National Australia Bank

Concise Annual Report
2005

new thinking new actions

Contents

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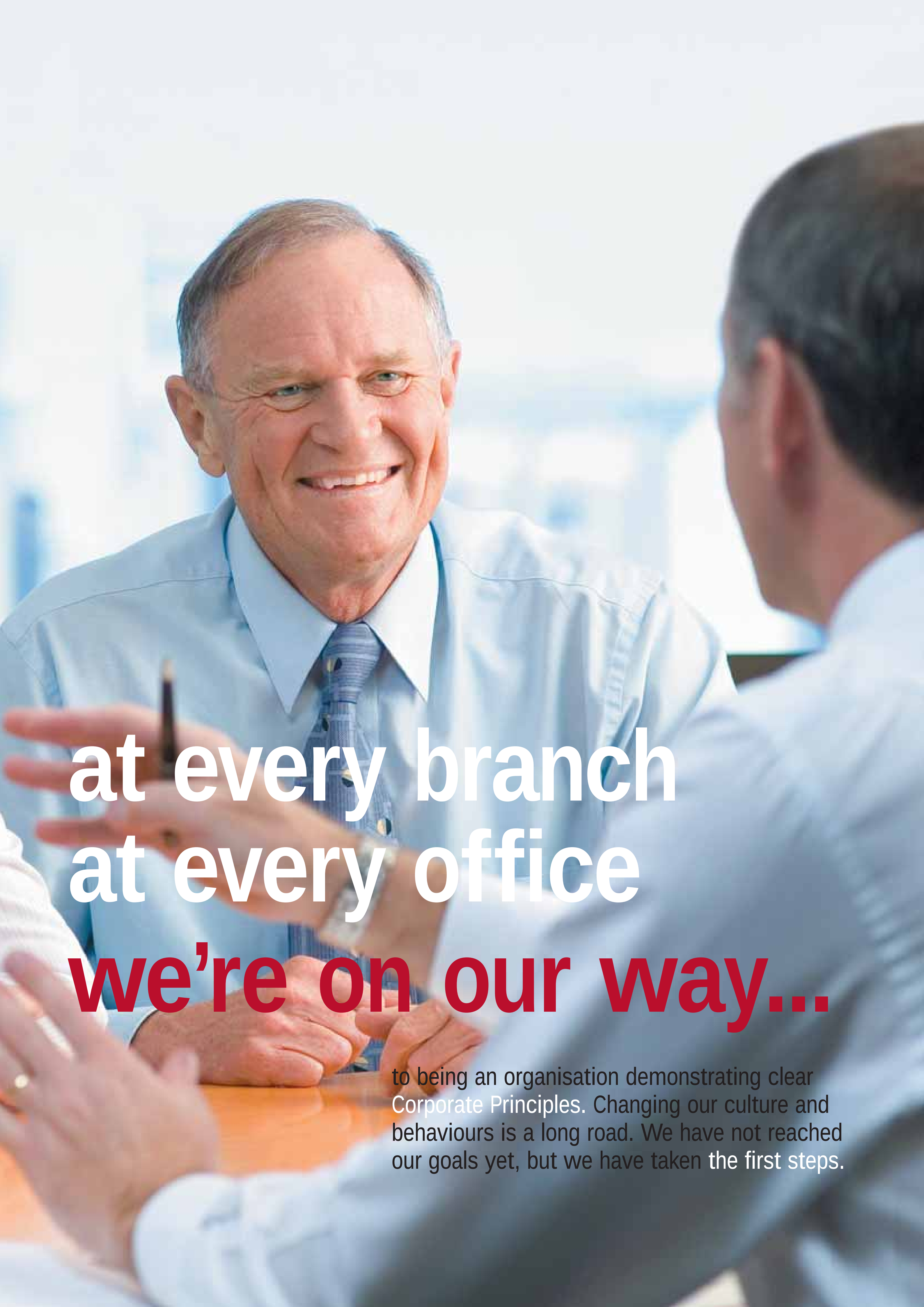
This is a concise report. To view the full annual financial report online, visit www.nabgroup.com. Alternatively, to arrange for a copy of the full annual financial report to be sent to you free of charge, call Shareholder Services on 1300 367 647 from within Australia, or +61 3 9415 4299 from outside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

*The financial statements and specific disclosures included in the concise financial report have been derived from the annual financial report 2005. 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. A reference to "$" is to an amount in Australian dollars and a reference to "£" is to an amount in British pounds sterling.

References to "NAB", "the National" or "the Company" are to National Australia Bank Limited. The "Group" refers to the National Australia Bank Limited and its controlled entities. References to 2005 are references to the NAB's financial year ended 30 September 2005, and other financial years are referred to in a corresponding manner.

National Australia Bank Limited ABN 12 004 044 937

Katharine and Peter Landahl take advice from Senior Financial Planning Manager, Stephen Moss, in Sydney.



at every branch at every office we're on our way...

to being an organisation demonstrating clear Corporate Principles. Changing our culture and behaviours is a long road. We have not reached our goals yet, but we have taken the first steps.

Performance overview

Our achievements

We have made significant progress in our turnaround strategy, focusing on four priority areas of efficiency, revenue, compliance and risk management, and culture change. Some of the notable achievements include:

Revenue

- Focused on customer initiatives to drive growth and restart revenue. We **launched a range of new products and services** in response to customers' needs, across all our regions.
- In Australia, developed an initiative that will see **significant investment in our employees, infrastructure, and customers**.
- In New Zealand, focused on **customer growth**, with BNZ's *Unbeatable* campaign resulting in our home loan market share growing above system (source: Reserve Bank of New Zealand data, June 2004 – June 2005).
- Launched a **new UK distribution strategy**, to drive customer growth by refocusing our branch network on the areas with the highest potential. Continued our **expansion of Financial Solutions Centres** into southern England, with 32 centres now open. Fifty-seven Clydesdale and Yorkshire Banks flagship branches were also established in key centres.

Efficiency

- A **new business structure** to make us a less complex, more nimble and customer focused organisation.
- **New leadership teams and structures** have been put in place in every region, simplifying our business and making decision-making more efficient.
- **Consolidated our global operations** to give us greater focus. We sold the Northern Bank and National Irish Bank, generating a net profit* of $1,043 million. We also centralised our Institutional Markets & Services operations in Asia, forming a regional 'hub' in Hong Kong.

Compliance and risk

- Developed a **new risk management framework** for the Group, to enhance our global risk management capabilities.
- **Re-opened the foreign currency options trading desk** in May 2005, following approval from the Australian Prudential Regulation Authority (APRA). The support from our customers during the time the desk was closed and after re-opening has been positive.
- The Group has submitted its application for **Basel II** accreditation. This forms part of an accreditation process that will continue through calendar year 2007.
- **Successfully delivered Regulated Mortgage and General Insurance** compliance projects in the UK, in response to new UK Financial Services Authority regulations. In New Zealand, we **implemented our requirements** in relation to the Credit Contracts and Consumer Finance Act 2003, which regulates all consumer credit arrangements in New Zealand.

Culture change

- A 'plain English' program, to make us easier to do business with. We are **reviewing key customer and shareholder communications** to make them simpler and easier to understand.
- **Customer Charters** have been developed and published by our businesses in Australia, the United Kingdom and for Institutional Markets & Services. Our New Zealand business is finalising its customer charter. The charters are based on a global set of customer principles. Each Charter outlines our commitment to customers on service quality and delivery.
- Stepped up our corporate social responsibility program, with some positive results:
  - 2005 joint winner in the Victorian Large Business section of the **Prime Minister's Awards for Excellence in Community Business Partnerships** for our collaboration with Good Shepherd Youth and Family Service in our StepUP Loan product for low income members of the community.
  - Winner of the **Leadership in Buildings** category of the Banksia Environmental Awards for National@Docklands, our new Australian headquarters. (Won in conjunction with building owners, General Property Trust; designer, Bligh Voller Neild; developer, Bovis Lend Lease/Lend Lease; property manager, Jones Lang LaSalle; and our facilities managers, United Group Services.)

National Australia Bank

MLC
A National Company

Bank of New Zealand

Yorkshire Bank

Clydesdale Bank

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

As at 30 September 2005:

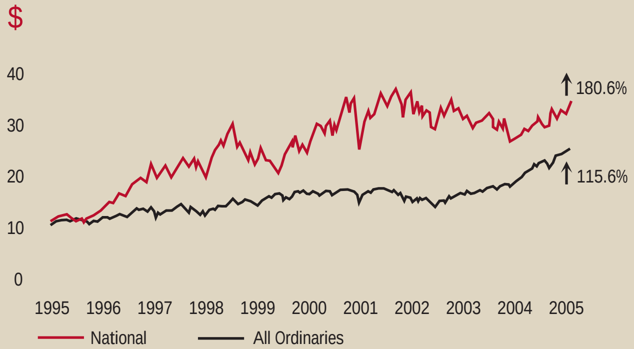
> More than 7.7 million retail and business banking customers and more than 2.3 million wealth management customers, globally

> 38,933 full-time equivalent employees

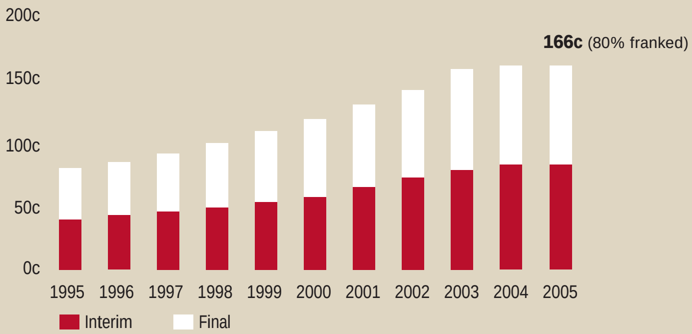
> Net profit*:	$4,132 million ↑ 30.1%
> Cash earnings (before significant items):	$3,310 million ↓ 4.4%
> Return on average equity (before significant items):	15% ↓ 0.8%
> Diluted earnings per share (before significant items):	225 cents, up from 220 cents

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

Share Price Performance



Dividend History



Our Retail Network (as at 30 September 2005)

	Australia	New Zealand	United Kingdom	Total
Number of branches	786	179	425	1,390
Other outlets	434	29	78	541
Number of ATMs	1,282	398	923	2,603
Post Office outlets	3,076	-	approx. 14,000	approx. 17,076
Internet banking	Yes	Yes	Yes	
Phone banking	Yes	Yes	Yes	

Notes

- 'Other outlets' includes Private Banking Suites and Business, Agribusiness and Financial Solutions Centres.
- The number of ATMs includes non-National Australia Bank branded ATMs.
- Banking services have been available at approximately 14,000 Post Office outlets to Clydesdale Bank customers in Great Britain since October 2004.
- The branch network includes 203 Clydesdale Bank and 222 Yorkshire Bank branches.

new thinking new actions

Customer, Kathy Shin, with Customer Service Manager, Yan Wang, at the National Australia Bank World Square branch in Sydney.

Overview of the National Australia Bank

The NAB's history traces back to 1858, with the establishment of the National Bank of Australasia. Over the almost 150 years since then, we have become much more than just a retail bank. We are an international financial services organisation, providing a comprehensive range of financial products and services to consumers, businesses, community organisations and governments.

In 2004 and 2005, our organisation underwent major change, introducing new thinking and actions to transform us into a more nimble, customer-focused organisation. We announced a new leadership team, Board of Directors, organisational structure and a fresh set of Corporate Principles that will govern and guide the way we behave and interact with our customers, communities, shareholders and employees. We have a long way to go before we become the organisation we want to be, but we have begun the journey.

Our structure

In 2004, we announced a new structure that would make it easier for customers to do business with us. We are now organised around three regional businesses: Australia, United Kingdom and New Zealand.

We also have a global line of business in Institutional Markets & Services, which provides institutions and corporate customers with debt, risk management and investment products.

A streamlined Corporate Centre supports the regional businesses through a range of functions. It works with the business to set performance targets and policies, and to identify business development opportunities and foster innovation. The Corporate Centre is also responsible for shareholder and Group-related prudential activities and statutory obligations, such as external reporting.

Our strategy

We have a clear and simple strategy to improve our performance and generate sustainable returns to shareholders.

Our strategy focuses on four key drivers:
1. Simplifying the business
2. Delivering sustainable revenue growth
3. Driving culture change
4. Improving risk management and compliance

In 2005, we focused on stabilising the performance of the regional and global businesses. The full-year results show that good progress has been made in this direction, but that more work is required in some areas. We are now focusing on building capability across each of our regions with the ultimate aim of being truly competitive in all markets in which we operate.

Our culture

In 2004, we acknowledged there was a need to drive culture change across the business.

