yearly emoluments paid by the Company to the director:
  (a) during the last three years of service; or
  (b) when the period of such service is less than three years, during that period, for each completed year of service and proportionately for part of a year, as a non-executive director; or
- **15 years or more**
  Five times the average yearly emoluments paid by the Company to the director during the last three years of service as a non-executive director.

During 2002, the Board decided not to enter into any new contractual obligations to pay retirement allowance benefits to non-executive directors appointed after December 31, 2002. At the Company's annual general meeting held on December 19, 2003, a proposal was approved permitting directors of the Company and its controlled entities who had accrued retirement benefits to apply those benefits frozen as at December 31, 2003 to either cash, (to be paid on retirement), to additional Company superannuation contributions or to the acquisition of shares in the Company (to be held in trust until retirement). Directors' fees for these directors have been increased to reflect the cessation of the retirement benefit program.

For those non-executive directors, who would have no entitlement to a retirement allowance benefit, their directors' fees were set at this higher level. All directors now have flexibility in relation to their remuneration, including the opportunity to set aside additional Company superannuation contributions.

Total reward for executives
Total reward for executives (including secretaries) of the Group is closely aligned to that of the Managing Director and Chief Executive Officer in order to promote consistent, clear reward messages and to align remuneration outcomes across the executive team. This alignment is provided under the Group's reward strategy, which provides a common framework for reward, talent and performance management across the Group. Total reward levels are set with advice from independent remuneration consultants to ensure that they are in line with general market practice and appropriately competitive in order to attract top executive talent.

Linking total reward to performance
During 2004 the Human Resources Committee and management extensively reviewed the Group's performance management framework. Three major enhancements to this framework were initiated:

- calibration of key performance indicators at the commencement of the performance period, which define what performance looks like;
- the introduction of a peer review process. This process validates performance at the end of the period by calibrating it relative to the performance of other individuals; and
- the introduction of quality gates, being threshold compliance and behaviour measures. If an individual fails either gate, then no incentive can be provided.

This is a significant shift in approach as the quality gates are separate from the scorecard and must be achieved before the scorecard is considered. All employees are required to achieve the behavioural and compliance quality gates and this will be progressively implemented over the next two years commencing with management employees and above in 2005.

The peer review process will allow for performance to be differentiated and will bias the outcome to those with the best performance and potential. It also identifies those employees who require development and those who are poor performers.

The structure of total reward
Total reward encompasses three main components as described below. The target reward mix emphasises at-risk rewards (short-term and long-term incentives), increasing with the level of responsibility and/or criticality of the role. From 2005, amounts above target are provided in shares with restrictions on trading (subject to any legal or taxation constraints). The target total reward mix for the Managing Director and Chief Executive Officer is 25 – 30% fixed remuneration, 30 – 35% short-term incentive, and 40 – 50% long-term incentive. The target total reward mix for other specified executives is 40 – 65% fixed remuneration, 20 – 30% short-term incentive and 15 – 35% long-term incentive.

Fixed remuneration reflects the scope of the role and the level of skill and experience of the individual and is generally referenced to the median of the applicable remuneration market, with higher outcomes for the best performing individuals. The Group operates in a number of countries and business segments and fixed remuneration reviews aim to achieve equitable outcomes for employees in comparable roles within the context of the different geographical and specialist remuneration markets in which the Group competes for top executive talent.

Short-term incentives for senior executives during 2004 related solely to the EVA® performance of the Group. The weighting between EVA® performance and individual performance varied depending on the nature of the specific executive role. Under that program, a pre-defined EVA® performance weighting for an individual flowed through automatically with only the non-financial component being variable based on the individual's achievement of objectives.

The incentive program commencing from the 2005 year is structured to reward the achievement against key individual, business and Group annual performance outcomes. Target amounts are set relative to the applicable remuneration market for executive incentive purposes. The performance of the Group will be measured by growth in earnings per share (EPS) and EVA® and determines the pool available for payments (subject to Board approval), while the performance of an individual executive against their scorecard of performance measures, determines their share of the available pool.

For management employees and above, a threshold level of performance and the achievement of behavioral and compliance quality gates will be required before any short-term incentive reward can be earned.

Relative individual performance may give rise to anywhere between zero and two times the target incentive amount being earned, with only the most outstanding performers (less than 5% of employees) receiving amounts at the top end of the scale. Also, subject to any legal or taxation constraints, all above-target rewards are to be provided in shares with restrictions on trading for at least one year, provided threshold performance is being achieved over the subsequent performance year.

Long-term incentives, in the form of Company shares (subject to various restrictions), performance options and performance rights have become a key mechanism for rewarding executive potential and talent over the last two years.

Shares issued as a long-term incentive are held in trust until various time and/or performance criteria are achieved (dividends are normally received by the individual while the shares are in trust). Performance options and performance rights are rights to acquire shares, if and when specified time and performance hurdles are achieved. The performance hurdles ensure that executive rewards are linked directly to the total shareholder return (TSR) of the Company and are therefore aligned to the outcomes experienced by other shareholders over a specified timeframe (from September 30, 2004 this will generally be three to five years). The value of any long-term incentive rewards is also heavily dependent on the market value of the Company's ordinary shares at the time of exercise (if and when any securities vest).

The Human Resources Committee introduced performance rights in 2003. Performance rights allow for continued motivation of employees in times when the Group outperforms its peers but for reasons not related to performance the share price may be low.

The Human Resources Committee has again considered the role of long-term reward in helping to drive appropriate management behaviours and to reinforce cultural change. The Human Resources Committee sought advice from external experts in the field and considered best practice in the Australian and international markets regarding the use of long-term incentives. The changes have been implemented with effect from a grant made on September 30, 2004 and will apply to all future grants until amended by the Human Resources Committee. *Details of the old and new performance hurdle provided in note 38 of the annual financial report 2004.*

Executive remuneration

The following table shows details of the nature and amount of each element of the emoluments of each executive director of the Company and each of the five most highly remunerated current and former senior executives for the year. All emoluments reflect the remuneration paid and payable with respect to services provided for the entire period of service to the Company or Group. No options or performance rights have been granted to executive directors or executives since the end of 2004 as part of their remuneration.

Executive director emoluments (current and former executive directors at September 30, 2004)

	Primary			Post-employment		Equity		Other		
	Cash salary [1] $	Bonus [2] $	Non-monetary benefits [3] $	Superannuation $	Retirement benefits $	Shares [4] $	Performance options and rights [5] $	Termination benefits [6] $	Other $	Total $
Current										
JM Stewart	1,670,427	1,445,000	28,261	70,301	-	-	2,060,964	-	-	5,274,953
Former										
FJ Cicutto [7]	677,649	-	7,340	3,952	-	-	229,623	6,618,595	-	7,537,159

Senior executive emoluments (current and former senior executives at September 30, 2004)

	Primary			Post-employment		Equity		Other		
	Cash salary [1] $	Bonus [2] $	Non-monetary benefits [3] $	Superannuation $	Retirement benefits $	Shares [4] $	Performance options and rights [5] $	Termination benefits [6] $	Other $	Total $
Current										
A Fahour [8] [9]	132,848	-	141	1,023	-	6,017,937	-	-	4,211,881	10,363,830
IG MacDonald	807,564	-	6,338	12,015	-	-	1,421,448	-	-	2,247,365
RE Pinney	688,729	-	287,623	81,282	-	-	1,008,360	-	-	2,065,994
PB Scott	749,668	385,500	10,335	88,578	-	28,157	1,588,146	-	-	2,850,384
PL Thodey	500,668	244,358	23,226	-	-	-	945,833	-	-	1,714,085
Former										
IR Crouch	743,776	-	7,091	12,015	-	-	1,110,553	979,887	-	2,853,322
MT Laing	590,233	65,000	12,964	10,753	-	-	941,348	1,234,790		2,855,088
PA McKinnon	686,407	73,000	11,170	12,015	-	-	1,303,920	1,302,625	-	3,389,137
RE McKinnon [10]	845,004	-	14,542	35,033	-	-	1,513,805	-	-	2,408,384
IF Scholes	275,221	-	3,442	5,313	-	-	737,095	2,243,193	-	3,264,264

(1) Reflects total remuneration package consisting of fixed pay in cash, annual leave, annual leave loading and where applicable, long service and bank extended leave entitlements. Leave earned but not taken has been recognised as part of cash salary for the first time in 2004 on adoption of AASB 1046A "Director and Executive Disclosures by Disclosing Entities". Annual leave taken during the year has been applied first against accumulated leave accrued in prior year, and then against current year balances. The following specified executives have carry-forward accumulated annual leave earned in prior years which is a current entitlement: Mr MacDonald, 16 days; Mr R McKinnon, 77 days and Mr Scott, 53 days. The value of long service leave earned during the year is disclosed when it is probable the entitlement will vest. In general terms, the entitlement represents 13 weeks for every 15 years worked, paid at the fixed pay rate on the date leave is taken. The following specified executives have carry-forward long service leave earned in prior years: Mr MacDonald, 126 days; Mr R McKinnon, 61 days; and Mr Pinney, 52 days. In addition, Mr MacDonald has 84 days of bank extended leave earned in prior years. Bank extended leave has not been available to new employees since 1998.

(2) Reflects performance-based remuneration accrued but not yet paid in respect of performance for the year to September 30, 2004. Specified executives can elect to be provided the bonus in the form of Company shares or additional superannuation.

(3) Includes motor vehicle benefits and parking. Expatriate specified executive non-monetary benefits include housing, health insurance and airfares. Fringe benefits tax on non-monetary benefits is included within the value of the benefit.

(4) Represents: (a) one-off compensation on joining the Company; or (b) shares received under a share ownership plan.

(5) Performance options and rights are issued as part of the Group's long term incentive plan as described in this report of the directors. Remuneration for former executives who continue to hold performance options and rights at September 30, 2004 reflects the full year benefit of the unvested performance options and performance rights. No terms of vested performance options or rights were altered during the reporting period. Refer below for an explanation of fair value basis used to determine remuneration.

(6) Termination benefits include all annual leave, long service leave and bank extended leave accrued but not taken before cessation with the Group. Some accrued leave reflects leave earned but not taken in prior years which has not been previously disclosed as part of cash salary. No specified executives had post-employment benefits that required approval by members in accordance with the Corporations Act 2001 (Cth).

(7) Remuneration relates to the period from October 1, 2003 to February 1, 2004. Remuneration relating to performance options and rights represents the fair value of performance options vested during the year of $229,623. Performance options and rights with a fair value of $1,058,125, which were disclosed as remuneration in 2003, have been forfeited on resignation.

(8) Remuneration relates to the period from September 1, 2004 to 30 September 2004. Shares represent 75,216 shares issued on September 30, 2004 under the National Australia Bank Staff Share Ownership Plan of which 25% will no longer be subject to applicable forfeiture provisions on each anniversary of his commencement date and 225,649 shares also issued under the National Australia Bank Staff Share Ownership Plan. Remuneration for the year includes one-off performance options, performance rights and one-off cash compensation on joining the Company as described in footnote (9).

(9) Other represents one-off compensation in cash of $3,857,000 made in September 2004, plus cash payments associated with the sale of his US residence and the purchase of a principal residence in Australia.

(10) Ceased as a senior executive of the Company and Group on August 31, 2004 but continues to be employed by the Company. Remuneration disclosed reflects remuneration for the full year.

Fair value basis used to determine equity remuneration
The disclosure of the allocation of fair value of performance options and performance rights in the above tables has been based upon the requirements of AASB 1046A "Director and Executive Disclosures by Disclosing Entities". In accordance with these guidelines, each year a portion of the fair value of all unvested performance options and rights is included in the remuneration of directors of the Company and specified executives of the Group for disclosure purposes. This portion of the fair value is based on a straight-line allocation of fair value over the vesting period of each unvested performance option or right. Included within some equity remuneration above is the reversal of equity remuneration disclosed as remuneration in previous periods, which subsequently lapsed due to resignation.

Prior to October 1, 2002, the Company disclosed the fair value of performance options granted during the financial year using a numerical pricing model, but did not allocate those values over their expected life for reporting emoluments. Rather, the full fair value of the grant was disclosed as an emolument in the year of grant. As a result, included in the amounts disclosed above as an allocation of fair value of performance options and performance rights in relation to 2004, are amounts related to unvested performance options granted in prior years that were disclosed as part of emoluments in the relevant prior years.

Note however, when the Group transitions to Australian Equivalents to International Financial Reporting Standards, they will not require all unvested performance options and rights to be recognised in this way, only those granted after November 7, 2002 that are unvested at January 1, 2005. A difference may therefore arise between disclosure under AASB 1046A and the remuneration expense recognised under the new accounting standards in the Group's financial performance.

Performance options and rights granted as part of executive emoluments have been valued using a numerical pricing model, which takes account of factors including the performance option or right exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the performance option or performance right. The probability of the performance hurdle being reached has been taken into consideration in estimating the number of performance

Executive performance options and performance rights
Performance options and performance rights are granted by the Company under the National Australia Bank Executive Share Option Plan No. 2 (executive share option plan) and the National Australia Bank Performance Rights Plan (performance rights plan). Each performance option or performance right is for one fully paid ordinary share in the Company.

The number and terms of performance options and performance rights granted in 2004 over ordinary shares granted by the Group under the executive share option plan and the performance rights plan, and the Company's valuation of those performance options and performance rights at grant date are shown in the table below:

Grant date	Exercise period (1)	Exercise price (2)	Held at September 30, 2004 (No.)	Lapsed during the period (3) (No.)	Granted since October 1, 2003 (No.)	Fair value as at grant date (4)
Performance options						
Oct 30, 2003	Mar 21, 2006 - Mar 20, 2011	$30.98	102,500	25,000	127,500	$559,725
Jan 16, 2004	Jan 16, 2007 - Jan 15, 2012	$30.25	5,023,225	35,500	5,058,725	$23,826,594
Jan 30, 2004	Jan 16, 2007 - Jan 15, 2012	$30.25	448,000	19,750	467,750	$2,203,103
Jun 25, 2004	Jan 16, 2007 - Jan 15, 2012	$30.25	156,500	-	156,500	$677,645
Jun 25, 2004	Jan 16, 2007 - Jan 15, 2012	$29.91	134,625	-	134,625	$595,043
Sep 30, 2004	Sep 1, 2007 - Aug 31, 2009	$26.59	390,625	-	390,625	$1,562,500

Grant date	Exercise period (1)	Exercise price (2)	Held at September 30, 2004 (No.)	Lapsed during the period (3) (No.)	Granted since October 1, 2003 (No.)	Fair value as at grant date (4)
Performance options						
Oct 30, 2003	Mar 21, 2006 - Mar 20, 2011	$1.00	25,625	6,250	31,875	$720,056
Jan 16, 2004	Jan 16, 2007 - Jan 15, 2012	$1.00	1,250,022	8,873	1,258,895	$27,519,444
Jan 30, 2004	Jan 16, 2007 - Jan 15, 2012	$1.00	112,000	4,938	116,938	$2,556,265
Jun 25, 2004	Jan 16, 2007 - Jan 15, 2012	$1.00	72,782	-	72,782	$1,607,754
Sep 30, 2004	Sep 1, 2007 - Aug 31, 2009	$1.00	97,656	-	97,656	$1,708,980

(1) Performance options and performance rights generally expire on the last day of their exercise period.
(2) A notional sum of $1.00 is payable by the holder on exercise of all performance rights exercised on any particular day.
(3) The performance options and performance rights generally lapse 30 days after the termination of employment unless otherwise determined by the Board in accordance with their terms.
(4) Fair values of performance options and performance rights are based on a numerical pricing model. For the purposes of this table, the fair value at grant date represents the full fair value in the year of grant and has not been allocated over the expected life of the option or performance right. Refer above and to note 38 in the annual financial report 2004 for further information.

options or rights likely to vest. For further details, refer to note 38 in the annual financial report 2004.

The executive share option plan was approved by shareholders by special resolution in January 1997 and again at the 2002 annual general meeting. All performance options that have not expired are detailed in note 38 in the annual financial report 2004.

The executive share option plan provides for the Board to grant performance options to executives of the Group to subscribe for fully paid ordinary shares in the Company. Each performance option is to subscribe for one fully-paid ordinary share in the Company. The performance options cannot be transferred and are not quoted on the ASX. No payment is required from executives at the time of the grant. The exercise price per performance option is the market price of the Company's fully paid ordinary shares as at the date the performance option was granted or such other date determined by the Board. The market price is determined as the weighted average of the prices at which the Company's fully paid ordinary shares were traded on the ASX in the one week up to and including the relevant day. There are no voting or dividend rights attached to the performance options. The Board may determine such other terms for the grant of performance options consistent with the ASX Listing Rules and the *Corporations Act* 2001 (Cth).

Time and performance hurdles
Generally, the performance options may not be exercised before the third anniversary of their effective date of grant, and must be exercised before the eighth anniversary (March 2000 to June 2004 grants) or fifth anniversary (September 2004 grant and future grants) of that date.

Exercise of the performance options is also subject to satisfaction of a performance hurdle. The performance hurdle for all performance options issued between March 2000 and June 2004 is measured after the first three years by comparing the performance of the Company with the performance of other companies in a peer group. This peer group of companies is based on 50 of the companies listed in the S&P/ASX 100 by market capitalisation (excluding the Company) determined at the grant date or the effective grant date. Performance options become exercisable depending on the maximum total shareholder return (TSR) of the Company relative to the TSR of the peer group companies. TSR measures share price growth, assuming reinvestment of returns to the shareholders including dividends, over consecutive five day (March 2000 to June 2002 grants) or 30 day (March 2003 to June 2004 grants) periods to prevent vesting being achieved on short-term spikes in the Company's total shareholder return performance during the performance or vesting period (years three to eight).

For performance options granted between June 2002 and June 2004, if the relative performance of the Company during the vesting period (years three to eight) does not reach the median (50th percentile) of the peer group during the vesting period, then no performance options will vest. Half of the performance options will vest when the performance of the Company achieves the median (50th percentile) of the peer group, with an additional 2% of the performance options becoming exercisable with every additional percentile achieved. All of the performance options will therefore vest when the total shareholder return performance of the Company has reached or exceeded the 75th percentile of the peer group. Grants prior to June 2002 also allow vesting from the 25th percentile (25% of the performance options) with an additional 1% of the performance options becoming exercisable with every additional percentile achieved up to the 50th percentile. This does not apply from June 2002 onwards.

The performance hurdle for performance options issued from September 2004 onwards will be measured against two separate peer groups of companies. The first peer group is 50 of the companies listed in the S&P/ASX 200 (as for previous grants), and the second is the 13 top financial services sector organisations listed in the S&P/ASX 200 (excluding the Company). Both peer groups are determined at the grant date or effective date when the performance options are issued. Half of the performance options will become exercisable depending on the maximum TSR (measured over 30 consecutive days) of the Company relative to the first peer group, and the other half relative to the second peer group. The highest rank which is sustained for a 30 consecutive day period relative to each peer group will determine the percentage of performance options which will vest in relation to that peer group. If the performance of the Company during the vesting period (years three to five) does not exceed the median (50th percentile) of either peer group during the vesting period, then no performance options will vest (ie. none are exercisable). Half of each portion of performance options will vest and become exercisable when the performance of the Company achieves the 51st percentile of the relevant peer group, with an additional 2% of each portion of performance options becoming exercisable with every additional percentile achieved. All of the performance options will therefore vest when the TSR performance of the Company has exceeded the 75th percentile of each peer group.

Lapsing of performance options
Performance options will lapse if unexercised on or before their expiry date at the end of eight years (March 2000 to June 2004 grants) or five years (September 2004 grant). Performance options will also generally lapse 30 days (or such shorter time as determined at the time of grant) after an executive ceases to be employed by the Group unless the Board determines otherwise (generally only in case of retirement, redundancy, death, or total and permanent disablement). For some grants, performance options may be automatically retained in cases of death or total and permanent disablement.

In some circumstances, performance options may, however, be exercised before the third anniversary of the grant and notwithstanding the performance hurdle (described below) where an executive ceases employment with the Group as the result of death or total and permanent disablement. The Board may also allow optionholders to exercise the performance options irrespective of the normal criteria where certain events occur, such as the making of a takeover offer or announcement to the holders of fully paid ordinary shares in the Company.

A loan may be available to executives if and when they wish to exercise their performance options subject to the provisions of applicable laws and regulations (including the United States *Sarbanes-Oxley Act of 2002*). The rules of this plan provide that the rate of interest applicable to such a loan shall be the Company's base lending rate plus any margin determined by the Board. Dividends payable in respect of a loan share are applied firstly towards payment of any interest which is due, and secondly towards repayment of the principal amount outstanding under the loan.

Performance options must not be granted if the total number of shares issued in the last five years under the Company's employee share, performance option and rights plans and the total number of outstanding performance options and rights under its plans, including the proposed offer or grant, exceed 5% of the number of shares in the issued share capital of the Company at the time of the proposed offer or grant. This calculation does not include offers or grants made or shares, performance options or performance rights acquired as a result of an offer or grant made to a person situated outside Australia at the time of the offer or grant or which did not need disclosure under section 708 of the *Corporations Act* 2001 (Cth) (eg. shares provided to executive officers of the Company) otherwise than as a result of relief granted by ASIC.

Report of the directors (continued)

The performance rights plan was approved by shareholders at the 2002 annual general meeting and rights issued under this plan during the year are shown in the table on page 52.

This plan provides for the Board to grant performance rights to executives of the Group to subscribe for fully-paid ordinary shares in the Company. Each performance right is to subscribe for one fully-paid ordinary share in the Company. The performance rights cannot be transferred and are not quoted on the ASX.

No payment is required from executives at the time of the grant, but the holder of performance rights must pay a nominal exercise price to exercise those rights. The total exercise price payable on the exercise of any rights on a particular day is $1.00, irrespective of the number of rights exercised on that day. There are no voting or dividend rights attached to the rights. The Board may determine such other terms for the grant of performance rights consistent with ASX Listing Rules and the terms of the *Corporations Act* 2001 (Cth).