We introduced a new set of Corporate Principles to bring new thinking and fresh actions into the way we do business. A number of 'proof points' have been established to ensure we adhere to these principles. Our five core principles are:

- We will be open and honest
- We take ownership and hold ourselves accountable (for all 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

Corporate Centre

Australia

Incorporates:
- National Australia Bank and MLC brands
- Retail banking
- Business banking
- Wealth management
- Corporate banking
- Transactional services
- Custody services
- Asia (retail banking and wealth management)

United Kingdom

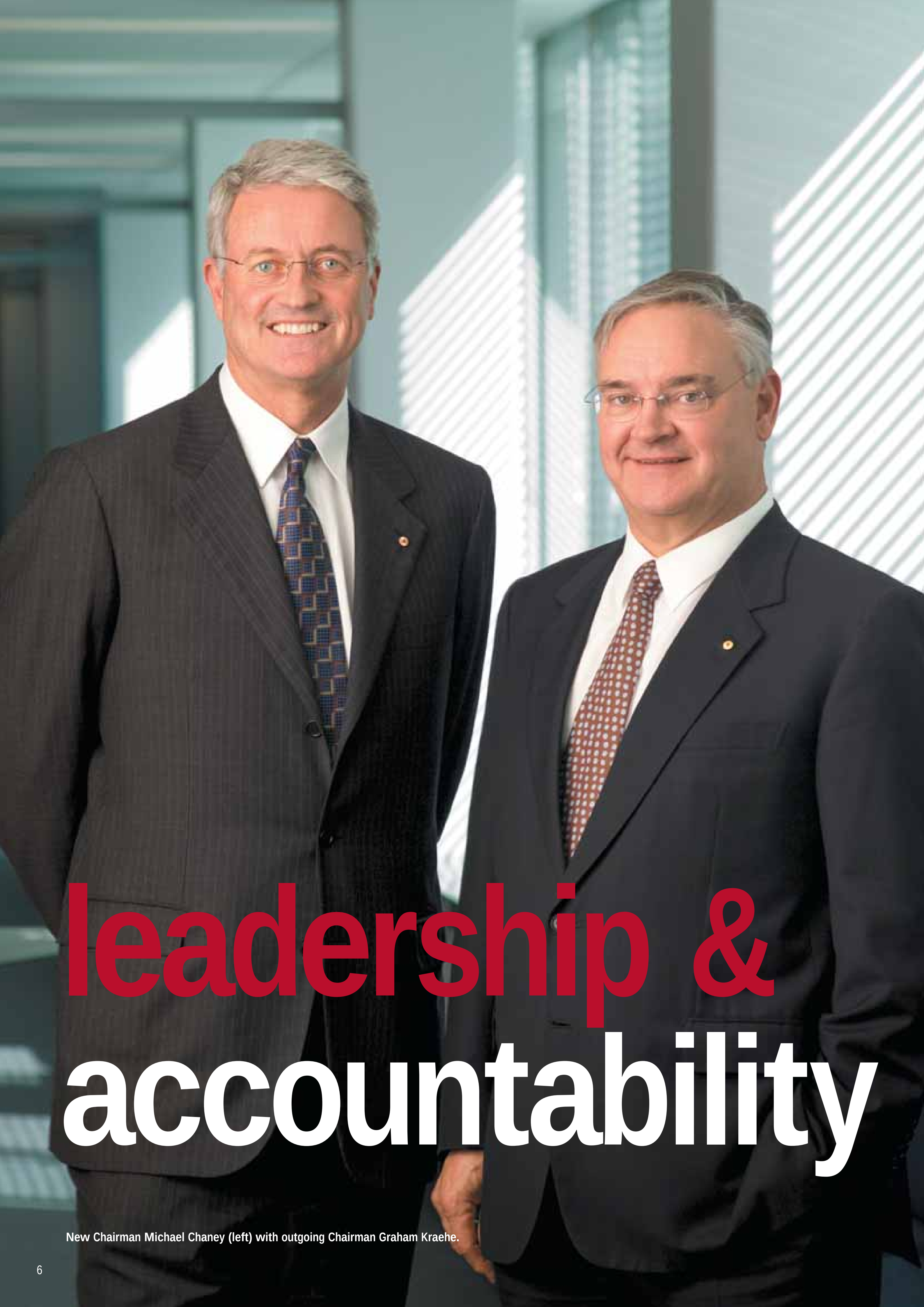
Incorporates:
- Clydesdale Bank, Yorkshire Bank and MLC brands
- Retail banking
- Business banking
- Wealth management
- Corporate banking

New Zealand

Incorporates:
- Bank of New Zealand brand
- Retail banking
- Business banking
- Wealth management
- Corporate banking
- Transactional services
- Custody services

Institutional Markets & Services

Incorporates:
- National Australia Bank brand
- Portfolio management and syndications
- Credit products
- Structured products
- Financial institutions
- Global Markets



leadership & accountability

New Chairman Michael Chaney (left) with outgoing Chairman Graham Kraehe.

Chairman's message

I was honoured to take up the position of Chairman of the National Australia Bank Limited (NAB) in September this year. Over the almost 150 years of its life as a company, the NAB has played an important role in the development of Australia and it is now also an active financial services operator in the United Kingdom and New Zealand.

The past two years have been challenging ones for the NAB. Losses incurred in foreign currency options trading in January 2004 revealed shortcomings in the Bank's systems and culture and there has been a strong focus in the period since to rectify these. This has been accompanied by a widespread change of personnel at senior management and Board levels.

Those actions have borne significant fruit, with the NAB now performing better in its markets. However, much remains to be done in systems development, risk management, regulatory and culture change. Given the determination of the Board and senior management, and the talent, enthusiasm and dedication of the people involved, I have no doubt about the eventual positive outcomes.

On behalf of the Board, I pay tribute to the efforts of Graham Kraehe, who stepped down as Chairman and as a director in September. Graham assumed the Chair in February 2004 and has led the program of change in senior management and Board ranks with great dedication and skill.

The Board contains a good mix of directors with backgrounds in the financial services industry, general business and commerce, and in regulatory affairs. Our two most recently appointed directors, Patricia Cross and Kerry McDonald, will provide additional, valuable experience upon joining the Board in December 2005. Patricia adds significant experience in the financial industry, while Kerry brings to the Board substantial industry experience in the New Zealand region.

John Stewart has, similarly, assembled an excellent senior management team since he was appointed Managing Director and Group Chief Executive in February 2004.

The team's efforts over the past 18 months have required a focus not only on meeting the internal challenges but also on the satisfaction of new compliance obligations resulting from the Basel II Capital Accord, the requirements of the United States' Sarbanes-Oxley legislation and International Financial Reporting Standards. That so much has been achieved in restoring the Company's fortunes in these circumstances is an enormous credit to management's efforts.

The theme "New Thinking, New Actions" initiated by John Stewart has given rise to a large number of initiatives across the Group designed to make our business more efficient and well placed for growth. These are described in detail in the management reports that follow.

One of the things your directors are determined to ensure is that management's actions are focused on the long term. It is evident that many of the difficulties experienced by the Company over recent years resulted from a desire to satisfy external, short-term demands. That is no way to run a business if the core objective is to provide superior long-term shareholder returns. Many decisions taken in the interests of good long-term returns, such as investments in information systems, may have a negative effect on near-term results. The Board plays an important role in supporting management actions in such instances against pressure from those whose focus is on the short term.

The NAB is a great institution with a proud history. The directors are determined to ensure that our shareholders and other stakeholders once again view the Company as a positive force in the communities in which it operates.

In closing, may I again acknowledge the dedicated efforts of all our employees, many of whom make significant personal sacrifices in the interests of the Company.

MA Chaney AO
Chairman

open & honest

Managing Director and Group Chief Executive, John Stewart, at the National Australia Bank's Docklands building in Melbourne.

Managing Director's message

Highlights

> New regional operating model

> Appointment of new executive team

> Sale of Irish Banks at a profit of $1,043 million (after tax)

> Restructuring costs of $838 million

The 2005 financial year brought us half way into our three-year recovery program. Net profit* increased by 30.1% to $4,132 million. Diluted earnings per share increased from 196.1 to 248.1 cents. Dividends per share for the year were 166 cents franked to 80%.

During the year, the Group adopted a new regional operating model that is designed to make the organisation more nimble and customer focused.

The four businesses that comprise the Group are the Australia region (principally the NAB and MLC brands), the United Kingdom (principally Clydesdale Bank and Yorkshire Bank brands), the New Zealand region (principally the Bank of New Zealand brand), and Institutional Markets & Services, which operates internationally.

Each business is operating under the overall Group strategy, which has four elements:

- Restoring revenue growth
- Business efficiency
- Compliance and risk management
- Culture change

The regional Chief Executives and their management teams have developed their own strategic agenda within this framework because each business is at a different stage of development and must address local market conditions and the challenges relevant to their business.

In Australia, there is a large integration task as we bring together the retail and corporate banking operations as well as the MLC wealth management business. In conjunction with the integration of these businesses, we have improved the distribution network, product range and service levels to make the Australian operations more customer focused. Improvement of market share in categories such as mortgage and business lending indicates that we are making progress in this area.

The Irish Banks, Northern Bank Limited and National Irish Bank Limited, were sold to Danske Bank A/S for $2,493 million in February 2005 at a profit of $1,043 million (after tax). This was an attractive price and allowed the Company's senior management in the United Kingdom to focus on the operations of the combined Clydesdale and Yorkshire Banks.

In the United Kingdom, products have been reviewed and made more competitive and the branch network has been restructured. Branches that experienced very low levels of activity have been closed or are in the process of being closed. New Financial Solutions Centres and flagship branches have been opened in high traffic areas in the north of England and in Scotland.

Expansion into the south of England to attract small to medium-sized business customers and high net worth individuals has been underway, using an integrated financial services approach.

In New Zealand, we have a well-established business in a competitive and mature market. The objective has been to grow through continued improvements to customer service and product range. One example of this is the award-winning customer service provided by Bank of New Zealand's call centres.

The Institutional Markets & Services business was at the centre of the regulatory review that took place following the foreign currency options trading losses.

The 2005 year was a turning point for the Group following the changes that took place in the wake of the foreign currency options trading losses and the distraction caused by the Board dispute. In response to the March 2004 APRA report on the foreign currency options trading losses, significant progress has been made in addressing deficiencies in market risk systems, governance processes and organisational culture. The foreign currency options trading desk was re-opened in May 2005 and the support our customers have shown during this period is very gratifying.

The Institutional Markets & Services strategy is to focus on simplifying its operations, delivering sustainable revenue growth, creating the right environment for employees to excel and creating ownership of effective risk practices within the business.

As a result of the changes taking place in several of the Group's businesses, we have incurred $838 million in restructuring costs.

We have outlined efficiency gains that will involve 4,662 redundancies over two years. Of those, 1,834 redundancies took place during 2005. The majority of the redundancies result from streamlining our processes and reducing duplication in administrative areas.

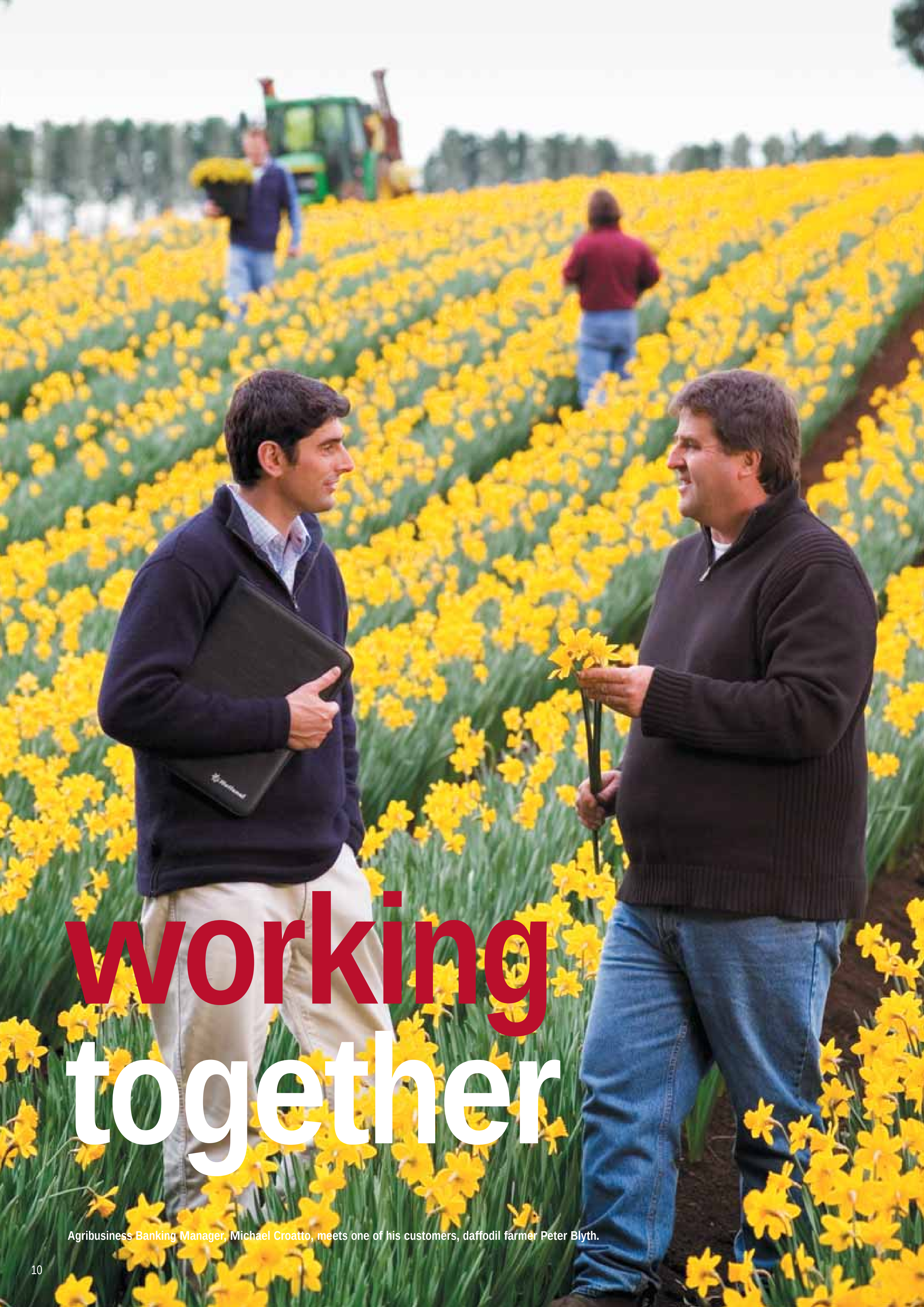
I am confident that the changes I have outlined, combined with a strong focus on risk management, our community responsibilities and culture change, set the National Australia Bank on a path for sustainable long-term growth in shareholder value.

Finally, I would like to express my deep admiration for the hard work and dedication displayed by our employees who have enabled National Australia Bank to protect its franchise in a competitive environment during a difficult period.

John Stewart
Managing Director & Group Chief Executive

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

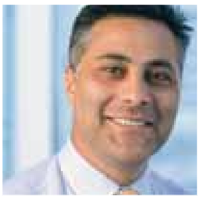
working together



Agribusiness Banking Manager, Michael Croatto, meets one of his customers, daffodil farmer Peter Blyth.

Australia

"Our focus is squarely on the customer. We are introducing new, simpler products and making it easier for our people to provide the service customers expect."



Ahmed Fahour
Executive Director &
Chief Executive Officer, Australia

Highlights

> Net profit* of $2,620 million

> 12.5% higher than the previous year

In Australia, the difficulties we faced last year meant we had to adopt new thinking and actions to stabilise our business and plan for longer-term growth. The result of this was a significant review of our business that led to substantial restructuring and streamlining, the cost of which had an impact on our profit results. The work we are doing is part of the Group's overall turnaround strategy. We are performing beneath our potential while this work is undertaken, but we are laying the foundations for turning around our performance, improving the way we do business and generating future growth.

A more efficient and simplified business

Following the appointment of Ahmed Fahour as CEO Australia in September 2004, a new leadership team and structure was put in place. This structure integrates our wealth management and banking operations, streamlines support functions and provides greater executive accountability. The removal of duplicated roles across the business, management 'delayering' and various process improvements will mean a reduction of around 2,500 jobs in Australia that began this year and will be complete within two years. While we recognise this is difficult for our people, the result will be a more efficient business.