Exercise of the performance rights is subject to the same time and performance hurdle as performance options issued under the executive share option plan. However, performance rights were only granted to executives for the first time in March 2003. An unexercised performance right will lapse in similar circumstances to an unexercised option granted under the executive share option plan.

Performance rights cannot be granted under the performance rights plan if the number of shares to be received on exercise of those performance rights together with all shares issued under the Company's employee incentive plans over the last five years and the number of outstanding performance options and performance rights issued under those plans exceed 5% of the Company's issued share capital. This calculation does not include offers or grants made or shares, performance options or performance rights acquired as a result of an offer or grant made to a person situated outside Australia at the time of the offer or grant or which did not need disclosure under section 708 of the *Corporations Act* 2001 (Cth) (eg. shares provided for no consideration under the staff share allocation plan), otherwise than as a result of relief granted by ASIC.

Options and performance rights on issue and number exercised
There are currently 36,468,975 performance options and 2,947,851 performance rights which are exercisable, or may become exercisable in the future, under the respective plans.

The holders of exchangeable capital units have the right to exchange those units for ordinary shares in the Company or, at the Company's option, cash. *Refer to note 31 in the annual financial report 2004 for full details of the number and terms of exchangeable capital units issued by the Group.*

There were 2,205,000 fully paid ordinary shares of the Company issued during the year as a result of performance options granted being exercised, for a total consideration of $51,248,018. There were 83,000 fully paid ordinary shares of the Company issued since the end of the year as a result of performance options granted being exercised, for a total consideration of $1,767,070. No performance rights were exercised during the relevant time. The amount paid on issue of each of these shares is set out in note 38 to the annual financial report 2004.

No person holding an option has or had, by virtue of the option, a right to participate in a share issue of any body corporate other than the Company.

Directors' meetings

The table below shows the number of directors' meetings held (including meetings of Board committees) and number of meetings attended by each of the directors of the Company during the year:

	Directors' meetings of the Company				Audit Committee meetings of the Company		Risk Committee meetings of the Company	
	Scheduled meetings attended	Scheduled meetings held	Unscheduled meetings attended	Unscheduled meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held
Directors								
DCK Allen	4 (3)	4 (3)	10	10	3 (1)	3 (1)	4 (1)	4 (1)
FJ Cicutto	3 (3)	3 (3)	5	5	2 (1)	2 (1)	4	4
JB Clark (8)	9 (3)	9 (3)	17 (2)	24	-	-	-	-
PJB Duncan	10	10	22 (2)	25	13	15	18	18
RG Elstone (7)	1 (3)	1 (3)	1	1	-	-	1	1
DT Gilbert (7)	1 (3)	1 (3)	1	1	1	1	-	-
GJ Kraehe (5)	10	10	24 (2)	25	6 (1)	6 (1)	17	17
KJ Moss (6)	9 (3)	9 (3)	22 (2)	24	13	13	3 (1)	3 (1)
PJ Rizzo (7)	1 (3)	1 (3)	1	1	1	1	1	1
JS Segal (9)	-	-	1	1	-	-	-	-
JM Stewart (10)	10	10	21 (2)	25	7 (1)	7 (1)	14	14
JG Thorn	10	10	24 (2)	25	15	15	3 (1)	3 (1)
GA Tomlinson	10	10	22 (2)	25	-	-	3 (1)	3 (1)
ED Tweddell (6)	9 (3)	9 (3)	22 (2)	24	-	-	16	16
CM Walter (11)	7 (3)	7	21 (2)	23	5	5	3 (1)	3 (1)
GM Williamson (12)	3 (3)	3 (3)	2	2	-	-	-	-

Report of the directors (continued)

	Human Resources Committee meetings of the Company		Nomination Committee meetings of the Company		Directors' meetings of controlled entities [3]		Additional meetings
	Meetings attended	Meetings held [2]	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended [4]
Directors							
DCK Allen	3 [1]	3 [1]	3	3	5	5	3
FJ Cicutto	-	-	2	2	3	3	7
JB Clark [8]	3	7	1	3	6	6	1
PJB Duncan	-	-	3	3	7	7	6
RG Elstone [7]	-	-	-	-	1	1	-
DT Gilbert [7]	-	-	-	-	1	1	-
GJ Kraehe [5]	3 [1]	3 [1]	3	3	7	7	13
KJ Moss [6]	6	7	3	3	6	6	7
PJ Rizzo [7]	-	-	-	-	1	1	-
JS Segal [9]	-	-	-	-	-	-	-
JM Stewart [10]	2 [1]	2 [1]	2	3	15	37	11
JG Thorn	6	6	3	3	7	7	8
GA Tomlinson	2	2	3	3	29	33	8
ED Tweddell [6]	5	7	3	3	6	6	9
CM Walter [11]	-	-	3	3	5	5	13
GM Williamson [12]	-	-	-	-	14	14	4

(1) Reflects attendance at committee meetings even though the director is not a member of that committee.

(2) Where a director is unable to attend an unscheduled board meeting called at short notice, the director is provided with a separate briefing on the matters to be considered and the views of the director are obtained.

(3) Reflects the number of meetings held during the time the director held office during the year. Where a controlled entity holds board meetings in a country other than the country of residence of the director, or where there may be a potential conflict of interest, then the number of meetings held is the number of meetings the director was expected to attend, which may not be every board meeting held by the controlled entity during the year. Reflects the number of committee meetings attended, even though the director is not a member of the committee.

(4) Reflects the number of additional formal meetings attended during the year by each director, including committee meetings (other than Audit Committee, Risk Committee, Human Resources Committee or Nomination Committee) where any two directors are required to form a quorum.

(5) Mr Kraehe resigned as a member of Risk Committee on March 11, 2004. Mr Kraehe attended nine meetings as a member of the Risk Committee and eight meetings as a non-member.

(6) Dr Moss and Dr Tweddell resigned as a directors on August 27, 2004.

(7) Mr Elstone, Mr Gilbert and Mr Rizzo were appointed as directors on September 2, 2004.

(8) Dr Clark resigned as a director on August 30, 2004

(9) Ms Segal was appointed as a director on September 7, 2004.

(10) Mr Stewart was appointed as a member of the Risk Committee on February 6, 2004.

(11) Mrs Walter resigned from the Audit Committee on March 11, 2004 and resigned from the Board on May 7, 2004.

(12) Mr Williamson was appointed as a director on May 10, 2004.

Subsequent to September 30, 2004 Mr Ahmed Fahour and Mr Michael J Ullmer were appointed as executive directors.

Directors' interests

The table below shows the interests of each director in the issued ordinary shares and National Income Securities of the Group, and in registered schemes made available by the Group as at the date of this report. No director held an interest in Trust Preferred Securities or exchangeable capital units of the Company.

	Fully paid ordinary shares of the Company	Performance options over fully paid ordinary shares of the Company	Performance rights over fully paid ordinary shares of the Company	National Income Securities	Registered schemes
Directors					
PJB Duncan (1)	9,794	-	-	950	-
RG Elstone (1)	2,196	-	-	-	-
A Fahour	302,865	160,000	40,000	-	-
DT Gilbert (1)	3,968	-	-	1,253	-
GJ Kraehe (1)	28,983	-	-	670	-
PJ Rizzo (1)	2,219	-	-	-	-
JS Segal (1)	2,538	-	-	180	-
JM Stewart	3,086	275,000	68,750	-	-
JG Thorn (1)	3,271	-	-	-	-
GA Tomlinson (1)	32,370	-	-	500	-
MJ Ullmer	2,863	100,000	25,000	-	-
GM Williamson	2,000	-	-	-	-

(1) Includes shares acquired under the Non-Executive Director Share Plan operated through the National Australia Bank Staff Share Ownership Plan.

There are no contracts, other than those disclosed above, to which directors are a party, or under which the directors are entitled to a benefit and that confer the right to call for or deliver interests in a registered scheme made available by the Company or a related body corporate.

All of the directors have disclosed interests in organisations not related to the Group and are to be regarded as interested in any contract or proposed contract that may be made between the Company and any such organisations.

Report of the directors (continued)

Past employment with external auditor

Mr Christopher D Lewis, who ceased employment with the Group on March 12, 2004 and Mr Michael J Ullmer, who commenced employment with the Group on September 1, 2004 previously held positions as partners of the Group's external auditor, KPMG, during a time when KPMG undertook the audit of the Group. Mr Ullmer resigned from KPMG in 1992.

Non-audit services

Fees paid or due and payable to the external auditor, KPMG, for non-audit services provided by the external auditor to the Group during the year to September 30, 2004 are set out in the table below:

	Group 2004 $'000
Audit-related fees (regulatory)	
National Custodian Services Auditing Guidance Statement (AGS) 1026 reports	366
APRA reporting (Prudential Standard APS 310 sign-off and tripartite review)	300
Regulatory audits / attestations for Wealth Management entities (in all regions)	277
UK regulatory audits / attestations	243
New Zealand regulatory audits / attestations	77
Other regulatory audits / attestations (in all regions)	151
Review of Japanese translation of annual financial report	35
Total audit-related fees (regulatory)	1,449
Audit-related fees (non-regulatory)	
Agreed-upon procedures on results announcements	200
Services in connection with IFRS transition (including International Accounting Standard (IAS) training)	96
Audit of employee benefit plans	69
Review of reconciliation of half year financials under Australian GAAP to US GAAP	55
Accounting advice in connection with securitisation transactions	47
Other (including procedures in relation to the Group's corporate social responsibility report)	33
Total audit-related fees (non-regulatory)	500
Tax fees	
Tax compliance services	337
Total tax fees	337
All other fees	
Australian Payments Clearing Association cash review reporting	357
Regulatory or compliance audits/attestations for Wealth Management entities (in all regions) unrelated to the audit or review of the Group's financial statements	290
Internet banking security testing (Europe)	76
Other regulatory audits/attestations (in all regions) unrelated to the audit or review of the Group's financial statements	24
Total all other fees	747
Total non-audit service fees	3,033

Fees exclude GST, VAT or equivalent taxes.

The external auditor also provides audit and non-audit services to non-consolidated securitisation vehicles sponsored by the Group, non-consolidated trusts of which a Group entity is trustee, manager or responsible entity and non-consolidated Group superannuation or pension funds. The fees paid or due and payable to the external auditor for these services during the year to September 30, 2004 total approximately $2,731,000.

In accordance with advice received from the Audit Committee, the directors are satisfied that the provision of non-audit services during the year to September 30, 2004 by the external auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act* 2001 (Cth). The directors are so satisfied because the Audit Committee has, having regard to auditor independence requirements of applicable laws, rules and regulations, concluded in respect of each non-audit service that the provision of that service would not impair the independence of the external auditor.

A description of the Audit Committee's pre-approval policies and procedures is set out on page 30. Further details of the services provided by the external auditor to the Group and the fees paid or due and payable to the external auditor for those services are set out in note 52 in the annual financial report 2004. A copy of the external auditor's independence declaration is set out on this page.