We also introduced process improvements into many areas of the business, freeing up capacity and improving the customer experience. Certain document-processing functions have been merged to improve the accuracy and speed of loan applications, and paperless processes have been implemented that aim to reduce turnaround times and improve customer service. We also introduced a new software tool to help us manage our work flow more efficiently, to improve cost management and provide sustained productivity growth.

We have begun reviewing processes and systems from the customer's perspective, through the introduction of the management quality tool, Six Sigma™. A number of Six Sigma™ projects have been initiated and, as these practices roll out across the business, we expect them to improve quality and drive efficiency gains.

To keep us focused on customers, we have outsourced some non-customer-facing support functions. For example, some cheque-processing functions at NAB and two other major Australian banks were jointly outsourced, saving significant technology upgrading expenses. All affected NAB employees were offered positions with the outsource provider.

Separately, we are outsourcing mail room and other support roles to improve processes and deliver cost savings. A pilot program is also under way to outsource a small number of processing roles in Accounts Payable to a provider in India. This will build our understanding of outsourcing disciplines and help us assess the benefits to be derived from this business model.

Restoring revenue and preparing for growth

We have made gains this year in our efforts to restart revenue following a challenging 2004 year.

A major part of this has been the restoring of some of our credit settings in our retail business, bringing them back to more normal levels following a period of over-tightening.

Process improvements have been a priority. For example, we can make 'on the spot' business-lending decisions, with bankers often able to provide an in-principle approval at first conversation on loans up to $750,000 (where residential security and details of relevant financial statements for 12 months are provided).

"We are looking for a relationship with a banker who is accessible and really understands our business."

Peter Blyth
Agribusiness customer

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

We launched low-documentation business and home loans to meet the growing number of requests from self-employed customers seeking competitively-priced credit. The new low-documentation loans require a reduced level of income documentation but retain appropriate credit criteria.

We also entered the low-rate credit card market and introduced high-yielding internet-based deposit products for retail and business customers.

To help people manage the financial aspects of major events in their lives, we launched a Personal Project Loan, giving customers flexible access to credit of $5,000 to $35,000 using a Visa Card, National Telephone Banking or National Internet Banking over a 90-day period.

Our new MLC MasterKey Investment Service is giving investors greater choice with access to MLC's 'manager of managers' investment options, as well as a broad range of investment options from well-known Australian and international investment managers.

MLC also tackled Australia's under-insurance problem with the launch of a new protection product – MasterKey Protection Essentials – a simplified insurance product.

In August 2005, we launched a program of significant investment in our employees, infrastructure and customers. This is a long-term project that will be implemented progressively, beginning with a pilot in Queensland early in the 2006 financial year. It will cover a range of initiatives, including a Customer Charter outlining our commitment to customers on service quality and delivery, reducing bankers' portfolio sizes where appropriate, refurbishing outlets, new training programs, new retail banking uniforms and the creation of 70 local area markets, each headed by a local regional executive.

The results of our customer-focused efforts are already showing, with a trend towards above-system growth in housing, business and personal lending since the beginning of the 2005 calendar year (source: Reserve Bank of Australia Financial Aggregates as at July 2005 and NAB data, July 2005). This is an early indication of a business turnaround following the previous year in which we failed to fully participate in business market growth.

MLC products and services showed steady sales growth throughout the year and we maintained our number one position in Australian Master Fund's 'Funds Under Management' (source: Australian Retail & Wholesales Investments Market Share Dynamics Report, Plan for Life, June 2005). This represents the strength of MLC's MasterKey and MasterKey Custom platforms.

We have identified new growth opportunities in our Asia banking and wealth management businesses. Key appointments were made in Asia to lay the foundations for building our Asian business, including a program to achieve greater efficiencies and effectiveness from the business, better utilise capital and reduce operational risk.

Raising awareness of ovarian cancer

Since 2001, NAB has worked with the Ovarian Cancer Research Foundation (OCRF) to raise awareness of ovarian cancer and the need for an early detection test for this terrible disease.

We sell OCRF Silver Ribbons through our branches, and have provided funds that allow the OCRF to have a full-time research fellow.

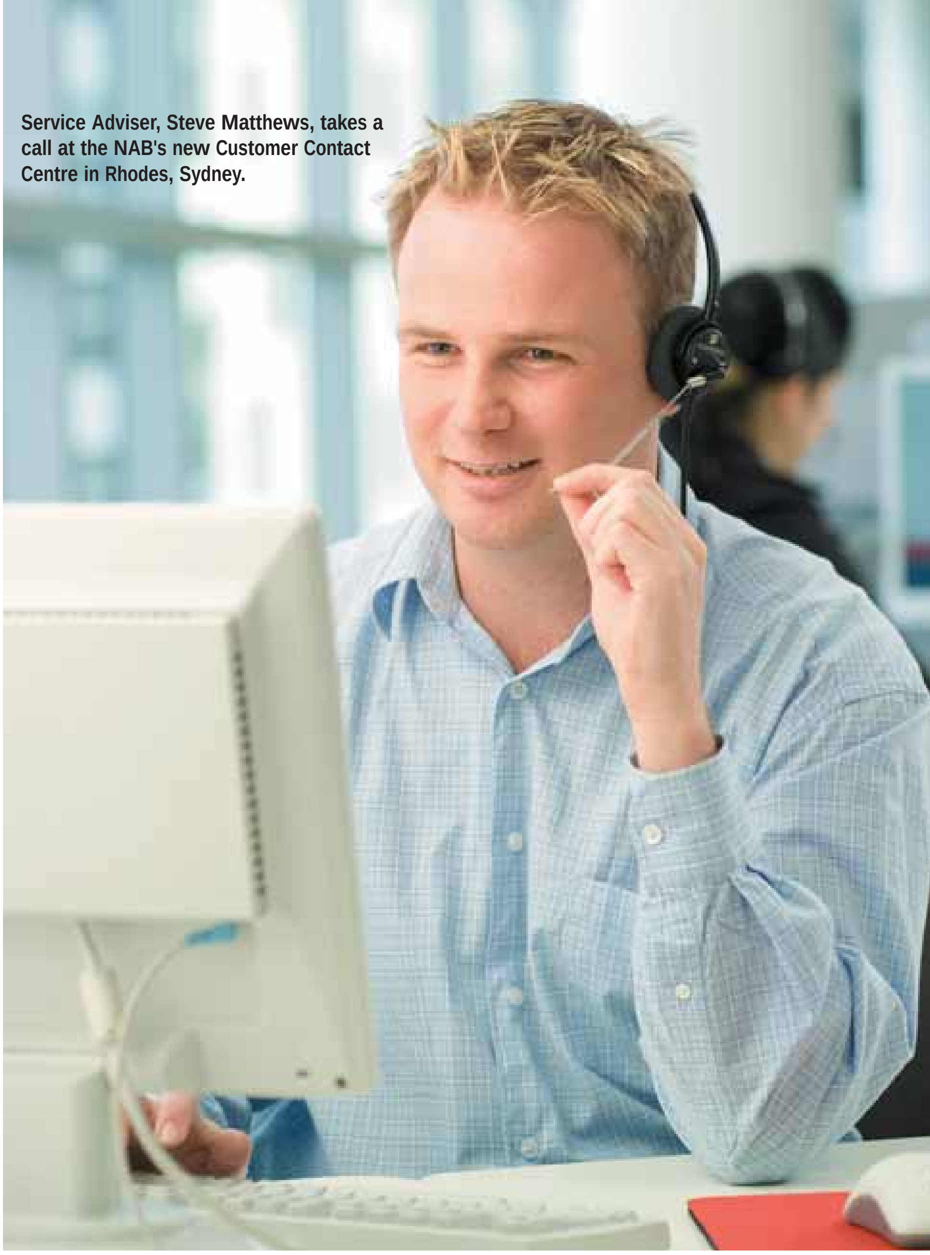
In 2005, Melbourne Girls Grammar student, Bianca Hudson launched the OCRF's Silver Ribbon Campaign with NAB Managing Director and Group Chief Executive, John Stewart. Bianca was named an Ambassador for ovarian cancer research after she lost her mother to the disease. She has been active in rallying students to get involved in the Silver Ribbon Campaign, and NAB applauds her for her considerable efforts.

National Australia Bank Managing Director and Group Chief Executive, John Stewart, with Melbourne Girls Grammar student, Bianca Hudson, launching the Ovarian Cancer Research Foundation's annual Silver Ribbon Campaign.

Photograph: Herald and Weekly Times Photographic Collection

We are building an organisation that will help our customers fulfill their aspirations. We aim to understand our customers' needs and build lasting relationships.

Ahmed Fahour
Executive Director &
Chief Executive Officer, Australia


Service Adviser, Steve Matthews, takes a call at the NAB's new Customer Contact Centre in Rhodes, Sydney.

Changing our culture

The Group's Corporate Principles have been built into all employee performance plans, driving individual accountability for 'living' the expected standards with a formal link to remuneration. Managers are also accountable for the behaviour of their direct reports.

The new business structure also supports accountability and a customer focus, with dedicated teams allocated responsibility for the end-to-end delivery of specific products and services, such as mortgages or transaction products, and better alignment between resources and the needs of different customer segments.

We have a portfolio of four principal businesses: retail banking; business and private banking; wealth management; and Asia (banking and wealth management). These businesses are managed in a structure in which distribution lines of business have been set up to take a more complete view of the needs of their customers, manufacturing lines of business build the products and services customers need, while support functions provide infrastructure and back-of-house support.

Improving compliance and risk management

Like the Corporate Principles, compliance has been built into all employees' performance management plans, establishing full individual accountability for meeting our regulatory obligations.

Following the unauthorised foreign currency options trading issue in 2004, we have focused on improving compliance and risk management. This has included undertaking a range of compliance activities in conjunction with our regulators, which include the Australian Securities & Investments Commission and the Australian Prudential Regulation Authority. Following the discovery of the unauthorised trading, the National has also looked for other opportunities to improve our systems and processes.

We developed a new risk management framework and submitted our application to the Australian Prudential Regulation Authority for accreditation under the Basel II Capital Accord.

A new regional governance framework was developed and implemented that involved revising our Delegated Authorities Manual and corporate governance committee structure.

An increased focus on compliance has brought to light some customer issues. For example, in July 2005, we announced our intention to refund customers, with interest, for overcharging issues in relation to financial package fees and Bank Accounts Debits Tax. At that time, we also announced that we would clean up any residual, historical overcharging issues. We also liaised with the regulators on these issues and communicated with customers and the market. This approach is indicative of a culture change underway.

efficiency

Maria Alavi (Partner, Business Banking) with Andre Van Zijl (Partner, Asset Finance) in the boardroom of the West End Financial Solutions Centre in London.

Year in review
United Kingdom

We are making good progress in fundamentally changing our organisation from the ground up.

Lynne Peacock
Chief Executive Officer, UK

Highlights

> Net profit* of $429 million

> 5.3% lower than the previous year

It has been a challenging year for the UK business, but also one of significant achievement, as we introduced broad-reaching changes that lay the foundations to make Clydesdale and Yorkshire Banks more modern and relevant. While this has affected our profit results, it also goes a long way to ensuring we are well prepared for the future.

We are making substantial investments in people, products and processes. But we have also had to make difficult decisions during the year. We announced a new distribution strategy to re-focus our branch network on the areas with the highest potential, which led to the closure of approximately 60 Clydesdale Bank and 40 Yorkshire Bank branches.

We also announced our intention to reduce employee numbers in the UK business by 1,700 over the 2005 and 2006 years, as part of our strategy to simplify the business and restart revenue. We recognise this has been a tough time for our staff.

Our key focus has been to simplify the business, restart and grow revenue, and revive the Clydesdale Bank and Yorkshire Bank brands. We have been moving closer to our customers and endeavouring to make decisions more quickly and effectively, a process that requires new thinking and actions across the whole of our UK operations. This will clearly take some time to achieve, but our journey is under way and we are prepared for the future challenges.

A more efficient and simplified business

A new single leadership team with significant UK market experience is making it easier for us to leverage market knowledge and improve decision-making. Across the business, there are also clearer lines of control and greater accountability.

On 28 February 2005, we sold Northern Bank and National Irish Bank to the Danske Bank A/S, generating a net profit on sale after all disposal costs, including taxation, of $1,043 million. We are providing some support functions to Danske Bank at an agreed cost for an 18-month transitional period. The result is positive for the business with a simplified and defined focus on the UK operations at Clydesdale and Yorkshire Banks.

We have made our business simpler by consolidating processing centres, with call centres rationalised and a move towards key processing campuses in Scotland and Leeds.

We have also moved workload from branches into regional operating centres and implemented call sweeping from Yorkshire Bank branches into call centres.

In December 2004, we completed the legal entity merger of Clydesdale and Yorkshire Banks, with both strong brands being retained.

Restoring revenue and preparing for growth

Clydesdale Bank continued its expansion into southern England, with 32 Financial Solutions Centres (FSCs) opened in the south by 30 September 2005. FSCs offer integrated business and private banking services, tailoring products and pricing to small to medium-sized businesses as well as private customers.

Our FSC model was extended across both Yorkshire and Clydesdale Banks in the north of England and in Scotland. Our new Glasgow FSC was opened by Scotland's First Minister, Jack McConnell, in Glasgow during the year.

Yorkshire Bank has been very good in backing the growth wherever we needed it.

Keith Slinger
S&C Timber Ltd (customer)

*Net profit attributable to members of the Company before significant items, and excluding the Irish banks, which were sold on 28 February 2005.

The successful expansion of Clydesdale Bank-branded mortgage products through third-party distributors continued, with over £950 million of mortgage completions delivered during the year. More than 300 relationships have now been established with UK brokers.

In addition to significant headway made in private and business banking, the retail network has made real progress in delivering a targeted service to our customers.

Clydesdale and Yorkshire Banks' high street branch presences have been realigned to reflect changing customer usage, with 57 flagship branches established in key centres. The flagship branches facilitate a fully integrated approach to banking for small business and high-potential personal customers. Business account managers work very closely with other sales specialists in the flagship branches to improve the cross-sale of personal products.

In May 2005, we announced the results of the review of our distribution strategy, which included the closure of approximately 60 Clydesdale Bank and 40 Yorkshire Bank branches. This was an extremely difficult decision and one that understandably caused some concern in the media and within some communities. The branch closures reflected the changing banking habits of our customers and the different ways in which they choose to do their banking. The distribution strategy also incorporated significant investment in direct channels.

Our call centres are becoming increasingly important, with customer usage increasing significantly since September 2004. We are working hard to improve these services, to provide a consistently positive experience for the customer as well as a good working environment for our staff.

We upgraded our ATM network during the year by improving security, upgrading software and making our ATMs easier to use. We are the first UK bank to deliver audio-enabled ATMs for visually impaired and dyslexic customers. New signage was rolled out across the network, with the installation of more than 50 new ATM sites and the replacement of 45 machines.

We updated our internet banking platform, with new websites that are designed to be easier to use. Special rates for online deposits were offered to our private banking customers, and over £20 million in direct deposits were received via the Internet channel by September 2005.

Since October 2004, our arrangement with the Post Office has been running smoothly, with customers of Clydesdale Bank able to access banking services through more than 14,000 Post Office outlets.

This year saw the launch of the Offset Mortgage product to our Clydesdale Bank retail customers in January 2005. The Offset

Revitalising the customer experience

Clydesdale Bank's new £6 million flagship customer centre – Clydesdale Bank Exchange – in the heart of the Financial Services District in Glasgow was officially launched in June 2005 by The Rt. Hon Jack McConnell MSP, First Minister of Scotland.

Clydesdale Bank has had a presence in Glasgow since it was founded in 1838, and is revitalising its brand and presence in the city.

The significant investment in the new centre is a clear example of a commitment to building our service for UK customers.

The launch of the Glasgow Financial Solutions Centre follows the growth of this customer-focused model into new markets in the south of England throughout 2004 and 2005.

Clydesdale Bank Exchange, located in the heart of Glasgow.

Lots of people talk about relationships. Clydesdale Bank delivers on it.

Walter Avrili,
John Charcoal (customer)

Customer using the Clydesdale Bank ATM in Piccadilly Circus, London.

Mortgage was introduced first in the Yorkshire Bank in March 2004 and has been promoted by television and press advertising in the UK.

Several business propositions have been developed during the year, including Invoice Finance for Export Sales, Lending Against Overseas Assets – Commercial Property and a Residual Debt product.

There have been improvements in the processes for opening accounts and for mortgage applications, with better pricing and improved statements.

We have continued to invest in our brands through sponsorships. During the year, three major sponsorships were announced – Clydesdale Bank sponsorship of the Scottish Commonwealth Games team, Yorkshire Bank sponsorship of Opera North and sponsorship of the Twenty20 Cup cricket. In January 2005, Clydesdale and Yorkshire Banks joined forces to announce the launch of a new charity partnership initiative with the British Heart Foundation, the UK's heart charity.

Changing our culture

A set of clearly defined Corporate Principles has been developed for all employees. These principles, based on respect and integrity, are embedded in the way we do business, through business unit objectives, strategies and the bonus remuneration scheme.

The Corporate Principles support a renewed focus on customers, including the development of a Customer Charter that sets out a commitment to delivering a high standard of service to our customers.

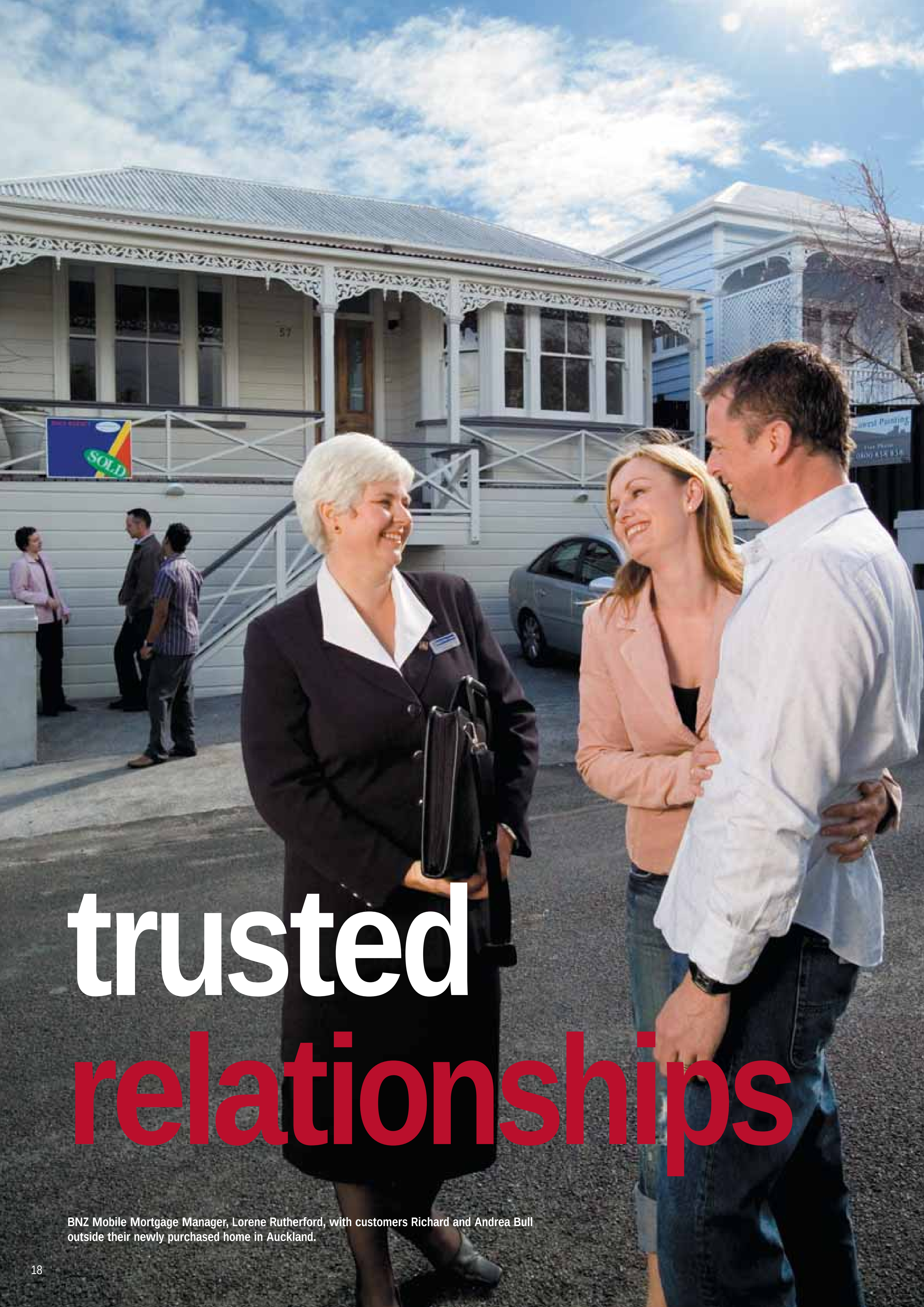
We have undertaken a variety of initiatives to support our growth objectives, such as bringing lending decisions closer to the customer by having Credit Managers co-located with FSC bankers; and removing policies and procedures that we identified as 'road blocks', while simplifying and streamlining others.

Improving compliance and risk management

We have been working harder to say 'yes' to stakeholders, finding better ways to increase services without increasing risk. This change in risk management culture is designed to support the business' objectives for growth.

A new UK Risk Committee structure allows the business to more effectively monitor and oversee its current risk profile and take action to identify and manage emerging issues before they have an impact on the business.

The business successfully delivered Regulated Mortgage and General Insurance compliance projects in response to new UK Financial Services Authority regulations.



trusted relationships

BNZ Mobile Mortgage Manager, Lorene Rutherford, with customers Richard and Andrea Bull outside their newly purchased home in Auckland.

New Zealand

Bank of New Zealand is making excellent progress in building on its dominant position in the business banking market and in re-establishing its position in key personal markets.

Peter Thodey
Chief Executive Officer, New Zealand

Highlights

> Net profit* of $324 million

> 9.1% higher than the previous year

Bank of New Zealand (BNZ) has continued to build on the success it has enjoyed over the past three years. This year saw BNZ go from strength to strength in its core business banking franchise, and continue its growth in key personal markets, particularly in mortgage lending. This growth resulted in BNZ moving from third to second ranking in banks in New Zealand, as measured on total assets (source: TNS Business Weighting research, October 2005).

A more efficient and simplified business

During the year, we undertook a modest reorganisation of our business units to increase synergies and lower costs. Several business units were merged and a number of roles were moved from Wellington to our corporate head office in Auckland. These changes ensure a less complex and more customer-orientated structure.

Restoring revenue and preparing for growth

In the past 12 months, among other achievements, BNZ has delivered two strategically important initiatives in key personal and business banking sectors:

- The *Unbeatable* home loan strategy and campaigns
- The *Business First* initiative in the small and medium-sized enterprise market (SME)

The home loan market in New Zealand is mature but highly competitive. From early 2003, BNZ established a strategic price advantage when it decided to stop distributing its home loans via mortgage brokers and focus solely on selling mortgages via its own channels. In late 2004, BNZ launched its *Unbeatable* campaign, aimed at leveraging that price advantage.

The *Unbeatable* campaign, in which we undertook not to be beaten by major competitors on fixed home loans, brought BNZ major success. The campaign helped BNZ capture 21% of the home loan market in the December 2004 quarter and lift our share of the home loan market above the 16% mark (source: Reserve Bank of New Zealand housing system data, December 2004). More importantly, it helped re-establish BNZ as a leader in the mortgage market.

The *Business First* initiative, which comprised new products and improvements in service models and processes for small business customers, was introduced in April 2005. The initiative aims to provide a set of market-leading products and services to small businesses, particularly those who are largely transaction-only customers and do not have a borrowing need. BNZ recognised the potential in this segment of the market and the fact that it was being underserved. In just its first six months, *Business First* has already delivered an increase in BNZ's share of the small business market.

In addition to these major initiatives, our focus on high-quality service has also delivered results. BNZ has been the best-rated bank for in-branch service, on average, over the 18 months to September 2005 (ACNielsen Consumer Finance Monitor, March 2004–September 2005). Our customer contact centres have also been rated the best in New Zealand: this year we again won the Diamond Award as New Zealand's best customer contact centre (in any industry), the second consecutive year BNZ has won the award (www.crmconsulting.co.nz).

Changing our culture

We are incorporating NAB's broad cultural change program, reinforcing that the way we do business is as important as the results that we achieve.

In 2004, we launched NAB's Corporate Principles at BNZ, and early this year, we implemented a 15-point set of service standards that reflect the core standards we strive for in our interactions with customers and colleagues. Further, we are developing a Customer Charter that reinforces the service standards and the Corporate Principles.

Improving compliance and risk management

We implemented our requirements in relation to the Credit Contracts and Consumer Finance Act 2003, which regulates all consumer credit arrangements in New Zealand, and which took effect from 1 April 2005.

We have also implemented a program to comply with the Basel II framework and other regulatory requirements.

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

speed & simplicity

Craig Trevor, NAB Corporate Banking with Robert Dunn, Finance Director, Patrick Corporation Limited in Sydney at Patrick's Darling Harbour Terminal.

Institutional Markets & Services

It's been a challenging year, but we are making good progress in aligning our resources so we can deliver sustainable revenue growth and returns for shareholders.

John Hooper
Executive General Manager,
Institutional Markets & Services

Highlights

> Net profit* of $613 million

> 9.9% higher than the previous year

2005 was a challenging year for IMS. Following the discovery of unauthorised foreign currency options trading in 2004, we undertook a major restructuring program to overhaul the IMS leadership, structure, culture, systems and processes.

A more efficient and simplified business

We are in the process of moving to a more efficient, higher equity return business model by re-aligning our platform to focus on key segments in core markets.

We are aligning IMS more closely with the regional businesses to reduce operating risk. As a result, in May 2005 our operations in Asia were centralised to form a regional hub in Hong Kong. In August 2005, the UK large and mid-sized corporate banking segments were consolidated into one division, with an emphasis on the middle market. This will provide greater focus for our core relationships by leveraging sector expertise and geographic coverage.

We have a number of initiatives under way to improve our operational platform, including: establishing single global functions; automation of manual processes; and the introduction of One Name Trading where trades can be booked in one name globally. Each of these initiatives will deliver significant operational benefits, improving cost efficiencies and simplifying how we do business.

Restoring revenue and preparing for growth

We are developing new capabilities in markets that represent sustainable growth opportunities, globally.

We expanded our Securitisation team in Australia, the UK, US and New Zealand, launched a Structured Property Finance team in Australia and expanded the Credit Product range to include Leveraged Finance, Mezzanine Debt and Asset Finance. Our Investor Services Group continued to deliver capital guaranteed investment products to retail, private and institutional clients, including AMP Capital China Fund 2 and OMIP 220 Series 10.

Transaction highlights throughout the year included: financing Patrick Corporation's bid for Virgin Blue in Australia; execution of NAB's first securitisation deal in the UK for Central Trust; providing finance to the Mandarin Oriental Hotel Group for its newly opened hotel in Washington DC, and assisting our client, Wells Fargo, in a large corporate bond issuance in the Australian debt market.

We received industry accolades and awards from a number of key publications recognising success and capabilities across the product suite. We ranked number one in *Dealogic*'s league table for Project Finance transactions in Australia for the first nine months to September 2005. We remained at the top of *Thomson Financial*'s Loan Syndications league tables for the first and second quarters of 2005. *Asiamoney*'s FX Poll, published in September 2005, named us Best Domestic Provider of FX Services in Australia and *Insto* magazine awarded NAB Vanilla Bond House of the Year in Australia in December 2004.

Changing our culture

The Corporate Principles are now a key measurement of behaviours and are embedded in our performance management and reward framework. In addition, compliance measurements have been incorporated into employee scorecards.

We have developed a Customer Charter to outline our commitment to service delivery and quality.

A key focus for us has been the development of our people, which is critical in enabling the organisation to achieve its change agenda. We have undertaken a range of training initiatives, and flexible personal development programs are also available to support employees.