Copy of lead auditor's independence declaration under section 307C of the Corporations Act 2001 (Cth)

To the directors of National Australia Bank Limited

I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act* 2001 (Cth) in relation to the audit for the year to September 30, 2004; and

(b) no contraventions of the applicable Australian code of professional conduct in relation to the audit for the year to September 30, 2004.

BPJ Greig
Partner

December 2, 2004

Directors' signatures

This report of directors signed in accordance with a resolution of the directors:

Graham J Kraehe
Chairman

John M Stewart
Managing Director

December 2, 2004

Chief Financial Officer's report

Michael Ullmer
Chief Financial Officer

This year's result was a disappointing outcome. Driven by declining margins and cost growth across the Group, performance was poor particularly in the second half where slowing volume growth was also evident.

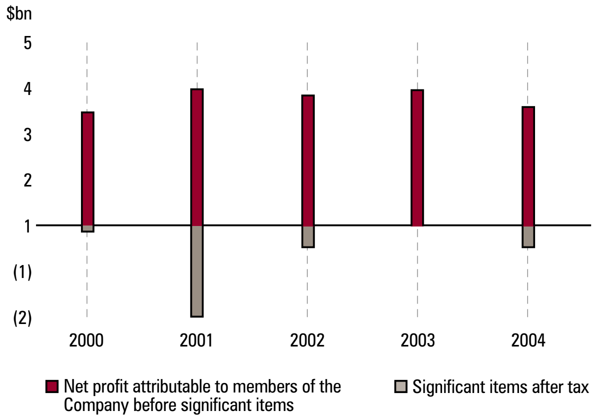
For the 12 months to September 30, 2004, net profit (after significant items) attributable to members of the Company, decreased 19.7% from the prior year to $3,177 million. The 2004 performance was impacted by after tax significant items totalling $384 million as follows:

- foreign currency options trading losses of $252 million;
- write-down of impaired application software of $307 million;
- charge to provide for doubtful debts of $204 million as a result of a revision of an accounting estimate;
- net profit of $315 million on sale of strategic shareholdings in St George Bank Limited, AMP Limited and HHG PLC; and
- net profit of $64 million on write-back of SR Investment, Inc. selling related costs provision.

In 2003 there were no significant items.

In comparison to 2003, net profit attributable to members of the Company before significant items declined 10.0% to $3,561 million in 2004.

Net profit & significant items

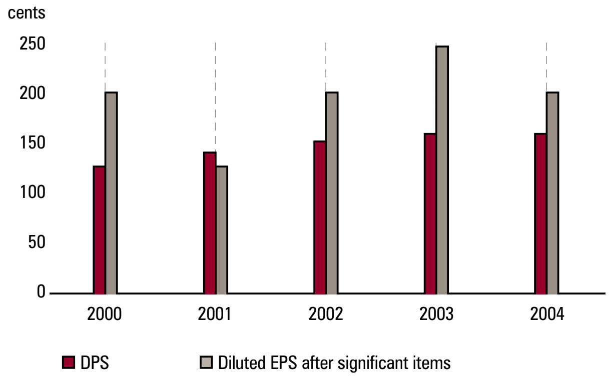


Cash earnings of $3,461 million before significant items (ie. net profit attributable to members of the company excluding goodwill amortisation, revaluation of the life insurance controlled entities and including distributions on other equity instruments and after outside equity interest) decreased 15.0% from the prior year.

Diluted earnings per share after significant items decreased 19.5% to 196.1 cents from 243.6 cents.

The final dividend declared in respect of the year ended September 30, 2004 was in line with the interim dividend at 83 cents per full-paid ordinary share, fully franked. This brings the total of dividends declared in the year to 166 cents per share (fully franked) representing an increase of 3 cents or 1.8% from the prior year.

Diluted earnings per share & dividends per share



Return on average equity after significant items decreased from 18.3% to 14.0%.

Income growth

Net interest income declined 3.1% in 2004. Net loans and advances grew 9.8% to $248 billion and deposits and other borrowings grew 9.7% to $221 billion. Average net interest margin fell from 2.53% in 2003 to 2.35%. The fall reflects the mix effect of growth in lower margin mortgages and fixed rate lending as well as a reduced contribution from Corporate & Institutional Banking.

Non-interest income (before significant items) grew 7.1% reflecting higher income relating to the life insurance business and flat loan fees from banking, partly offset by a large reduction in trading income.

Expense growth

Expense growth was high in an environment where income levels were low. Operating expenses before significant items grew 7.2% to $6,812 million from $6,354 million. Operating expenses were unfavourably impacted by higher European defined benefit pension fund expenses, regulatory-related costs and investment in protecting the Australian franchise and re-shaping the European business.

Asset quality

Asset quality levels continue to remain sound. During the year, the Group continued to de-risk its lending portfolio in addition to reducing its offshore impaired credit exposures. The proportion of gross non-accrual loans to gross loans and acceptances decreased from 0.65% to 0.46%.

The total charge to provide for doubtful debts (before significant items) was $559 million compared with $633 million in 2003.

Divisional performance

**** Net profit is before the after-tax impact of significant items and after outside equity interest***

The Group conducts retail banking operations in Australia, Europe and New Zealand:

- Financial Services Australia net profit* was in line with 2003 at $1,868 million. The increase in net interest income of 0.9% reflects continued strong growth in housing lending and retail deposits, offset by a reduction in the net interest margin of 33 basis points. Contributing to the expense increase of 6.1% were higher advertising, marketing, technology, occupancy and regulatory costs
- Financial Services Europe net profit* decreased 35.8% to $536 million. Impacting this result was a declining net interest margin, lower fee income, higher defined benefit pension fund expense, investment in growth initiatives and the effect of increased compliance and regulatory costs
- Financial Services New Zealand net profit* increased 5.8% to $328 million driven by strong volume growth in housing, business lending and retail deposits. The division experienced increased expenditure resulting from annual salary increases, higher pension and regulatory expenses. Asset quality remained stable.

The Corporate & Institutional Banking and Wealth Management businesses operated internationally during 2004 (refer to page 10 for further details of the restructure of these businesses).

Corporate & Institutional Banking net profit* decreased 29.5% to $618 million. The foreign currency option trading losses incident directly impacted currency options sales and reduced other income as customers turned to other providers to meet their business requirements. Risk and trading income also suffered in response to the subsequent revision of the Group's risk management policy. Flatter yield curves, reduced volatility in interest rate and foreign exchange markets, slower deal flow and the reversal of prior year capitalised interest of $28 million on a large exposure, which has been reclassified as a non-accrual loan, further contributed towards the disappointing result. Expenditure increases were influenced by investment in the control environment, an increase in personnel numbers, higher volume related expenses and increased regulatory costs. The charge to provide for doubtful debts increased driven mainly by US project finance and other exposures.

Wealth Management net profit* increased $251 million. Improved global equity market conditions, strong Australian wholesale sales, growth in fee revenue and annual in-force premium growth and stable sales contributed towards an improved business performance. The result was unfavourably impacted by the recognition of prior year adjustments of $50 million. The revaluation profit of $16 million (after-tax) was boosted by an income tax benefit of $150 million following the decision to elect to consolidate under the Australian tax consolidation regime.

Management of capital

Total capital represents 10.6% of risk-weighted assets. Tier 1 capital represents 7.3%.

As a result of the Group's unauthorised currency options trading, APRA now requires that the Group's internal target for capital to risk weighted assets to be 10.0%. Previously the Group's internal target was 9.0% – 9.5%. The Group has achieved this target by the full underwriting of the 2004 interim dividend reinvestment and bonus share plans and by the issue of subordinated debt qualifying as Tier 2 capital.

The adjusted common equity ratio is 5.30% (2003: 4.92%), which reflects the capital available to support the banking operations after deducting the Group's investment in Wealth Management operations.

During the year, Standard & Poor's Corporation lowered its long-term counterparty credit rating on the Company and related entities from AA to AA-.

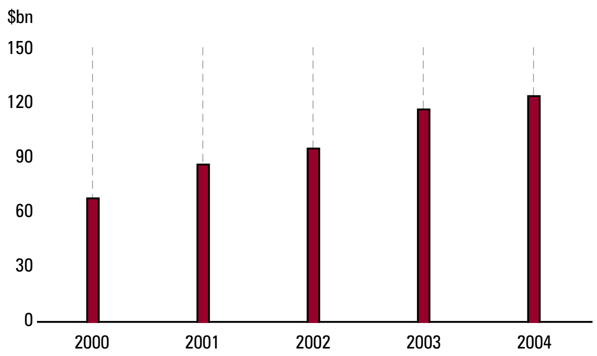
Credit ratings

	Short-term	Long-term
Standard & Poor's Corporation	A-1+	AA-
Fitch, Inc.	F1+	AA
Moody's Investors Service, Inc.	P-1	Aa3

Financial strength

Total assets have grown $14 billion in 2004 to $411 billion driven primarily by growth in lending assets, particularly housing lending in Australia, Europe and New Zealand.

Housing growth



Growth investment, franchise re-investment and remedial actions

Strategic investment expenditure continued throughout the 2004 year with the following developments:

- a network of financial solutions centres in the United Kingdom was established during the year with further centres planned;
- in New Zealand the new tellers' customer service platform was successfully rolled out; and
- Wealth Management continued the implementation of an integrated advice platform for advisers in Australia supporting the delivery of investment, insurance and debt advice.

Expenditure on brand re-investment stepped up during the year including the costs associated with the National acting as Official Partner of the 2006 Commonwealth Games, increased advertising and new product launches in Australia, heightened brand awareness through the brand program in the United Kingdom and promotional campaigns in New Zealand.

Significant progress has been made on the remedial action plans implemented to address the issues raised by APRA and PricewaterhouseCoopers following the unauthorised foreign currency options trading incident.

Outlook

The subdued 2004 result reflects the need to address business under-performance. The structural move in 2005 towards a regional based model should provide increased transparency of cost bases and clear accountability. Through these changes we aim to develop a strong foothold for future sustainable growth enabling us to deliver strong returns to our shareholders.

Selected financial data

For the years ended September 30	2004 $m	2003 $m	Group 2002 [1] $m	2001 [2] $m	2000 [3] $m
Summary of financial performance					
Net interest income	**7,191**	7,419	7,222	6,960	6,371
Net life insurance income	**1,012**	444	(10)	128	332
Other banking and financial services income	**4,831**	5,010	7,006	4,749	4,124
Mortgage servicing and origination revenue	**-**	-	378	810	640
Movement in the excess of net market value over net assets of life insurance controlled entities	**(137)**	(160)	(155)	510	202
Significant revenue	**993**	-	2,671	5,314	-
Operating expenses	**(6,812)**	(6,354)	(8,707)	(6,470)	(5,807)
Amortisation of goodwill	**(103)**	(98)	(101)	(167)	(197)
Charge to provide for doubtful debts	**(559)**	(633)	(697)	(989)	(588)
Significant expenses	**(1,675)**	-	(3,266)	(6,866)	(204)
Profit from ordinary activities before income tax expense	**4,741**	5,628	4,341	3,979	4,873
Income tax expense relating to ordinary activities	**(1,190)**	(1,681)	(962)	(1,891)	(1,632)
Net profit	**3,551**	3,947	3,379	2,088	3,241
Net loss/(profit) attributable to outside equity interest - Life insurance business	**(365)**	16	(6)	(5)	(2)
Net profit attributable to outside equity interest - Other	**(9)**	(8)	-	-	-
Net profit attributable to members of the Company	**3,177**	3,955	3,373	2,083	3,239

(1) Includes amounts relating to operating assets and operating platform of HomeSide Lending, Inc. to February 28, 2002, sold on March 1, 2002 and SR Investment, Inc. (the parent entity of HomeSide Lending, Inc.) to September 30, 2002, sold on October 1, 2002.
(2) Includes amounts relating to Michigan National Corporation and its controlled entities to March 31, 2001. The Group sold this entity on April 1, 2001.
(3) Includes the amount relating to the MLC group from July 1, 2000. The Group acquired these entities on June 30, 2000.