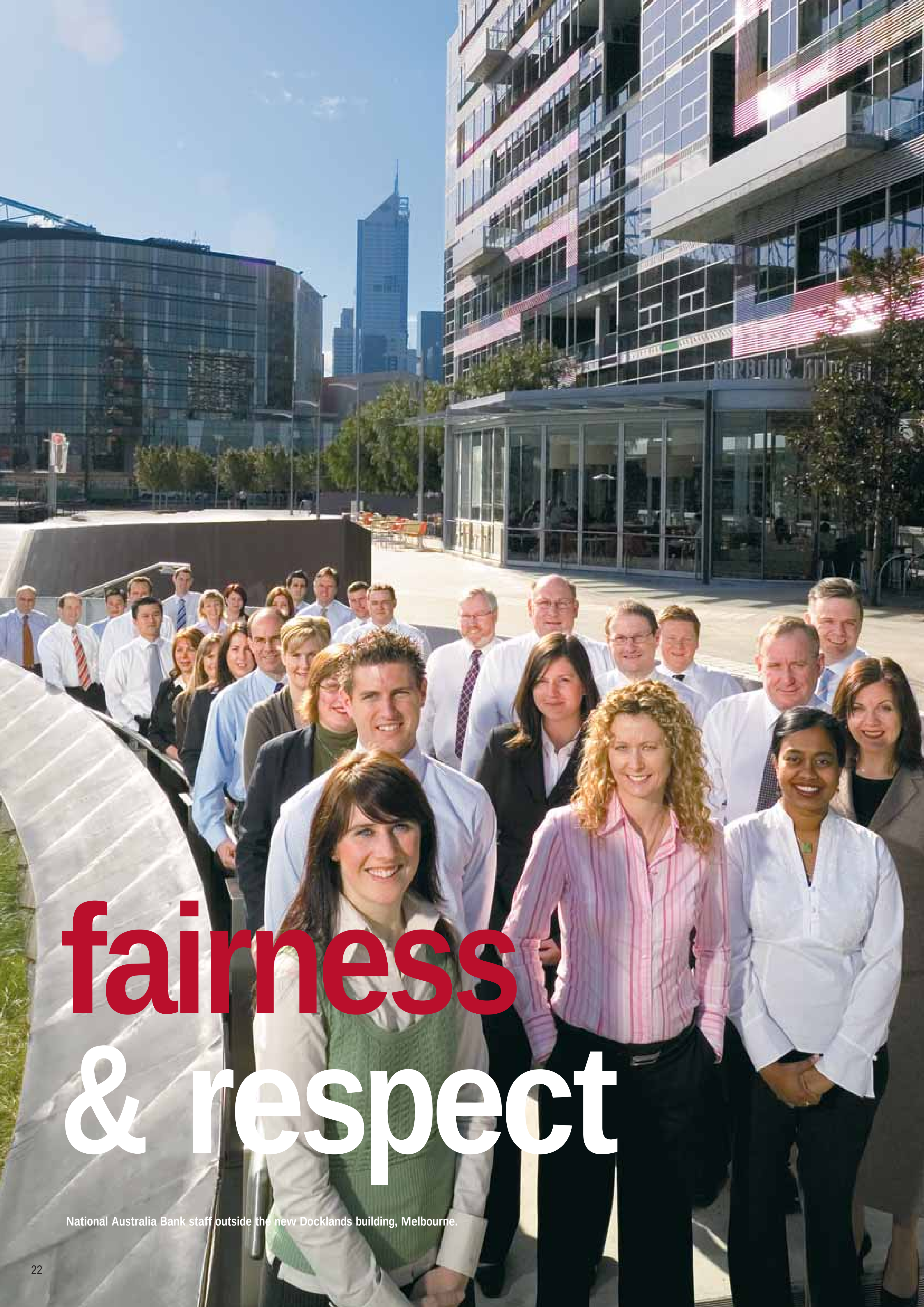
Improving compliance and risk management

We continue to enhance the risk, operating and control framework. The Australian Prudential Regulation Authority (APRA) approved the re-opening of the Foreign Exchange Options desk in May 2005. We are also making good progress on the remedial actions set out by APRA in March 2004. This program is supported through pro-active management of risk and compliance.

(Left to right): NAB Head of Securitisation Europe, Tony Gioulis, with Central Trust PLC Managing Director, Andrew Turner, Clydesdale Bank Reading Managing Partner, John McGilp, and Central Trust PLC Finance Director, John Sullivan, at NAB's London office.

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

fairness & respect



National Australia Bank staff outside the new Docklands building, Melbourne.

Our people and culture

Changing our culture is a huge task, but we have an unshakable belief that the success of our people and business is dependent on it.

Elizabeth Hunter
Executive General Manager, People & Culture

The past 12 months have been extremely challenging, and the difficulties we have faced have been most keenly felt by our people. Turning the business around has meant a great deal of change. For our people, this has meant adopting new processes, systems and attitudes. In the midst of all this, we have undertaken restructures across every region in which we operate.

Through all the change, our people have continued to focus on meeting our customers' needs, putting our customers first. Impressively, the highest scores in this year's Employee Opinion Survey were in answer to the questions about how passionate and committed people are to our customers.

The commitment of our people is being expressed in our Customer Charters, which we have developed across all our regions. These Charters are a commitment to our customers on service quality and delivery, and we intend to measure our success against these.

We have also continued to listen to our customers, who have told us we need to improve how we communicate with them. We launched a 'plain English' program to give our people the tools and training they need to deliver clear and concise communication.

We are constantly looking at ways to support our people better – to help them do the right things the right way for our customers – and also to make sure we are rewarding the right behaviours. We have incorporated our Corporate Principles into our performance management processes, so that our people are rewarded for the way they do their jobs, rather than just on the outcomes they achieve. Rewards are also based on our people undertaking compliance training related to their jobs.

But our journey is best told in the words of our own people…

There is a saying that goes: 'The hotter the furnace, the stronger the steel.' Being able to endure the rough times has made us stronger, braver and more committed to turning things around. It also makes the taste of success sweeter. The future for the 'big red star' looks bright – we have new and exciting leaders who will be showing us the way.

Frank Barillaro
Institutional Markets & Services

There's never a dull moment. It is very personally and professionally rewarding to see an organisation such as ours moving so strongly, decisively and quickly in a positive direction.

Chris Zyner
Institutional Markets & Services

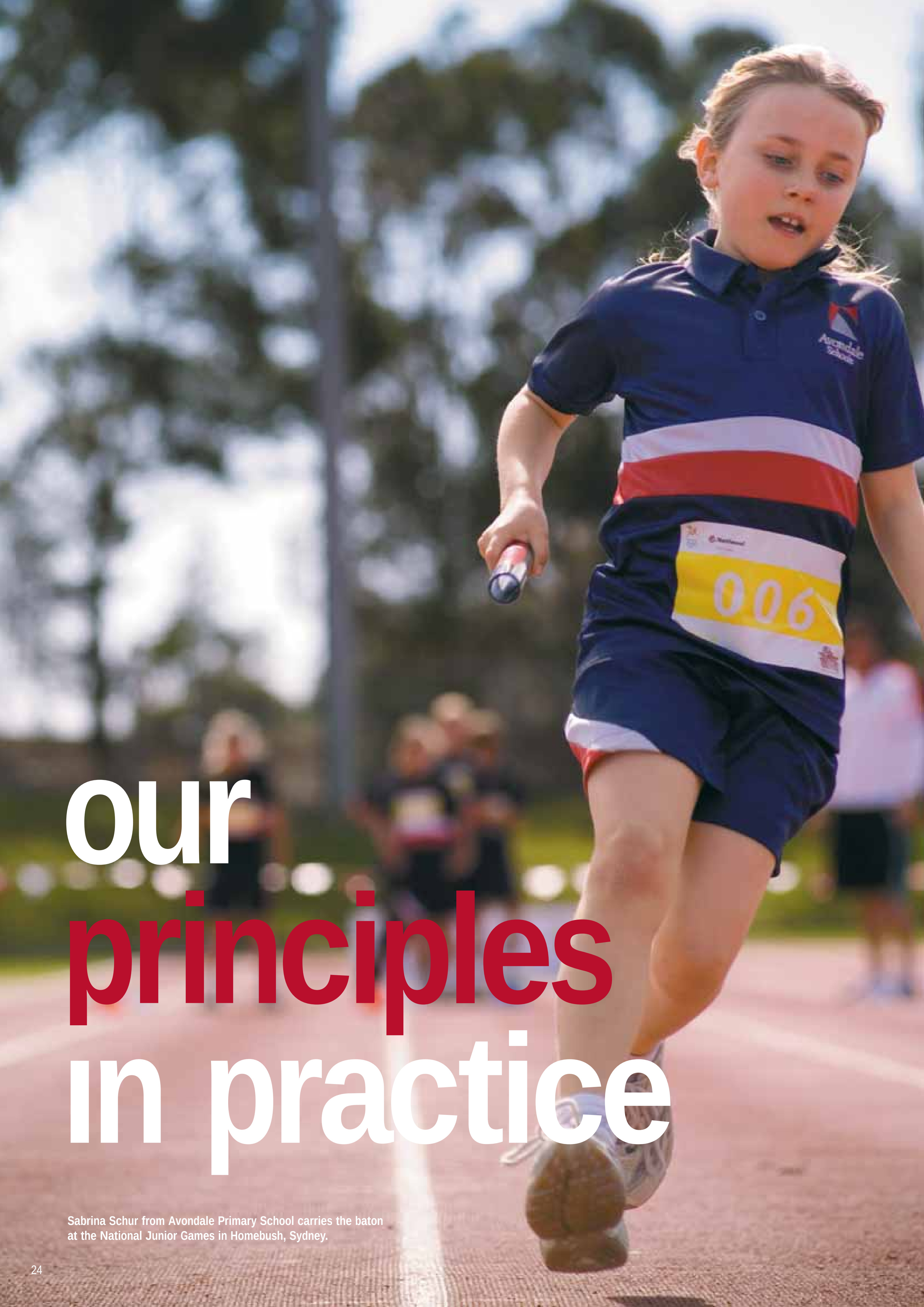
We are now very focused on the fundamentals of our business – the things that drive positive outcomes for our business and customers. I feel really positive about the future. We are challenging the paradigms that have held us back in the past.

Vicki Carter
National Australia Financial Planning

It's a good feeling to be part of a company that is dynamic, energised and being pro-active. There's more hard work ahead, but having a sense of direction and focus gives you the confidence that obstacles will be overcome and we will get where we want to be.

Matthew Pohlen
National Custodian Services

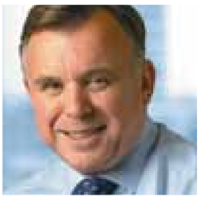
our principles in practice



Sabrina Schur from Avondale Primary School carries the baton at the National Junior Games in Homebush, Sydney.

Corporate social responsibility

We must get the basics right by making sure all our employees are focused on delivering sustainable value for all our stakeholders.



John Stewart
Managing Director
& Group Chief Executive

Corporate social responsibility (CSR) is about making a contribution to sustainable development and society through creating long-term value for our shareholders, customers, employees and other stakeholders. This means putting our Corporate Principles into practice and considering not only the economic, but also the social and environmental impacts of all our decisions in a way that maximises benefits and minimises costs for all concerned.

Our CSR strategy consists of three key elements:

- Making balanced decisions – sound governance, risk management and the development and implementation of policies, management systems and business processes
- Building trust – stakeholder engagement, accountability, disclosure, assurance and public reporting
- Growing a great reputation – benchmarking and monitoring performance and active participation in key finance sector and business programs such as the United Nations Environment Program Finance Initiative and the Global Reporting Initiative.

Highlights of our 2005 CSR initiatives

Making balanced decisions

- Introduced Balanced Scorecards for management-level employees, including CSR-related performance objectives
- Conducted our biannual Employee Opinion Survey, in which more than 70% of employees participated
- Developed a Group-wide diversity strategy and action plan
- Improved our systems for environmental data management and reporting
- Introduced our Commitment to Fair International Workforce Standards policy
- Co-hosted a Greening Procurement Forum with Telstra and Qantas for more than 100 procurement specialists
- Developed a Customer Charter across every region and in Institutional Markets & Services
- Developed a 'plain English' program to make our customer communications easier to understand
- Undertook a relief program, involving our employees, customers and the public, for victims of the Asian tsunami. In total, NAB was responsible for raising more than $20 million in Australia, the UK and New Zealand. This included employee and public donations through our branch networks and call centres, and our own cash donations totalling approximately $1.2 million. In Australia, more than 1,200 NAB staff and friends also volunteered at one of our call centres to take donations for World Vision's 'Reach out to Asia' telethon
- Invested more than $17.7 million dollars in the communities in which we operate, through corporate community investment activities, matched giving and staff volunteering

Building trust

- Released our first Corporate Social Responsibility Report in December 2004
- Completed the Relationship Index Survey in Australia, the UK and New Zealand to engage our stakeholders and find out their views

Benchmarking and measuring our performance

- Maintained our position in the Dow Jones Sustainability Index and improved out benchmarking result
- Maintained our AA rating in the RepuTex Social Responsibility Rating and ranked equal second on the new RepuTex SRI Share Index (released in August 2005) of companies listed on the ASX S&P300
- Ranked third in sector for environmental performance of the Yorkshire Bank in the Business in the Community regional Yorkshire and Humber Index 2005
- Maintained our listing in the FTSE4Good Index Series

Further details of our CSR strategy and performance is provided in our 2005 CSR Report, which is available online at www.nabgroup.com.

Supporting our sporting communities

As proud partner of the Melbourne 2006 Commonwealth Games, NAB is taking the spirit of the Games to Australian communities through the NAB's Junior Games.

One of Australia's biggest outdoor sports carnivals, the Junior Games is travelling 25,000 kms across the country, promoting a positive understanding of health, fitness and diet to almost 30,000 primary school children.

Our Board of Directors

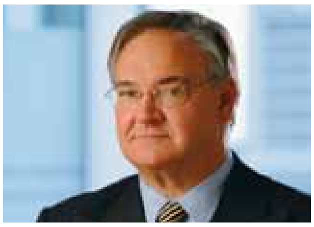
During 2004 and 2005, the Board has undergone significant transformation. The Board now demonstrates a strong diversity of experience across industries and geographies. The Board has increased expertise in financial services, risk management, and regulatory affairs. The Board is helping to actively drive cultural change within the NAB.

Following the completion of his Board renewal program, Mr Kraehe retired from the Board. Non-Executive Director, Michael Chaney, took over the role of Chairman in September 2005.

Mr Michael A Chaney

- **Non-Executive Director since December 2004**
- **Chairman since September 2005**

Mr Chaney is a highly respected business leader, with significant experience in a range of industries, including finance. He joined the Board shortly before retiring from Wesfarmers Limited, where he spent 22 years in various roles, including Managing Director and Chief Executive Officer from 1992 until July 2005.



Mr Graham J Kraehe

- **Non-Executive Director from 1997 to 2005**
- **Chairman from February 2004 until September 2005**

Mr Kraehe has 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 Kraehe retired from the Board in September 2005.