As at September 30	2004 $m	2003 $m	Group 2002 [1] $m	2001 [2] $m	2000 [3] $m
Summary of financial position					
Investments relating to life insurance business	**41,013**	35,846	31,012	31,381	31,103
Loans and advances (after provisions for doubtful debts)	**247,836**	225,735	212,929	197,827	187,079
Total assets	**411,309**	397,471	377,387	374,720	343,677
Total risk-weighted assets [4]	**286,805**	254,266	253,135	257,513	238,589
Deposits and other borrowings	**220,752**	201,194	198,526	186,936	180,699
Life insurance policy liabilities	**36,134**	32,457	30,425	30,257	29,879
Bonds, notes and subordinated debt	**32,573**	24,257	24,961	24,984	21,051
Perpetual floating rate notes	**350**	367	460	507	461
Exchangeable capital units [5]	**1,262**	1,262	1,262	1,262	1,262
Net assets	**29,766**	27,211	23,251	23,557	21,407
Contributed equity	**10,191**	9,728	9,931	10,725	9,855
Ordinary shares	**7,271**	6,078	7,256	8,050	7,180
Equity instruments [6]	**2,920**	3,650	2,675	2,675	2,675
Total equity (excludes outside equity interest)	**25,900**	24,407	23,184	23,489	21,361

(1) Includes amounts relating to operating assets and operating platform of HomeSide Lending, Inc. to February 28, 2002, sold on March 1, 2002 and SR Investment, Inc. (the parent entity of HomeSide Lending, Inc.) to September 30, 2002, sold on October 1, 2002.
(2) Includes amounts relating to Michigan National Corporation and its controlled entities to March 31, 2001. The Group sold this entity on April 1, 2001.
(3) Includes the amount relating to the MLC group from July 1, 2000. The Group acquired these entities on June 30, 2000.
(4) The calculation to determine the market risk capital component of risk-weighted assets at September 30, 2004 was carried out under the Standard Method as directed by APRA. In previous years, the market risk capital component of risk-weighted assets was calculated using the Internal Model Method. The Standard Method, as prescribed by the APRA Prudential Standard (APS 113), limits recognition of portfolio effects on outstanding positions and is substantially more restrictive on the rules regarding the matching of positions.
(5) The exchangeable capital units of US$1 billion are recorded in this concise financial report at the historical rate of US$0.7922 = A$1.00.
(6) Equity instruments incorporate preference shares, National Income Securities and Trust Preferred Securities.

	2004 $	2003 $	Group 2002 (1) $	2001 (2) $	2000 (3) $
Shareholder information					
Earnings per share (4)					
Basic	**1.97**	2.49	2.06	1.22	2.02
Diluted	**1.96**	2.44	2.03	1.23	1.99
Earnings per share before significant items (4)					
Basic	**2.23**	2.49	2.32	2.47	2.11
Diluted	**2.20**	2.44	2.27	2.43	2.08
Cash earnings per share (5)					
Basic	**2.03**	2.69	2.22	1.11	2.06
Diluted	**2.02**	2.62	2.18	1.12	2.02
Cash earnings per share before significant items (5)					
Basic	**2.29**	2.69	2.48	2.37	2.15
Diluted	**2.26**	2.62	2.43	2.33	2.11
Dividends per share (6)	**1.66**	1.63	1.47	1.35	1.23
Dividends per American depositary share (ADS) (6)	**8.30**	8.15	7.35	6.75	6.15
Economic Value Added EVA® ($m) (7)	**1,617**	2,259	1,284	1,129	1,379
Dividend payout ratio (%) (6)	**72.14**	56.46	56.62	56.13	57.56
Selected financial ratios (%)					
Average equity (ordinary shareholder funds) to average total assets (excluding statutory funds)	**5.8**	5.7	6.3	6.4	6.3
Return on average assets	**0.7**	1.0	0.9	0.5	1.1
Return on average equity (ordinary shareholder funds)	**14.0**	18.3	15.1	9.0	17.3
Average net interest spread	**1.94**	2.18	2.39	2.34	2.39
Average net interest margin	**2.35**	2.53	2.67	2.71	2.88
Gross non-accrual loans to gross loans and acceptances	**0.46**	0.65	0.76	0.87	0.68
Total provisions for doubtful debts to gross impaired assets	**198.1**	138.0	141.5	143.5	182.5
Capital – risk asset ratios					
Tier 1	**7.3**	7.7	7.6	7.5	6.6
Total	**10.6**	9.6	10.0	10.2	9.3
Other information (number)					
Total staff					
Full-time and part-time	**47,025**	45,206	46,642	49,710	51,879
Full-time equivalent (8)	**43,517**	42,540	43,202	47,597	49,514

(1) Includes amounts relating to operating assets and operating platform of HomeSide Lending, Inc. to February 28, 2002, sold on March 1, 2002 and SR Investment, Inc.(the parent entity of HomeSide Lending, Inc.) to September 30, 2002, sold on October 1, 2002.

(2) Includes amounts relating to Michigan National Corporation and its controlled entities to March 31, 2001. The Group sold this entity on April 1, 2001.

(3) Includes amount relating to the MLC group from July 1, 2000. The Group acquired these entities on June 30, 2000.

(4) Refer to the annual financial report 2004 for an explanation of earnings per share.

(5) Cash earnings is net profit attributable to members of the Company excluding the movement in the excess of net market value over net assets of life insurance controlled entities, goodwill amortisation, distributions on other equity instruments and net profit attributable to outside equity interest.

(6) Dividend amounts for a year represent the final and interim dividend in respect of that year, irrespective of when they are declared, determined and publicly recommended and includes issues under the bonus share plan in lieu of cash and the dividend reinvestment plan. Dividend payout ratio is based on the dividend amounts for a year by cash earnings before significant items.

(7) EVA® is a registered trademark of Stern Stewart & Co. From October 1, 2003 the Group simplified EVA® calculation methodology. For comparative purposes the new methodology has been applied to the 2003 results. Refer to the annual financial report 2004 for further details.

(8) Full-time equivalent employees (FTEs) includes part-time staff (pro-rated) and non-payroll FTEs (ie contractors).

Consolidated statement of financial performance

For the year ended September 30	2004 $m	Group 2003 $m	2002 $m
Interest income	**18,650**	17,022	16,434
Interest expense	**(11,459)**	(9,603)	(9,212)
Net interest income	**7,191**	7,419	7,222
Premium and related revenue	**1,005**	949	1,134
Investment revenue	**4,842**	2,759	(988)
Claims expense	**(702)**	(958)	(956)
Change in policy liabilities	**(3,368)**	(1,518)	1,637
Policy acquisition and maintenance expense	**(723)**	(713)	(751)
Investment management fees	**(42)**	(75)	(86)
Net life insurance income	**1,012**	444	(10)
Other banking and financial services income	**4,831**	5,010	7,006
Mortgage servicing and origination revenue	**-**	-	378
Movement in the excess of net market value over net assets of life insurance controlled entities	**(137)**	(160)	(155)
Significant revenue			
Proceeds from the sale of strategic shareholdings	**993**	-	-
Proceeds from the sale of foreign controlled entities	**-**	-	2,671
Personnel expenses	**(3,616)**	(3,416)	(3,379)
Occupancy expenses	**(591)**	(556)	(559)
General expenses	**(2,605)**	(2,382)	(4,769)
Amortisation of goodwill	**(103)**	(98)	(101)
Charge to provide for doubtful debts	**(559)**	(633)	(697)
Significant expenses			
Cost of sale of strategic shareholdings	**(678)**	-	-
Foreign currency options trading losses	**(360)**	-	-
Write-down of impaired application software	**(409)**	-	-
Charge to provide for doubtful debts – revision of accounting estimate	**(292)**	-	-
Cost of foreign controlled entity sold – revision of accounting estimate	**64**	-	-
Restructuring costs	**-**	-	(580)
Cost of foreign controlled entities sold	**-**	-	(2,686)
Profit from ordinary activities before income tax expense	**4,741**	5,628	4,341
Income tax expense relating to ordinary activities	**(1,190)**	(1,681)	(962)
Net profit	**3,551**	3,947	3,379
Net loss/(profit) attributable to outside equity interest – Life insurance business	**(365)**	16	(6)
Net profit attributable to outside equity interest – Other	**(9)**	(8)	-
Net profit attributable to members of the Company	**3,177**	3,955	3,373
Other changes in equity other than those resulting from transactions with owners as owners			
Net credit to asset revaluation reserve	**71**	9	9
Net credit/(debit) to foreign currency translation reserve	**226**	(1,251)	(520)
Net credit to retained profits on initial adoption of AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"	**-**	1,151	-
Total revenues, expenses and valuation adjustments attributable to members of the Company and recognised directly in equity	**297**	(91)	(511)
Total changes in equity other than those resulting from transactions with owners as owners	**3,474**	3,864	2,862
Basic earnings per share (cents)	**197.3**	248.8	205.7
Diluted earnings per share (cents)	**196.1**	243.6	202.5
Dividends per ordinary share (cents)			
Interim	**83**	80	72
Final	**83**	83	75

Consolidated statement of financial position

As at September 30	Group 2004 $m	2003 $m
Assets		
Cash and liquid assets	**8,080**	8,405
Due from other financial institutions	**23,494**	29,234
Due from customers on acceptances	**16,344**	19,562
Trading securities	**24,248**	23,724
Trading derivatives	**17,939**	23,644
Available for sale securities	**4,610**	6,513
Investment securities	**11,513**	8,647
Investments relating to life insurance business	**41,013**	35,846
Loans and advances	**247,836**	225,735
Shares in controlled entities, joint venture entities and other securities	**158**	1,445
Regulatory deposits	**177**	225
Property, plant and equipment	**2,257**	2,498
Income tax assets	**1,367**	1,203
Goodwill	**632**	740
Other assets	**11,641**	10,050
Total assets	**411,309**	397,471
Liabilities		
Due to other financial institutions	**42,044**	52,530
Liability on acceptances	**16,344**	19,562
Trading derivatives	**16,150**	21,479
Deposits and other borrowings	**220,752**	201,194
Life insurance policy liabilities	**36,134**	32,457
Income tax liabilities	**1,178**	1,537
Provisions	**1,129**	1,262
Bonds, notes and subordinated debt	**32,573**	24,257
Other debt issues	**1,612**	1,743
Other liabilities	**13,627**	14,239
Total liabilities	**381,543**	370,260
Net assets	**29,766**	27,211
Equity		
Contributed equity	**10,191**	9,728
Reserves	**1,194**	893
Retained profits	**14,515**	13,786
Total parent entity interest	**25,900**	24,407
Outside equity interest – Life insurance business	**3,866**	2,614
Outside equity interest – Other	**-**	190
Total equity	**29,766**	27,211

Consolidated statement of cash flows

For the year ended September 30	2004 $m	Group 2003 $m	2002 $m
Cash flows from operating activities			
Interest received	**18,594**	17,372	15,639
Interest paid	**(11,136)**	(10,115)	(9,263)
Dividends received	**23**	39	35
Fees and other income received	**5,068**	3,026	6,182
Life insurance			
Premiums received	**7,467**	6,546	10,378
Investment and other revenue received	**1,339**	1,857	2,024
Policy payments	**(6,694)**	(5,778)	(8,483)
Other life insurance payments	**(641)**	(476)	(1,111)
Personnel expenses paid	**(3,521)**	(3,327)	(3,637)
Occupancy expenses paid	**(521)**	(489)	(549)
General expenses paid	**(3,048)**	(2,959)	(2,339)
Income tax paid	**(1,567)**	(1,830)	(2,131)
Goods and services tax paid	**(30)**	(52)	(68)
Net decrease/(increase) in trading securities	**(449)**	(4,345)	136
Net decrease/(increase) in mortgage loans held for sale	**(22)**	50	1,304
Net cash provided by/(used in) operating activities	**4,862**	(481)	8,117
Cash flows from investing activities			
Movement in available for sale securities			
Purchases	**(5,727)**	(15,052)	(14,765)
Proceeds from sale	**2,002**	3	90
Proceeds on maturity	**5,399**	13,500	14,543
Movement in investment securities			
Purchases	**(15,032)**	(15,449)	(40,653)
Proceeds on maturity	**12,373**	18,578	37,434
Net increase in life insurance business investments and policy liabilities	**(1,683)**	(3,650)	(2,148)
Net increase in loans and advances	**(20,657)**	(28,402)	(19,032)
Net decrease in shares in controlled entities, joint venture entities and other securities	**609**	428	212

Consolidated statement of cash flows (continued)

For the year ended September 30	2004 $m	Group 2003 $m	2002 $m
Payments for mortgage servicing rights	**-**	-	(74)
Proceeds from sale of mortgage servicing rights	**-**	-	98
Payments for acquisition of controlled entities	**-**	(83)	-
Proceeds from sale of controlled entities	**110**	2,671	-
Payments for property, plant and equipment	**(660)**	(534)	(791)
Proceeds from sale of operating assets	**-**	-	2,314
Proceeds from the sale of strategic shareholdings	**993**	-	-
Net proceeds from sale of property, plant and equipment	**157**	166	418
Net decrease/(increase) in regulatory deposits	**47**	(113)	(35)
Net decrease/(increase) in other assets	**(1,515)**	2,762	10,057
Net cash used in investing activities	**(23,584)**	(25,175)	(12,332)
Cash flows from financing activities			
Net increase in deposits and other borrowings	**17,390**	15,237	17,320
Net proceeds from bonds, notes and subordinated debt	**14,059**	10,136	6,738
Repayments of bonds, notes and subordinated debt	**(5,473)**	(7,017)	(8,314)
Payments from provisions	**(270)**	(340)	(116)
Net proceeds from issue of ordinary shares	**739**	216	130
Net proceeds from issue of Trust Preferred Securities	**-**	975	-
Payments made under on-market buy-back of ordinary shares	**(162)**	(1,565)	(1,248)
Payments made on buy-back of preference shares	**(582)**	-	-
Dividends and distributions paid	**(1,976)**	(2,255)	(1,948)
Net decrease in other liabilities	**(978)**	(204)	(5,892)
Net cash provided by financing activities	**22,747**	15,183	6,670
Net increase/(decrease) in cash and cash equivalents	**4,025**	(10,473)	2,455
Cash and cash equivalents at beginning of year	**(14,891)**	(8,307)	(12,469)
Effects of exchange rate changes on balance of cash held in foreign currencies	**396**	3,889	1,707
Cash and cash equivalents at end of year	**(10,470)**	(14,891)	(8,307)

Notes to the concise financial statements

1 Principal accounting policies

This concise financial report has been prepared in accordance with Australian Accounting Standard AASB 1039 "Concise Financial Reports". The information contained within this concise financial report has been derived from the annual financial report 2004 of the Company and the Group. The annual financial report 2004 is prepared in accordance with the requirements of the *Banking Act* 1959 (Cth), the *Corporations Act* 2001 (Cth), Australian Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of an entity as the annual financial report 2004. Accordingly, this concise financial report should be read in conjunction with the annual financial report 2004.

A full description of the accounting policies adopted is contained in the annual financial report 2004. There have been no changes in accounting policy from those policies applied at September 30, 2003.

Comparative amounts have been reclassified to accord with changes in presentation made in 2004, except where otherwise stated.

All amounts are expressed in Australian dollars unless otherwise stated.

Reclassification of financial information

In respect of the consolidated statement of financial position the basis of classification of three items was changed during 2004.

The basis of classification of transferable certificates of deposit (TCDs) has been revised and bonds issued under the Group's TCD program have been reclassified from 'deposits and other borrowings' to 'bonds, notes and subordinated debt'. As a result of this change, on the consolidated statement of financial position $1,550 million has been reclassified in the 2003 comparatives.

Certain repurchase and reverse repurchase agreements with other financial institutions have been reclassified to 'due to other financial institutions' and 'due from other financial institutions' respectively, in order to provide users with an enhanced level of understanding and comparability of the Group's loan portfolio. Previously, these repurchase and reverse repurchase agreements were included in 'deposits and other borrowings' and 'loans and advances' respectively.

Accordingly, $7,402 million of repurchase agreements previously disclosed as at September 30, 2003 as deposits and other borrowings have been reclassified to due to other financial institutions. Further $18,851 million of reverse repurchase agreements as at September 30, 2003 previously disclosed as loans and advances have been reclassified to due from other financial institutions. In addition, reverse repurchase agreements of $3,373 million at September 30, 2003 with non-financial institutions have been reclassified from 'loans and advances' to 'cash and liquid assets'.

Corresponding reclassifications have also been made to revenue, expense and cash flow classifications.

The basis of classification of the medium term notes (MTN) issued by the Group's controlled entity, Bank of New Zealand (BNZ) has been revised. Accordingly, from April 1, 2004, amounts issued under this MTN program have been reclassified from 'deposits and other borrowings' to 'bonds, notes and subordinated debt'. Comparative information has not been reclassified as it is impractical to do so.

Transition to Australian Equivalents to International Financial Reporting Standards

In July 2002, the Financial Reporting Council in Australia formally announced that Australian reporting entities would be required to comply with Australian accounting standards equivalent to International Financial Reporting Standards (AIFRS) and other pronouncements set by the International Accounting Standards Board (IASB) for financial years commencing on or after January 1, 2005.

The Group will be required to adopt these standards for the financial year commencing October 1, 2005 and the adoption of the standards will be first reflected in the Group's financial statements for the half-year ending March 31, 2006. Comparative financial information prepared in compliance with AIFRS will be required for the year commencing October 1, 2004. Comparative information is not required for AASB 132 "Financial Instruments: Disclosure and Presentation", AASB 139 "Financial Instruments: Recognition and Measurement" and AASB 4 "Insurance Contracts".

AIFRS frequently require application of fair value measurement techniques. This will potentially introduce greater volatility to the Group's reported financial performance. The Group continues to evaluate the areas impacted by adoption. The adoption of these standards is expected to have a material effect on the Group's reported financial performance and financial position. It is not possible at this time to estimate reliably the quantitative impact of the changes upon the Group's reported financial performance and financial position or regulatory capital adequacy. Most accounting policy changes to retrospectively apply AIFRS will be made against opening retained earnings in the first AIFRS balance sheet.

A more detailed discussion of the impact of AIFRS on the Group is set out in the annual financial report 2004.

2 Segment information

The following segment information is disclosed in accordance with Australian Accounting Standards AASB 1039 "Concise Financial Reports" and AASB 1005 "Segment Reporting". For the purposes of this note, a business/primary operating segment is defined as a component of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in assessing performance. The Group results are based on the business segments as reviewed separately by the chief operating decision maker, the Managing Director and Chief Executive Officer, as well as other members of senior management.

The Group's business is organised into five major operating segments: Financial Services Australia, Financial Services Europe, Financial Services New Zealand, Corporate & Institutional Banking and Wealth Management. Financial Services Australia, Europe and New Zealand are the retailing arms of the Group and provide a full range of financial services to customers. These Financial Services businesses are managed on a regional basis across Australia, Europe and New Zealand. Corporate & Institutional Banking is responsible for the Group's relationships with large corporations, institutions, supranationals and government bodies worldwide. It comprises Corporate Banking, Financial Institutions, Markets, Specialised Finance, National Custodian Services and a Services unit. Wealth Management manages a diverse portfolio of financial services businesses, comprising Investments, Insurance and Other (Private Bank and Advice Solutions). The Group's 'Other' business segment includes Finance, Technology, People and Culture, Risk Management, Corporate Development and Office of the CEO, and are not considered to be separate reportable operating segments.

Revenues and expenses directly associated with each business segment are included in determining their result. Transactions between business segments are based on agreed recharges between segments operating within the same country and are at arm's length between segments operating in different countries.

A change to business segments has been made in the 2004 year as a result of certain European corporate customers previously managed as part of Financial Services Europe being transferred to Corporate & Institutional Banking. The 2003 business segment results, assets and liabilities have been restated to reflect this change.