Mr John M Stewart

- **Executive Director since 2003**
- **Managing Director and Group Chief Executive since February 2004**

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

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 37 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 of the NAB.

Mr Peter JB Duncan

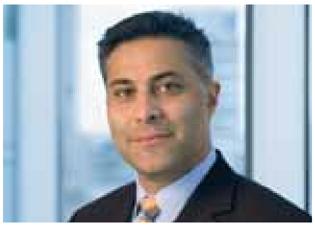
- **Non-Executive Director since 2001**

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 the Sydney Futures Exchange, Mr Elstone has experience in the oversight of derivatives trading and risk management, public policy and regulatory issues, as well as over 20 years' experience in corporate financial management.



Mr Ahmed Fahour

- **CEO Australia since September 2004**
- **Executive Director since October 2004**

Mr Fahour brings almost 20 years' experience in international economics and financial services, including corporate and investment banking, consumer banking and investment management, predominantly with Boston Consulting Group and Citigroup. He is also an honorary Business Ambassador for Melbourne's North.

Mr Daniel T Gilbert

- **Non-Executive Director since September 2004**

Mr Gilbert represents an important customer group for the NAB – 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 Michael Ullmer

- **Group Chief Financial Officer since September 2004**
- **Director, Finance & Risk since October 2004**

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

Mrs Patricia Cross

- **Non-Executive Director since December 2005**

Mrs Cross has 25 years of experience in banking and finance, including senior management roles with Chase Manhattan Bank, Banque Nationale de Paris and NAB. She holds a range of Non-Executive Directorships.

Mr Thomas (Kerry) McDonald

- **Non-Executive Director since December 2005**

Mr McDonald has more than 40 years' experience across a range of sectors, including as a senior executive at Comalco in both Australia and New Zealand. He is a director and consultant to a range of organisations in New Zealand and Australia and has been a bank director since 1991.

National Australia Bank

Our Group Executive Committee

In September 2005, the Managing Director and Group Chief Executive, John Stewart, announced a new Group Executive Committee to lead the NAB. The new Group Executive Committee reflects the NAB's regional operating model, as well as the new role of the Corporate Centre as a centre of innovation and business development.

> "Our Group Executive Committee will facilitate quicker decision-making in line with our Corporate Principles – 'speed, simplicity and efficient execution'."

John Stewart
Managing Director
& Group Chief Executive

John Stewart
Managing Director & Group Chief Executive

Michael Ullmer
Director, Finance & Risk

Cameron Clyne
Executive General Manager, Group Development

Michael Hamar
Group Chief Risk Officer

Ahmed Fahour
Executive Director & CEO, Australia

Lynne Peacock
CEO, United Kingdom

Peter Thodey
CEO, New Zealand

John Hooper
Executive General Manager, Institutional Markets & Services

Concise Financial Report 2005

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 (Group). Corporate governance is a matter of vital importance in the Group and is undertaken with due regard to all of the Group'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 2005 year, or in other periods as referred to below, are discussed in this section.

The 2004 year was one of transformation with the events of the year being a catalyst for cultural change and renewal in the Group. The Board Renewal Program was completed in December 2004, with the appointment of Mr Michael A Chaney as an independent non-executive director. Mr Chaney took over as Chairman of the Company in September 2005, following the resignation of Mr Graham J Kraehe, which had been foreshadowed in 2004 and confirmed at the 2005 annual general meeting. In addition, Mr T Kerry McDonald, Chairman of Bank of New Zealand, attended Board meetings during the year as a consultant to the Board. Both he and Mrs Patricia A Cross were appointed as non-executive directors of the Company on December 1, 2005.

The Board Renewal Program has brought about a change in the mix of skills and experience on the Board, adding additional skills and experience particularly in banking and finance. The Board has the mix of skills and experience required for an international financial services organisation of the size and complexity of 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 Managing Director and Group Chief Executive heads a Group Executive Committee comprising himself, the executive directors and certain of the executive general managers.

Integrated governance

The Board and the Group Executive Committee are committed to improving the effectiveness and efficiency of financial and risk management of the Group and a major restructure of the Group's capability in these areas commenced during the year. The overall objective has been to enhance performance and long term shareholder returns by strengthening financial and risk management, decision support and governance, improving the quality of risk – reward trade-off analysis and, correspondingly, minimising costs associated with the mismanagement of risks. This has involved a review and closer alignment of the Group and regional management committees, particularly the management Risk Committees, focusing on operational, credit, market, balance sheet and interest rate risks. These developments are ongoing and are designed to identify, examine and escalate any 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;
- clarify, formally articulate and from time to time review and approve adjustments to the risk appetite of the Group with the guidance of the Risk Committee;
- 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 securities 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;

Corporate governance

- review and monitor the performance of the Managing Director and Group Chief Executive and senior management;
- review and approve executive remuneration with the guidance of the Remuneration 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.

The Board has delegated authority and responsibility to the Managing Director and Group Chief Executive to manage the day-to-day affairs of the Group. These delegated authorities are broad ranging and are subject to strict limits which may be sub-delegated. Such authorities and responsibilities include strategic development and the implementation of Board approved strategies, the achievement of operational plans within a comprehensive risk management framework and the corporate principles, the development of an appropriate corporate culture and sound relationship management with all of the Group's stakeholders.

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 Company to fulfil its goals and responsibilities to shareholders and other key stakeholders.

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

- 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 composed of a majority of independent non-executive directors. There are three executive directors and 11 independent non-executive directors. The role of Chairman and the role of Managing Director and Group Chief Executive are held by two separate individuals. The Chairman is an independent non-executive director and the Managing Director and Group Chief Executive is an executive director. The other executive directors are the Director, Finance and Risk and the Chief Executive Officer, Australia.

The skills, experience, expertise and commencement dates 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 ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, the corporate governance standards of New York Stock Exchange, Inc. 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 Group Chief Executive, 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 2005.

Appointment and re-election of Board members

The process for appointing a director is that, when a vacancy exists, the Board, through 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.

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

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 Group Chief Executive 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 assesses the performance of each director due to stand for re-election and determines if the Board will recommend to the shareholders that they vote in favour of the re-election, or otherwise, of each such director.

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. *The commencement dates of the directors are set out in the report of the directors on pages 62 to 64.* The retirement age for directors is fixed by the Company's constitution at 70 years of age.

Corporate governance

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 Group Chief Executive, 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 details.

Management conducts additional presentations and tutorial sessions for directors from time to time regarding the Group, and 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, including the impact of Basel II, risk appetite and the process of securing APRA's re-accreditation of the Group's internal risk models. Directors are also encouraged to keep up to date on relevant topical issues.

Board meetings

The frequency of Board meetings and directors' attendance at those meetings are 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 the United Kingdom, 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 periodic reviews and evaluation of the performance of the Board through the Nomination Committee. External experts are engaged as required to review many aspects of the Board's activities and to assist in a continuous improvement process to enhance the effectiveness of the Board. During the year, the Board conducted an assessment of its activities and of the performance of individual members of the Board. An external expert interviewed each member of the Board and members of senior management before preparing a report which was discussed by the Board as a whole.

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' above).* As a large number of directors had been appointed to the Board before the last annual general meeting held in January 2005 and stood for election at that meeting, this annual review did not proceed in the year under review, other than in relation to a then continuing director, Mr Kraehe and a director Mr Tomlinson, the subject of a shareholder resolution seeking his termination. In both cases, the directors' continuing appointment was endorsed. A review of the directors standing for re-election at the January 2006 annual general meeting was conducted after the close of the 2005 year. The Board has endorsed the re-election of these directors.

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 Remuneration 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 the remuneration report which forms part of the report of the directors, and in note 51 in the annual financial report 2005.

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 Remuneration Committee provides guidance to the Board in respect of these matters.

The remuneration policy for senior executives is set out in the remuneration report and in note 51 in the annual financial report 2005.

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.

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;

Corporate governance

- 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 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 and exercises no 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 directors under terms and conditions that would normally apply to the public. 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 in the annual financial report 2005 for further information.*

Access to management

Board members have complete and open access to members of management, with the Chairman, and the Managing Director and Group Chief Executive being informed.

The Company Secretary provides advice and support to the Board and is responsible for the day-to-day governance framework of the Group.

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 Company'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.

During the year under review, the Board and the members of the Principal Board Audit Committee received independent professional advice.

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 Group.

Further, directors, officers and certain 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 imposed by the laws of other jurisdictions that apply to the Company and its directors, officers and employees.

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 fully paid ordinary 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 shares, performance options and performance rights as approved by shareholders.

Details of all shareholdings by directors in the Company are set out in the report of the directors and note 51 in the annual financial report 2005.

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.

Clear guidelines have been established to enable matters raised by regulators to be promptly and effectively addressed and referred to the Board where necessary.

Corporate governance

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
- Remuneration 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;
Mr Paul J Rizzo; and
Mr John M Stewart.

In December 2005, rotations will occur in the membership of the Risk Committee. The members of the Risk Committee after these changes will be: Mr Robert G Elstone (Chairman); Mrs Patricia A Cross; Mr Paul J Rizzo; and Ms Jillian S Segal.

It is appropriate that members of the Risk Committee have a range of different backgrounds, skills and experiences, having regard to the operational, 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 risks;
- 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 charters and modes of operation were developed for the Group Risk Management Committee, the Group Credit Risk Committee, the Group Market Risk Committee, Group Asset and Liability Committee and the Group Operational Risk and Compliance Committee. The charters of the regional Risk Committees have also been reviewed.

The Risk Committee met on 12 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 59 to 64 in the annual financial report 2005.

Audit Committee

Membership

The members of the Audit Committee are:
Mr John G Thorn (Chairman);
Mr Daniel T Gilbert;
Mr Paul J Rizzo; and
Ms Jillian S Segal (joined March 2005).

During the year, Mr Peter JB Duncan stood down as a member of the Audit Committee.

In December 2005, rotations will occur in the membership of the Audit Committee. The members of the Audit Committee after these changes will be: Mr John G Thorn (Chairman); Mr Daniel T Gilbert; Mr T Kerry McDonald; and Mr Paul J Rizzo.

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 those of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, the corporate governance standards of New York Stock Exchange, Inc. and the US *Sarbanes-Oxley Act of 2002*.

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.

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 Thorn is an 'audit committee financial expert' and is independent as defined in the listing standards of New York Stock Exchange, Inc. Although the Board has determined that Mr Thorn has the requisite attributes defined under the applicable rules of the US 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 12 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.

Access to the Committee
To draw appropriate matters to the attention of the Committee, the following individuals have direct access to the Committee: Managing Director and Group Chief Executive, Director, Finance and Risk, Deputy Group Chief Financial Officer, Group Financial Controller, Group Chief Risk Officer, Chief General Counsel, the external auditor, General Manager, Internal Audit and the consulting actuary. 'Direct access' means that the person has the right to approach the Committee without having to proceed via normal reporting line protocols.

Other employees of the Group may have access to the Audit Committee through the 'Whistleblower Protection Program'. *Refer to page 39 for further information on the 'Whistleblower Protection Program'.*

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 ASX 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 specifically require that these responsibilities rest with the Audit Committee and not the Board.

Shareholders approved the appointment of Ernst & Young as the new external auditor at the Company's annual general meeting held on January 31, 2005. KPMG formally resigned as the Company's external auditor on that same date.

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 half yearly.

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 former external auditor, KPMG, 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 18 in the 'business overview' section in the annual financial report 2005.

Internal audit
The Audit Committee is responsible for reviewing the scope of the annual internal audit plan with management and the external auditor and reviewing periodic reports on the effectiveness of the financial risk management review processes.

The Audit Committee is also responsible for assessing whether the Internal Audit function is independent of management and is adequately staffed and funded. The Committee also assesses the performance of the General Manager, Internal Audit and may recommend to the Board, the appointment and dismissal of this General Manager.

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 applies these throughout the Group.

Corporate governance

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 Ernst & Young and KPMG to the Group and the fees paid or due and payable for those services are set out in the report of the directors and note 52 in the annual financial report 2005.

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 39 for further information).*

Nomination Committee

Membership

The Nomination Committee's members are:
Mr Michael A Chaney (Chairman) (joined December 2004, appointed Chairman September 2005);
Mrs Patricia A Cross (joined December 2005);
Mr Peter JB Duncan;
Mr Robert G Elstone;
Mr Daniel T Gilbert;
Mr T Kerry McDonald (joined December 2005);
Mr Paul J Rizzo;
Ms Jillian S Segal;
Mr John G Thorn;
Mr Geoffrey A Tomlinson; and
Mr G Malcolm Williamson,
acting in committee.

During the year, Mr Kraehe retired as a member and Chairman of the Committee. All members of the Nomination Committee are independent directors.

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.

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 Group Chief Executive, Chief Executive Officer, Australia and Director, Finance and Risk;
- 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.

Succession planning

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

Remuneration Committee

Membership

The Remuneration Committee's members are:
Mr Geoffrey A Tomlinson (Chairman);
Mr Peter JB Duncan (joined August 2005);
Ms Jillian S Segal; and
Mr John G Thorn.

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

In December 2005, rotations will occur in the membership of the Remuneration Committee. The members of the Remuneration Committee after these changes will be: Mr Peter JB Duncan (Chairman); Ms Jillian S Segal; Mr Geoffrey A Tomlinson; and Mr G Malcolm Williamson.

Corporate governance

Responsibilities and Remuneration Committee charter

The Remuneration Committee's role, responsibilities, composition and membership requirements are documented in a Remuneration 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 Remuneration 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 Group Chief Executive and for senior executives who report directly to the Managing Director and Group Chief Executive;
  - the remuneration arrangements for non-executive directors on the Board;
  - the recruitment, retention and termination policies and procedures for senior executives; and
  - 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.

Performance review

The Board reviews performance and sets the remuneration package applicable to the Managing Director and Group Chief Executive, the Chief Executive Officer, Australia and the Director, Finance and Risk, following recommendations from the Remuneration 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 remuneration report.