In August 2004, the Group announced a number of changes to the structure of its business operating model. The new business operating model will be managed along regional lines and will be made effective during the 2005 year. It is impracticable at the date of this report to restate the 2004 and prior years to this new basis of segmentation. In the next reporting period, once the basis of segmentation is finalised, the Group will restate its comparatives (where practicable). *For further information on the new business operating model, refer to the 'business overview' section of the annual financial report 2004.*

Business segments

Year ended September 30, 2004	Financial Services Australia $m	Financial Services Europe $m	Financial Services New Zealand $m	Corporate & Institutional Banking $m	Wealth Management $m	Other $m	Inter-segment eliminations $m	Total Group $m
Net interest income (1)	3,552	2,133	700	678	132	(4)	-	7,191
Non-interest income	1,893	700	313	1,056	6,538	41	-	10,541
Significant revenue (2)	-	-	-	-	-	993	-	993
Inter-segment revenue	100	137	13	(8)	7	132	(381)	-
Total revenue after interest expense (3)	5,545	2,970	1,026	1,726	6,677	1,162	(381)	18,725
Significant expenses (4)	(169)	(118)	(34)	(422)	(78)	(854)	-	(1,675)
Other expenses	(2,871)	(2,105)	(505)	(799)	(5,554)	(475)	-	(12,309)
Inter-segment expenses	4	(71)	(29)	(171)	(180)	66	381	-
Total expenses excluding interest expense	(3,036)	(2,294)	(568)	(1,392)	(5,812)	(1,263)	381	(13,984)
Profit/(loss) from ordinary activities before tax	2,509	676	458	334	865	(101)	-	4,741
Income tax (expense)/benefit (5)	(760)	(223)	(153)	(3)	(130)	79	-	(1,190)
Net profit/(loss)	1,749	453	305	331	735	(22)	-	3,551
Net profit attributable to outside equity interest	-	-	-	(9)	(365)	-	-	(374)
Net profit/(loss) attributable to members of the Company	1,749	453	305	322	370	(22)	-	3,177
Total assets (6)	157,616	62,173	30,448	168,297	54,421	(2,090)	(59,556)	411,309
Total liabilities (6)	159,273	56,739	29,032	163,070	40,426	(7,441)	(59,556)	381,543

Year ended September 30, 2003	Financial Services Australia $m	Financial Services Europe $m	Financial Services New Zealand $m	Corporate & Institutional Banking $m	Wealth Management $m	Other $m	Inter-segment eliminations $m	Total Group $m
Net interest income (1)	3,519	2,327	651	848	117	(43)	-	7,419
Non-interest income	1,900	809	316	1,105	4,269	159	-	8,558
Inter-segment revenue	50	129	13	(3)	12	66	(267)	-
Total revenue after interest expense (3)	5,469	3,265	980	1,950	4,398	182	(267)	15,977
Other expenses	(2,798)	(1,995)	(494)	(700)	(3,931)	(431)	-	(10,349)
Inter-segment expenses	(5)	(33)	(21)	(125)	(140)	57	267	-
Total expenses excluding interest expense	(2,803)	(2,028)	(515)	(825)	(4,071)	(374)	267	(10,349)
Profit/(loss) from ordinary activities before tax	2,666	1,237	465	1,125	327	(192)	-	5,628
Income tax (expense)/benefit	(798)	(402)	(155)	(239)	(169)	82	-	(1,681)
Net profit/(loss)	1,868	835	310	886	158	(110)	-	3,947
Net (profit)/loss attributable to outside equity interest	-	-	-	(9)	16	1	-	8
Net profit/(loss) attributable to members of the Company	1,868	835	310	877	174	(109)	-	3,955
Total assets (6) (7)	143,203	56,531	25,532	163,395	49,971	7,157	(48,318)	397,471
Total liabilities (6) (7)	146,316	50,635	28,111	150,334	38,551	4,631	(48,318)	370,260

(1) Net interest income includes interest on capital employed by business segments.

(2) Significant revenue represents the proceeds from the sale of strategic shareholdings in St George Bank Limited, AMP Limited and HHG Plc. of $993 million (refer to note 3).

(3) Total revenue has been disclosed net of interest expense. It is impracticable to disclose gross interest revenue on a business segment basis due to the Group's business segmental management reporting system's usage of net interest income as an operating measure rather than gross interest income and gross interest expense.

(4) Significant expenses comprises the cost of sale of strategic shareholdings in St George Bank Limited, AMP Limited and HHG Plc of $678 million, losses arising from unauthorised foreign currency options trading of $360 million, write-back of a provision for SR Investment, Inc. (the parent entity of HomeSide US) in respect of selling-related costs of $64 million, the write-down of impaired application software of $409 million, and the charge to provide for doubtful debts relating to a revision of an accounting estimate of $292 million (refer to note 3).

(5) Income tax (expense)/benefit includes an income tax benefit of $108 million attributable to the losses arising from the unauthorised foreign currency options trading within the Corporate & Institutional Banking business segment, an income tax benefit of $102 million attributable to the write-down of impaired application software, and an income tax benefit of $88 million on the charge to provide for doubtful debts relating to a revision of an accounting estimate.

(6) For Corporate & Institutional Banking, this amount includes approximately $30 billion (2003: $20 billion) of funding raised on behalf of Asset & Liability Management functions in Europe and New Zealand due to the nature of the funding model in those regions and related legal entity structure.

(7) Certain internal assets and liabilities relating to the funding of the Group's activities which were eliminated at Group level, have now been reclassified to eliminate within Corporate & Institutional Banking.

Notes to the concise financial statements (continued)

3 Individually significant items included in profit from ordinary activities before income tax expense

Sale of strategic shareholdings
On January 28, 2004, the Company sold its strategic shareholdings in St George Bank Limited, AMP Limited and HHG PLC. The Group received proceeds on sale of $993 million for assets with a carrying value of $678 million, resulting in a profit on sale of $315 million (after tax).

Foreign currency options trading losses
In January 2004, the Company announced that it had identified losses relating to unauthorised trading in foreign currency options and had established a structured process to review and resolve all issues arising from this matter.

The Company announced a total loss of $360 million before tax, or $252 million after tax, arising from the unauthorised foreign currency options trading.This total loss consisted 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 of $360 million is a valuation allowance for long-dated and illiquid trading derivatives in other portfolios of $26 million as at September 30, 2004.

During the period the Company also released reports by PricewaterhouseCoopers (PwC) and APRA into this matter. The PwC and APRA reports provide a roadmap for the Company to address issues concerning culture, risk management, governance and operational controls, primarily related to the Markets division of Corporate & Institutional Banking. The Company is in the process of implementing remedial actions required by APRA. During August 2004, the Group provided the Australian Securities and Investments Commission (ASIC) with a range of undertakings to review certain key systems and controls across those businesses which operate under the primary Australian Financial Services Licence applicable to the Company's Australian banking business. The enforceable undertakings require the Group to carry out work that is in line with current regulatory requirements within a specific timeframe, as agreed with ASIC and to provide reports on each of the areas identified.

Refer to the 'report of the directors' on page 42 for further information on the foreign currency options trading losses, including key findings arising from the PwC and APRA investigations, and the remedial actions implemented by the Company.

Write-down of impaired application software
During the year, the Group undertook a detailed review of the carrying value of its software assets which resulted in a charge to the profit and loss account of $409 million ($307 million after tax).

The Group ceased its global enterprise resource planning strategy supported by its Integrated Systems Implementation 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 its 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 assets that were no longer expected to provide future economic benefits with a carrying value of $209 million were identified as fully impaired and were written off.

General provision for doubtful debts – revision of accounting estimate
During the year, the Group reviewed the level of the 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 was 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 general provision for doubtful debts as at September 30, 2004. This discount rate is used to determine the present value of cumulative annual probability of default rates used for the purpose of loan provisioning.

The impact of this reduction in discount rate and flow on impacts, was an increase in the charge to provide for doubtfule debts of $292 million ($204 million after tax).

SR Investment, Inc. – sale of foreign controlled entity and revision of accounting estimate
On October 1, 2002, the Group sold SR Investment, Inc. (the parent entity of HomeSide US) to Washington Mutual Bank, FA. Controlled entities other than HomeSide US were excluded from the sale. The Group received proceeds on sale of $2,671 million for assets with a cost of $2,686 million, resulting in a profit on sale of $6 million after all disposal costs, including income tax. Included within the sale result was a charge to provide for certain sale-related costs of $70 million. During 2004, $64 million of this provision was written back as a revision to the accounting estimate.

The results of SR Investment, Inc. and its controlled entities are included in the Group's financial performance up to and including the year ended September 30, 2002. The assets and liabilities of SR Investment, Inc. and its controlled entities were included in the Group's financial position up to and including the year ended September 30, 2002. SR Investment, Inc. contributed $98 million net profit to the Group in the 2002 year up to the date of sale. The net asset position at the date of sale was $2,267 million. The net cash outflow of SR Investment, Inc. in the 2002 year to the date of sale was $609 million, which is reflected in the Group's cash flows.

Restructuring costs

During 2002, the Group recognised restructuring costs of $580 million resulting from the Positioning for Growth and other restructuring initiatives. The Positioning for Growth initiative comprised a fundamental reorganisation of the management and organisational structure of the Group at the time. The $580 million comprised of termination benefits of $327 million, occupancy costs of $68 million, write-off of property, plant and equipment of $132 million (which included write-off of then redundant components of the Integrated Systems Implementation application software assets of $54 million) and other costs of $53 million.

Personnel costs of $327 million provided for and expensed in 2002 related to termination benefits for approximately 2,955 positions in management, support and customer-facing roles. For 2004, payments of $37 million (2003: $147 million, 2002: $101 million) were made in respect of 417 positions (2003: 1,317 positions, 2002: 859 positions) made redundant. The reduction in staff numbers occurred in both managerial and non-managerial positions in the following regions:

The remaining provision for restructuring costs raised in 2002 relates to future payments for redundancies, occupancy and other costs. Final payments for redundancies and other costs will be made in the first half of the 2005 year, whilst future payments for occupancy costs will be made in periods corresponding with the relevant lease terms.

	Australia	Europe	New Zealand	United States	Asia	Total
Original number of positions to be made redundant	1,852	910	121	36	36	2,955
Number of positions made redundant during 2002	(707)	(56)	(51)	(18)	(27)	(859)
Number of positions made redundant during 2003	(880)	(360)	(59)	(11)	(7)	(1,317)
Number of positions made redundant during 2004	(231)	(174)	(11)	(1)	-	(417)
Adjustments to the number of positions to be made redundant in 2004	-	(44)	-	-	(2)	(46)
Number of positions to be made redundant as at September 30, 2004	34	276	-	6	-	316

Notes to the concise financial statements (continued)

4 Dividends

Dividends recognised by the Company for the years shown below at September 30:	Amount per share cents	Total amount $m	Franked amount per share %
2004			
Final 2003 ordinary (1)	**83**	**1,250**	**100**
Interim 2004 ordinary	**83**	**1,253**	**100**
Deduct: Bonus shares in lieu of dividend	**n/a**	**(98)**	**n/a**
Total dividends paid		**2,405**	
2003			
Final 2002 ordinary (1)	75	1,207	90
Interim 2003 ordinary	80	1,153	100
Deduct: Bonus shares in lieu of dividend	n/a	(105)	n/a
Total dividends paid		2,255	
2002			
Interim 2002 ordinary	72	1,160	100
Final 2002 ordinary (1)	75	1,195	90
Deduct: Bonus shares in lieu of dividend	n/a	(89)	n/a
Total dividends paid or provided for		2,266	
Franked dividends declared or paid during the year were franked at a tax rate of 30%.			
Proposed final dividend			
On November 10, 2004, the directors declared the following dividend:			
Final 2004 ordinary	83	1,287	100

(1) The Group adopted Australian Accounting Standard AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" for the first time from October 1, 2002. Provisions for dividends are recognised at the time the dividends are declared, determined or publicly recommended and as a result, the final dividend in respect of the year ended September 30, 2003 has been recognised in 2004, the year the final dividend was paid. For the year ended September 30, 2002, the Group recognised a provision for dividend in the reporting period to which the dividend related, even though the dividend was declared or announced after the end of that reporting period. This provision was subsequently reversed on October 1, 2002 and recognised during 2003.