Controlled entities

The activities of every company in the Group are overseen by its 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 describe the specific roles, duties, responsibilities and rights of the directors of controlled entities. Such guidelines describe 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. Mr T Kerry McDonald is Chairman of Bank of New Zealand. Directors of controlled entities are normally selected from among the outstanding business people in the local market in which the entities operate. A 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. 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 and publications and online. These include:

- the Company's annual general meeting, which will be held in Sydney on January 30, 2006;
- 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, Luxembourg, New York, New Zealand, Switzerland and Tokyo, and to ASIC and the SEC;
- letters from the Managing Director and Group Chief Executive or the Chairman to specifically inform shareholders of key matters of interest; 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. Beneficial owners have the opportunity to take an active interest in the affairs of the Group by visiting the Group's website at www.nabgroup.com

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 disclosure policy in place, which is intended to maintain the market integrity and market efficiency of the Company's securities listed on international stock exchanges. The policy may be found on the Group's website www.nabgroup.com

Corporate governance

The Company has established written guidelines and procedures to supplement the disclosure policy which are designed to manage the Company's compliance with the continuous disclosure obligations to the various stock exchanges on which the Company's securities are listed (including ASX) and to attribute accountability at a management level for that compliance.

ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations

The Company believes that throughout the 2005 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:

- under Recommendation 7.2 of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, the Managing Director and Group Chief Executive and the Director, Finance and Risk are required to state to the Board in writing that the certification 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 Group Chief Executive and the Director, Finance and Risk for the year ended September 30, 2005 referred to matters arising from their evaluation of the Company's disclosure controls and procedures, being the discovery of unauthorised trading in foreign currency options, organisational and cultural change, reconciliation with US GAAP, and the extent of manual processes necessary in order to compensate for identified system deficiencies. As reported in the Company's half year consolidated financial statements, the certificates given for the six months to March 31, 2005 were qualified in a similar manner, except for reconciliation with US GAAP, which arose after the half year.

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

In 2004, New York Stock Exchange, Inc. adopted 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 (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 a brief and general summary of the 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 – during the year, the Nomination Committee was composed of both independent and non-independent directors. The Committee is currently 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 in the annual financial report 2005)* 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

The Board has worked with management to develop a set of Corporate Principles, which are 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 Corporate Principles. Measures will also be introduced to monitor whether employees are living these Principles and behaving appropriately and consistently.

A reward strategy and a 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. Co-ordinated through the Learning Resource Centre on the intranet, all Australian employees are required to complete mandatory compliance training in a range of topics, including the Code of Conduct, the Code of Banking Practice, privacy, disability and trade practices.

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.

Corporate governance

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 Group Chief Executive, Director, Finance and Risk 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.

In addition, staff are urged to escalate issues which they believe could have a material impact on the Group's profitability, reputation, governance or compliance.

Remuneration report

Remuneration Committee

Role

The membership, responsibilities, authority and activities of the Remuneration Committee (formerly the Human Resources Committee) are set out in the Remuneration 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

The responsibilities of the Remuneration 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 Group Chief Executive and for senior executives (ie. those executives who report directly to the Managing Director and Group Chief Executive);
  - the remuneration arrangements for non-executive directors on the Board *(as listed on page 59)*;
  - the recruitment, retention and termination policies and procedures for senior executives; and
  - key appointments and executive succession planning (including one or more reports and presentations to the Board each year);
- oversee the Group's general remuneration strategy; and
- monitor the Group's culture and reputation and review behavioural standards on a regular basis, and report and submit recommendations to the Board.

The Remuneration Committee has delegated authority from the Board to approve:

- changes to the factors regarding the measurement of short-term performance, which impact incentives and the general employee share offer;
- incentive pool amounts;
- offers under existing share, performance 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 total number of securities approved by the Board); and
- fees payable to non-executive directors of controlled entity boards.

Membership and meetings

The following outlines the member composition of the Remuneration Committee during the year:
Mr Geoffrey A Tomlinson (Chairman);
Mr Peter JB Duncan (joined August 2005);
Ms Jillian S Segal; and
Mr John G Thorn.

The Remuneration Committee met seven times during the year. *The number of meetings attended by each member during the year is set out in the report of the directors.*

The Chairman of the Board, the Managing Director and Group Chief Executive, the Executive General Manager, People & Culture and General Manager, Executive Programs attend the Remuneration Committee meetings by invitation and have assisted the Remuneration 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 the Company's subsidiary boards in Australia and overseas) and senior executives of the Group. General reward advice is sought on an ad hoc basis. Principal advisers include Egan Associates, Mercer Consulting and PricewaterhouseCoopers, whose advice is sought on matters including the review of frameworks and concepts, market remuneration data, equity valuation, and performance hurdle measurement and testing.

Reward policy

The Company operates an integrated global reward strategy that covers all elements of performance and reward – ie. performance management, talent management, fixed remuneration, short-term incentive (STI), and long-term incentive (LTI).

The following outlines the Group-wide philosophy and principles of that strategy.

The Remuneration Committee regularly reviews the reward philosophy and principles to ensure they remain contemporary and consistent with generally accepted market practice, both in Australia and within the global markets in which the Group operates.

Reward philosophy

The Company's overall philosophy is to manage a 'Total Reward' framework designed to:

- focus on creating value for shareholders by rewarding employees based on enhancement of sustainable shareholder value;
- create an environment that will attract top talent, and where people can be motivated with energy and passion to deliver superior performance;
- recognise capabilities and promote opportunities for career and professional development;
- provide rewards, benefits and conditions that are competitive within the global markets in which the Group operates; and
- provide fair and consistent rewards across the Group, which support corporate principles.

Reward principles

The Company's reward philosophy has been translated into a number of tangible reward principles. Central to this is that the highest performers and those showing greatest potential and future capability should receive the greatest rewards. The reward principles set out the manner in which performance should be assessed and recognised, and how performance should then impact the components of total reward.

Performance and Talent Management

The principles start with a robust 'Performance Management Framework' that is used across the Group, including both financial and non-financial key performance indicators (KPIs). Non-financial measures may include management and development of talent and behaviour. This is followed with a formal 'Executive Talent Process' for senior management, which provides a forward-looking view of an individual's potential capability. Both of these frameworks are set out in more detail in the following sections.

Remuneration report

Performance management and executive talent outcomes are designed to drive superior rewards for the best relative performance and potential. For those employees, this means:

- fixed remuneration levels set at a higher market percentile;
- a greater STI multiple *(as described in 'Individual performance outcomes' on page 43)*; and
- a larger amount of LTI reward.

Structure of Total Reward

The principles set out the relevant elements of remuneration to make up Total Reward. For the majority of employees, these are fixed remuneration, and 'at risk' remuneration (comprising STI and LTI). An appropriate mix of these components is determined for each management level as shown in the *'Target reward mix'* section.

Fixed and at risk remuneration

The Group has a principle of targeting fixed remuneration at the market median (50th percentile) being paid in the finance industry in the global markets in which the Group operates and in other specialist markets where appropriate. For the best relative performers, higher market measures (55th to 60th percentiles) are used, as shown in the *'Performance and Talent Management Framework'* diagram below. Individual remuneration is set in a range around these percentiles as described in *'Fixed Remuneration'* on page 43.

At risk reward (STI and LTI) is a vital component of total reward for all employees, with the emphasis increasing with levels of responsibility and criticality of role *(as set out in 'Target reward mix' on page 43)*. STI and LTI targets are set between the median and the upper quartile of the relevant market, with actual individual outcomes determined within parameters approved by the Board and Remuneration Committee (such as the STI pool), and achievement of the individual's balanced performance scorecard (ie. the performance curve) and assessment of their talent and potential (talent matrix).

Employee ownership

The reward principles, and in particular the way in which rewards are delivered, aim to build a partnership between employees and other shareholders through employee ownership. This is promoted through awards in the form of Company shares, performance options and performance rights. In addition, amounts above target STI are primarily provided in restricted Company shares as described in *'Deferral of short-term incentive rewards'* on page 44.

Joining and retention awards

Commencement awards are only entered into with executive general manager approval, to enable 'buy-out' of equity from previous employment for significant new hires. The amount and timing of any benefits must be based on evidentiary information. The awards are primarily provided in the form of Company shares, performance options and performance rights, subject to restrictions and certain forfeiture conditions, including forfeiture on resignation. Cash is only used in limited circumstances.

Similarly, the Company provides only limited retention awards with executive general manager approval, for key individuals in roles where retention is critical over a medium-term timeframe (two to three years). These are normally provided in the form of shares with a minimum two-year restriction period, subject to performance standards and certain forfeiture conditions, including staggered forfeiture on resignation before key milestones are achieved.

Linking performance, talent and Total Reward

The following sections describe how the reward principles are implemented, and how they link performance and talent management to all of the elements of Total Reward.

Performance and talent management

During 2005, the Group's enhanced Performance Management Framework was implemented for management employees and above (approximately 6,000 globally). The key elements of the framework are as follows (and as shown in the following diagram):

- setting threshold 'quality gates', which are the threshold measures for compliance and behaviour, reflecting internal and external regulatory requirements and the Group's Corporate Principles. If an individual fails either gate, then no STI or LTI incentive can be provided. These quality gates must be met before the achievement of KPIs can be considered. Quality gates have been progressively implemented, for management and senior employees in 2005, and all other employees during 2006;
- setting corporate KPIs for the Group at the commencement of the performance period, which roll down into individual KPIs for each employee via an individual scorecard. Each individual performance scorecard defines what is required to achieve individual performance ratings, as shown on the performance curve overleaf;
- a peer review ('round table') process where peer managers review, compare and calibrate the performance of their collective group reports. The peer review process allows for performance to be differentiated, and confirms individual performance ratings and the related reward outcomes (fixed remuneration percentile and STI multiple). The peer review also identifies those employees who require development and those who are poor performers; and
- for management employees, the Talent Review follows on from the peer review process. The executive Talent Review has the dual aims of enabling succession planning for the Group (and management of business continuity risk) and career development for individuals. The Review identifies and tracks employees who contribute to the Group's high performance capability, through strong leadership behaviour as well as performance. In addition, potential for progression to roles of greater complexity is assessed. These elements in combination link directly into LTI outcomes.

Remuneration report

Schematic representation of the Performance and Talent Management Framework (as described on previous page)

QUALITY GATES

- Compliance
- Behaviour

CORPORATE/INDIVIDUAL SCORECARD

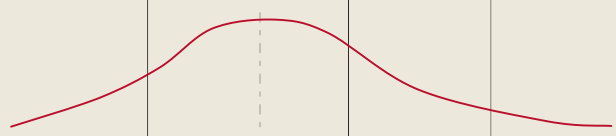
Financial / Business Management	Customer and Community
Employees	Process, Quality and Capability Leverage

PEER REVIEW

Rating measured against peers and final ranking determined

PERFORMANCE CURVE

	Unsatisfactory/ Developing	*Valued Contributor*	*Significant Contributor*	*Exemplary Contributor*
	10%(1)	**65%**	**15%**	**10%**
STI multiple of target	0	0.6 – 1.1	1.2 – 1.5	1.6 – 2.0
Fixed remuneration market percentile	P40	P50	P55	P60



(1) 5% developing; 5% poor performers

TALENT MATRIX

Leadership Behaviours	Low (Business Results)	Medium (Business Results)	High (Business Results)
High	LTI = Low 7	LTI = Medium 8	LTI = High 9
Medium	LTI = Low 4	LTI = Low 5	LTI = Medium 6
Low	LTI = No 1	LTI = No 2	LTI = No 3

The structure of Total Reward

Total Reward encompasses three main components, which are described below. The target reward mix emphasises at risk rewards (STI and LTI) that increase with the level of responsibility and criticality of the role.

Overview of elements of remuneration

	Elements of remuneration	Executives	Non-executive directors
Fixed remuneration	Fees – cash	✗	✓
	Fees – shares	✗	✓
	Cash salary	✓	✗
	Superannuation (1)	✓	✓
	Other benefits	✓	✗
Short-term incentives	Cash	✓	✗
	Shares (2)	✓	✗
Long-term incentives	Performance rights	✓	✗
	Performance options	✓	✗
	Shares	✓ (3)	✗
Post-employment	Termination payments (4)	✓	✗
	Retirement benefits (5)	✗	✗

(1) This relates to mandatory and personal contributions.

(2) At least one-half of STI remuneration for the Managing Director and Group Chief Executive and executive directors must be provided in the form of Company shares (subject to any required shareholder approval). All other executives are required to receive any STI payment amount in excess of $300 above their STI target in the form of Company shares. These 'above target' shares are subject to certain forfeiture conditions, including on resignation or failure to pass further quality gates for 12 months from the date of allocation. All executives in Australia can nominate to be provided their up-to-target STI reward in the form of shares, cash or superannuation contributions or a combination of these.

(3) Excluding the executive directors who are not able to participate in the general employee share plan.

(4) This relates to payments made in the event of early termination by the Group of an executive's employment agreement.

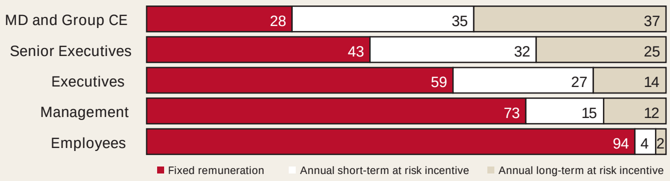
(5) Non-executive directors appointed after December 31, 2002 do not receive retirement allowance benefits. Accrued retirement benefits of directors of the Company and its controlled entities who were appointed prior to that date, were frozen as at December 31, 2003 (refer to footnote 3 on page 60).

Remuneration report

Target Reward mix

The target Total Reward mix for the Managing Director and Group Chief Executive is 25 to 30% fixed remuneration, 30 to 35% STI, and 40 to 50% LTI. The target Total Reward mix for the senior executive team (executive general managers) is 30-50% fixed remuneration, 20 to 40% STI and 15 to 35% LTI.

The following graph shows the actual average percentage reward mix for each level for 2005 (although an individual's mix may vary in accordance with market relativity and appropriate management approval):



Fixed remuneration

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 taking into account the different geographic and employment markets (eg. financial services, support services) in which the Group competes for talent.

Fixed remuneration reflects the scope of the role and the level of skill and experience of the individual. It is generally referenced to the median (50th percentile) of the applicable remuneration market with higher market measures (55th to 60th percentile) for the top 25% of performers (ie. those ranked as Significant or Exemplary Contributors under the Performance Management Framework).

Further, the Group uses an 80% to 120% range around the selected fixed remuneration market percentile, so an individual's remuneration may normally vary from 80% to 100% of the percentile, with fixed remuneration between 100% and 120% intended to be limited to exceptional circumstances and performance only.