The final 2004 ordinary dividend is payable on December 8, 2004. The financial effect of this dividend has not been brought to account in the financial statements for the year ended September 30, 2004 and will be recognised in subsequent financial reports.

The dividend payout for each reported year was based on after tax cash earnings (adjusted for significant items).

Franking credits

The Company elected during the year ended September 30, 2004 to be taxed as a single entity under the tax consolidation regime in Australia (for further details, refer to the annual financial report 2004). The tax consolidation regime requires the tax-consolidated group (comprising the Company and all of its Australian wholly-owned controlled entities) to keep a single franking account. Accordingly, the amount of franking credits available to members of the Company at September 30, 2004 represents those available from the tax-consolidated group. This includes the benefit of imputation credits on dividends received by the Australian wholly-owned controlled entities. Previously, members of the Company only had access to franking credits available from the Company.

The franking credits available to the Group at September 30, 2004, after allowing for tax payable in respect of the current reporting period's profits that will be subject to Australian income tax, the payment of the proposed final dividend, and the receipt of dividends recognised as receivable at balance date, are estimated to be $nil (2003: $nil, 2002: $nil). The extent to which future dividends will be franked will depend on a number of factors including the level of the Group's profits that will be subject to Australian income tax and any future changes to Australia's business tax system (including the dividend imputation system) as a result of the Australian Commonwealth Government's tax reform initiatives.

New Zealand imputation credits

The Company is now able to attach available New Zealand imputation credits to dividends paid. As a result, New Zealand imputation credits of NZ$0.13 per share will be attached to the final 2004 ordinary dividend payable by the Company. New Zealand imputation credits are only relevant for shareholders who are required to file New Zealand income tax returns.

5 Asset quality and provisioning for doubtful debts

	Group	
Total impaired assets	**2004 $m**	**2003 $m**
Gross		
Australia (1)	**700**	912
Overseas	**576**	723
	1,276	1,635
Specific provision for doubtful debts		
Australia	**164**	238
Overseas	**211**	184
	375	422
Net		
Australia	**536**	674
Overseas	**365**	539
Total net impaired assets	**901**	1,213

(1) As at September 30, 2003, a certain Australian exposure was classified as performing. However, the classification of this exposure as non-accrual during this period is now considered more appropriate. As such, on this basis, comparative information has been restated to include the balance of this exposure (including accrued interest) of $254 million. During 2004, $28 million of interest income previously recognised in relation to this exposure was reversed to the profit and loss account to reflect the revised asset quality classification.

6 Events subsequent to balance date

At the Company's annual general meeting to be held on January 31, 2005 the Company will seek shareholder approval to buy back the total of 20,000,000 unpaid preference shares of the Company issued in connection with the issue of 20,000,000 National Income Securities of the Company. The financial effect of the buy-back has not been recognised in the financial statements for the year ended September 30, 2004. National Income Securities comprise a note and a preference share. Subject to shareholder approval and the consent of the Austalian Prudential Regulation Authority, the buy-back of the preference shares will be for nil consideration, but will be conducted simultaneously and in conjunction with the redemption of each note for $100 plus any unpaid accrued interest. If the buy-back occurs, contributed equity of the Group will be reduced by $1,945 million, with the excess of the acquisition and incidental costs of the buy-back directly reducing retained profits of the Group at the date of the buy-back.

Directors' declaration

Directors' declaration

The directors of National Australia Bank Limited declare that, in their opinion, the accompanying concise financial report of the Group, comprising National Australia Bank Limited and its controlled entities for the year ended September 30, 2004 as set out on pages 60 to 61 and pages 64 to 73:

a) has been derived from, or is consistent with, the full financial report for the year; and
b) complies with Australian Accounting Standard AASB 1039 "Concise Financial Reports".

Dated at Melbourne this 2nd day of December, 2004 and signed in accordance with a resolution of the directors.

Graham J Kraehe
Chairman

John M Stewart
Managing Director

Independent auditor's report

Independent auditor's report

Independent audit report on the concise financial report to the members of National Australia Bank Limited

Scope

We have audited the concise financial report of National Australia Bank Limited (the Company) and its controlled entities for the financial year ended September 30, 2004 consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes 1 to 6, and the accompanying discussion and analysis on the statement of financial performance, statement of financial position and statement of cash flows on pages 60 to 61 and pages 64 to 73, in order to express an opinion on it to the members of the Company. The Company's directors are responsible for the concise financial report.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the concise financial report is free of material misstatement. We have also performed an independent audit of the full financial report of National Australia Bank Limited and its controlled entities for the year ended September 30, 2004, consisting of: the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes (1 to 57) and the directors' declaration, for the year ended September 30, 2004. Our audit report on the financial report was signed on December 2, 2004, and was not subject to any qualification.

Our procedures in respect of the audit of the concise financial report included testing that the information in the concise financial report was consistent with the full financial report and examination, on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the financial report. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report is presented fairly in accordance with Australian Accounting Standard AASB 1039 "Concise Financial Reports".

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion the concise financial report of National Australia Bank Limited and its controlled entities for the year ended September 30, 2004 complies with Australian Accounting Standard AASB 1039 "Concise Financial Reports".

KPMG

KPMG

BPJ Greig
Partner

December 2, 2004

Shareholder information

Annual financial report 2004

A copy of our annual financial report is available to all shareholders upon request.

You can view our report online at www.nabgroup.com or request your copy from Shareholder Services either by email at web.queries@computershare.com.au or by telephone on 1300 367 647 (Australia) or +61 3 9415 4299 (Overseas).

National Australia Bank Limited

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Managing Director and Chief Executive Officer
Mr John M Stewart
BA, ACII, FCIB

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Chartered Accountants
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Australia

For 2005 subject to approval of the shareholders
Ernst & Young
Chartered Accountants
120 Collins Street
Melbourne Victoria 3000
Australia

Company Secretary
Mr Garry F Nolan
MBus, FAICD, FCIS, FAIBF, ASIA, CFTP (Snr)

Ten largest registered fully paid ordinary shareholders of the Company as at November 12, 2004

	Number of shares	%
National Nominees Limited	185,807,597	11.98
JP Morgan Nominees Australia Limited	160,027,320	10.32
Westpac Custodian Nominees Limited	159,189,478	10.26
Citicorp Nominees Pty Limited	39,670,572	2.56
ANZ Nominees Limited	30,220,975	1.95
RBC Global Services Australia Nominees Pty Limited, PIPOOLED A/C	20,105,561	1.30
Queensland Investment Corporation	19,391,008	1.25
Cogent Nominees Pty Limited	18,546,567	1.20
AMP Life Limited	16,448,902	1.06
RBC Global Services Australia Nominees Pty Limited, BKCUST A/C	15,484,154	1.00
	664,892,134	42.88

The 10 largest registered shareholders held 664,892,134 fully paid ordinary shares, which is equal to 42.88% of the total issue of 1,550,986,508 fully paid ordinary shares.

Substantial shareholder

As at November 12, 2004, there were no persons with a substantial shareholding in the Company.

Ten largest registered National Income Securities (NIS) holders as at November 12, 2004

	Number of securities	%
Westpac Custodian Nominees Limited	956,271	4.78
J P Morgan Nominees Australia Limited	678,492	3.39
Australian Foundation Investment Company Limited	506,160	2.53
National Nominees Limited	419,229	2.10
ANZ Nominees Limited	402,518	2.01
Citicorp Nominees Pty Limited	260,797	1.30
RBC Global Services Australia Nominees Pty Limited, MLCI A/C	260,168	1.30
UBS Private Clients Australia Nominees Pty Ltd	231,132	1.16
Tower Trust Limited	224,838	1.12
RBC Global Services Australia Nominees Pty Limited, BKCUST A/C	205,200	1.03
	4,144,805	20.72

The 10 largest registered NIS holders held 4,144,805 NIS, which is equal to 20.72% of the total issue of 20,000,000 NIS.

Shareholder information

Other ways to benefit from dividend

The Group offers shareholders the facility to have dividends paid to an account at an Australian branch of any bank, building society or credit union, or into an account operated at a New Zealand branch of any bank. Shareholders who do not provide their bank account details will receive an Australian currency cheque.

As an alternative to cash dividends, shareholders may participate in one or more of the following dividend plans. Full details of these alternatives may be obtained from our website at www.nabgroup.com or by contacting Shareholder Services:
email: web.queries@computershare.com.au
1300 367 647 (Australia) or +61 3 9415 4299 (overseas).

Shares offered under both the Dividend Reinvestment and Bonus Share Plans are free of brokerage costs.

Dividend reinvestment plan

Shareholders may use their cash dividends to buy additional shares, which are issued under this plan. Under current Australian tax law, the amount of the cash dividends used to buy the Australian shares is treated as a dividend for the purposes of Australian income tax or withholding tax and carry imputation credits to the extent to which the cash dividends are franked.

Bonus share plan

Enables shareholders to receive bonus shares in lieu of cash dividends. Shares issued under this plan are not normally treated as dividends for the purposes of Australian income tax or dividend withholding tax. Consequently, these bonus shares do not carry imputation credits.

UK dividend plan

Allows dividends to be received from a United Kingdom subsidiary of the National and paid in Pounds Sterling rather than in Australian dollars. Participation in the Dividend Reinvestment Plan is also available.

New Zealand currency payments

Allows dividends to be directly deposited into a shareholder's New Zealand bank account in New Zealand dollars.

Change of address

Shareholders are required to advise Shareholders Services in writing of any change to their registered address. A written notification signed by the shareholder(s), quoting the relevant Securityholder Reference Number (SRN) and details of the previous registered address should be mailed to Shareholder Services. Shareholders on the CHESS Sub-register should forward their change of address to their sponsoring broker, quoting the Holder Identification Number (HIN).

Tax File Number

Shareholders who are Australian taxpayers may elect to advise Shareholder Services of their Tax File Number. It is not an offence if you choose not to quote your Tax File Number, however, if this number is not provided we are obliged to withhold a portion of the dividend to the extent that the dividend is unfranked (at a current rate of 48.5%).

Dividend history cents per share

Dividend history	Dividend rate – cents per share		
Year	**July**	**December**	**Total**
1993	24¢	26¢	50¢
1994	35¢	39¢	74¢
1995	40¢	43¢	83¢
1996	43¢	44¢	87¢
1997	45¢	49¢	94¢
1998	49¢	53¢	102¢
1999	54¢	58¢	112¢
2000	59¢	64¢	123¢
2001	67¢	68¢	135¢
2002	72¢	75¢	147¢
2003	80¢	83¢	163¢
2004	83¢	83¢	166¢

Annual General Meeting

When: January 31, 2005

Where: Hamer Hall,
(Melbourne Concert Hall)

Address: St Kilda Road,
Melbourne, Victoria Australia

Time: 2.00pm

Contact details

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Our Group website at www.nabgroup.com makes it easy for you to access information about us and your shareholding.
The full suite of Annual Reports can be accessed via the website, or by calling Shareholder Services on 1300 367 647 (Australia only) or +61 3 9415 4299 (outside Australia).

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