Short-term incentive

Pool funding for 2005

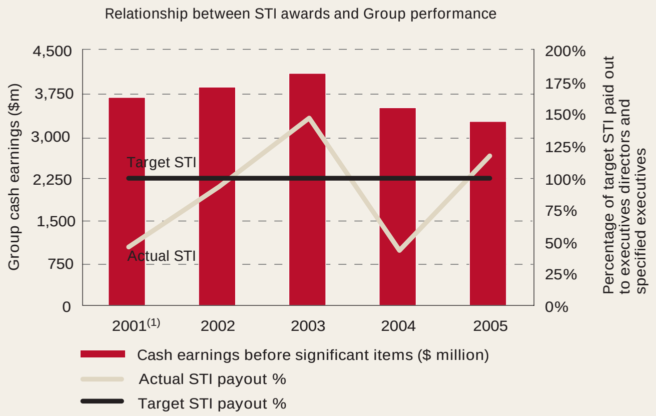
For the 2005 year, the Board reviewed the STI plan design and decided to replace economic value added (EVA®) as the determinant of STI reward pool funding (ie. the total amount determined as being available for distribution as STI rewards).

For 2005, the Remuneration Committee agreed that applying any single measure or a rigid formula for the incentive pool calculation would not adequately reflect the management effort undertaken to stabilise the business and initiate a sustainable turnaround. On this occasion, a combined quantitative and qualitative approach had the unanimous support of the Board.

As a result, the Remuneration Committee decided that the 2005 pool be determined by applying a mix of quantitative and qualitative measures. The quantitative measures focused predominantly on cash earnings for the Group, while qualitative measures covered a range of initiatives that helped stabilise the Group and start the turnaround.

The incentive pool calculation for the year ended September 30, 2005 was reviewed and approved by the Remuneration Committee and the Board. The amount distributed to executive directors and specified executives (those who participated on a permanent basis on the Group Executive Committee at any time during the year) was $13.7 million, (2004: $2.7 million). *Refer to page 51 for a complete list of specified executives.*

The following graph shows the average of individual payments against target for executive directors and specified executives and how it relates to the Group's earnings (cash earnings before significant items) from 2001 to 2005:



(1) Targets were not set for all specified executives at that time, therefore Group average is reported.

The dollar amount and percentage of target STI awarded to each executive director and specified executive in respect of the 2005 year is shown in the table on page 56. To date, no executive directors or specified executives have forfeited deferred STI rewards in respect of this period.

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

Pool funding for 2006

From 2006, it is expected that the performance of the Group (and the size of the STI pool) will more directly be measured by the growth in cash earnings before significant items and return on equity (ROE), with consideration of the overarching focus on cultural change. The cash earnings before significant items and ROE targets which determine the size of the pool will be linked to the Group's Annual Operating Plan and will be approved by the Remuneration Committee and Board. The sensitivity of the STI pool is asymmetrical, ie. the STI pool is impacted on more than a one-for-one basis.

Individual performance outcomes

The performance of each executive is measured firstly against their individual scorecard and secondly relative to their peers. The relative outcome determines their share of the available pool. Individual scorecards include a balance of measures including financial, customer, community, employees, process improvements and quality. These measures have been selected based on their alignment to the Group's long-term direction. Through the scorecard approach and subsequent peer review, the STI program is structured to reward achievement against key individual, business and Group annual performance outcomes. Target incentive amounts are set relative to the applicable remuneration market (position, business, geographic).

Remuneration report

For management employees and above, a threshold level of performance (Valued Contributor level) and the achievement of compliance and behavioural quality gates are required before any STI rewards are provided. Relative individual performance against peers may give rise to rewards anywhere between zero and two times the target incentive amount being earned (referred to as the STI multiple). The total for all employees is limited to the amount of the funded pool, and only the most outstanding performers (ie. Exemplary Contributors, who are 10% or less of employees) may receive amounts in the range of 1.6 to 2.0 times target (ie. the STI multiple).

Deferral of short-term incentive rewards

The Managing Director and Group Chief Executive and the executive directors *(as listed on page 50)* are required to receive at least half of any STI payment in the form of Company shares (subject to any required shareholder approval) in order to align their outcomes with shareholder interests. Specific terms apply to such shares as approved by shareholders where required.

From 2005, subject to practicalities and any legal or tax constraints, all other employees are required to receive any STI payment amount in excess of $300 **above their STI target** in the form of Company shares. These 'above-target' shares are provided under the National Australia Bank Staff Share Ownership Plan and are generally held in trust with restrictions on trading for a minimum of one year.

Employees receive dividends in respect of these above-target shares while the shares are restricted. The shares are subject to forfeiture conditions, including forfeiture if the participant's employment is terminated due to serious misconduct, if the participant resigns or if they fail to pass the quality gates in the subsequent year. The Remuneration 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 an appropriate level of shareholding by employees. Employees in Australia may also nominate a longer restriction period in relation to above-target shares and, while restricted, the shares are forfeited on termination due to serious misconduct involving dishonesty.

Where practical (and subject to any legal or tax constraints), employees may also nominate to be provided any STI **up to target** in cash, superannuation contributions or Company shares, or a combination of these. The shares are also provided under the National Australia Bank Staff Share Ownership Plan and are generally held in trust for between one and 10 years (unless the employee leaves the Group earlier). Employees receive dividends in respect of these shares while they are held in trust. While restricted, the shares are forfeited if the employee's employment is terminated due to serious misconduct.

Long-term incentive

The structure of the LTI plan is reviewed annually by the Remuneration Committee with advice from external remuneration advisers and consideration of best practice in the Australian and international markets, market commentary, and consultation with stakeholders.

This year's review was designed to strengthen the alignment to shareholders, help drive appropriate management behaviour and to reinforce the ongoing cultural change agenda.

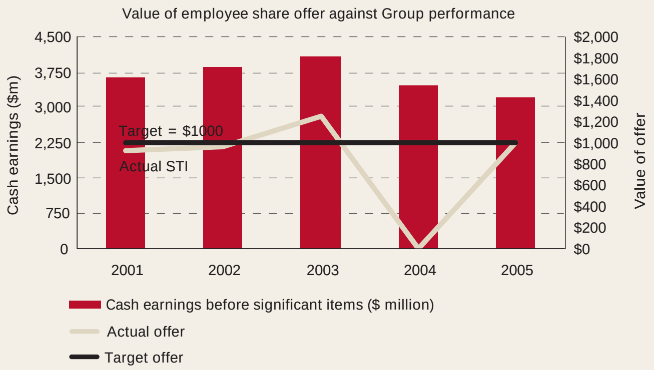
The Remuneration Committee has decided to further enhance several aspects of the LTI plan in order to ensure the correct alignment and line of sight between individual participants, other stakeholders and the achievement of performance hurdles.
These changes will take effect during the 2006 year *(and are fully described in the following section 'Review of long-term incentive for 2006' on page 49).*

Delivery of long-term reward in Company shares

With respect to 2005, the Company made two offers of approximately $500 in Company shares with restrictions on trading for three years under the general employee share offer. Dividends are received by the employee while the shares are held in trust.

All employees (other than executive directors) participate in this LTI program (subject to minimum service criteria), the value of which is determined by the Remuneration Committee based on Group performance (measured by movement in EVA® for the 2001 to 2004 offer and a balanced scorecard of outcomes including cash earnings for the 2005 offer).

The following graph shows the approximate value of the share award from 2001 to 2005 compared with Group earnings (cash earnings before significant items).



Delivery of long-term reward in performance options and performance rights

LTIs in the form of performance options and performance rights have become a key mechanism for recognising executive potential and talent in the Group, and are primarily offered to two groups of employees: senior management (less than 1,000 individuals); and the top 5% of the Group's 'selling' employees.

Linking talent management and long-term reward

The Executive Talent Review *(described in 'Performance and Talent Management' on page 41)* and the resulting individual talent assessments, provide a solid, objective basis for determining appropriate long-term rewards delivered through performance options and performance rights. Through this process, individual LTI allocations transparently recognise current contribution, future capability and potential contribution to the Group's performance over coming years.

An executive's Talent Review outcome will determine both their eligibility for an LTI reward and the number of performance options and performance rights granted. Market relativity (to competitor organisations in the Australian market) drives the value of long-term reward for the median talent matrix outcome for each management level.

Performance options and performance rights program

Performance options and performance rights are rights granted by the Company 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 Company (as described below), and are, therefore, aligned to the outcomes experienced by other shareholders over a specified timeframe (this is generally three to five years). The value of any LTI reward (if and when any securities vest) is also dependent on the market value of the Company's ordinary shares at the time of exercise.

The combination of performance options and performance rights is designed to reduce the number of securities issued and therefore reduce dilution (ie. fewer performance rights are issued as they have a higher financial value than traditional performance options). The financial value of performance options and performance rights is provided in a 50:50 ratio, and this equates to a ratio of 1:4 when it comes to the number of securities allocated. Under the LTI plan, the fair value of a performance right is approximately four times that of a performance option. This financial difference is predominantly due to the fact that while performance rights have the same hurdle as performance options, they have a nominal strike price ($1.00 per tranche).

The fair valuation model *(as detailed on page 57)* takes account of factors including the performance 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.

Performance rights also allow for continued motivation of employees in times when the Company outperforms its peers, but for reasons not related to performance, the share price may be below the strike price of the performance option.

Remuneration report

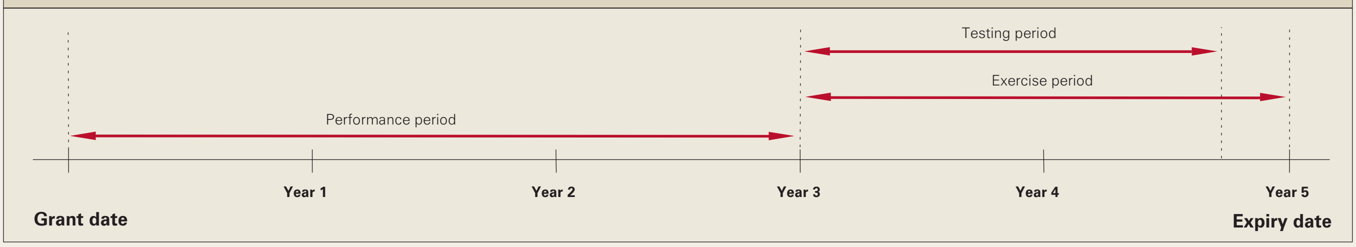
Summary of all long-term equity instruments on issue

Terms & conditions	Grant dates			
	March 2000 – September 2001	**June 2002**	**March 2003 – June 2004**	**September 2004 – July 2005**
Securities granted	Performance options		Performance options and performance rights	
Frequency of offers	One major annual allocation of LTI awards, with later, smaller grants (as required) generally for executives who have subsequently commenced employment with the Group.			
Basis for determining individual LTI allocation	Based on seniority and assessed future value of the individual		Based on the Talent Matrix placement (refer to page 42).	
Restriction period	There is an initial restriction period of three years, when no performance testing is performed.		The restriction period may be less than three years (but greater than two and a half) where grants reference a previous performance hurdle date. Eg. grants on April 2005 and July 2005 have an 'effective date' of February 2005, and refer back to the February 2005 performance hurdle for determination of vesting. The restriction periods are, therefore, less than three years in length for those grants.	
Performance testing period	The restriction period is followed by a performance testing period during which the performance hurdle is tested up until three months before the expiry date. The performance period for each grant is shown in the following *'LTI performance testing period' diagram.*			
Expiry date of securities	The securities lapse on the eighth anniversary of the grant date. Vested securities may be exercised until the expiry date. Any securities that do not vest by the end of the performance period will lapse.		Where an 'effective date' is used, and the restriction period is shorter than three years (as above), then the expiry date will also be correspondingly earlier than eight years.	The securities will generally lapse on the fifth anniversary of the date of grant (unless an 'effective date' and shorter restriction period applies as above).
Definition of Total Shareholder Return (TSR)	TSR is the return received by a shareholder through dividends and any other distributions together with capital gains over the relevant period, calculated on the basis that all dividends and distributions are reinvested in Company shares.			
Reasons for the TSR performance hurdle	The TSR hurdle was selected as the measure most relevant for shareholders over the medium to long term.			
TSR performance hurdle peer group	The vesting (and exercise) of the securities is determined by growth in the Company's TSR from the grant date, compared with that of the top 50 companies in the S&P ASX100, excluding the Company and property trusts, determined as at the effective date of the grant.			Half of the performance options and half of the performance rights are tested as per earlier issues. The vesting (and exercise) of the remaining half of the securities is determined by the Company's TSR growth relative to the largest banks and financial services companies in the S&P ASX200, excluding the Company (generally about 12 organisations) determined as at the effective date of the grant.
Rationale for peer group selection	Peer group selection attempts to approximate the types of companies that investors might choose as an alternative to investing in the Company. The size of the peer groups is 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.			The use of two peer groups in tandem prevents the possibility of all of the securities vesting if the Company performs poorly relative to other organisations in the financial services business sector.

Summary of all long-term equity instruments on issue (continued)

Terms & conditions	Grant dates			
	March 2000 – September 2001	June 2002	March 2003 – June 2004	September 2004 – July 2005
Measuring the TSR performance hurdle	Each TSR comparison to the relevant peer group data is averaged over five trading days to prevent vesting being based on any short-term spike in TSR results.		The TSR comparison is averaged over 30 trading days.	In addition to the 30-day averaging, the relevant TSR percentile must also be maintained by the Company for 30 consecutive trading days (ie. vesting only occurs where there is sustained TSR performance)
Testing of performance measures	Performance is tested daily during the performance period, with sustained achievement of the TSR ranking required for vesting as described above. For practical reasons, performance tests are generally conducted quarterly.			
Vesting of securities	Vesting occurs to the extent that the performance hurdle is satisfied as shown below. Vesting does not occur during the restriction period (unless the maximum life of the securities has been shortened due to cessation of employment as described below).			
TSR performance hurdle vesting schedule	No vesting occurs below the 25th percentile performance of the peer group. A quarter of the securities vest at the 25th percentile with 1% further vesting per percentile up to 50% at the 50th percentile and 2% further vesting per percentile up to 100% at (and above) the 75th percentile.	No vesting occurs below the 50th percentile performance of the peer group. Half of the securities vest at the 50th percentile with 2% further vesting per percentile up to 100% at (and above) the 75th percentile.		No vesting occurs below the 51st percentile performance of each peer group. Half of the securities vest at the 51st percentile with 2% further vesting per percentile up to 100% at (and above) the 76th percentile.
Lapsing of securities	Securities will lapse if unexercised on or before their expiry date as above. Securities 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 cases of retirement, redundancy, contract completion, death, or total and permanent disablement). For some grants, securities may be automatically retained in cases of death or total and permanent disablement. For some grants, securities may be exercised before the end of the restriction period and notwithstanding the performance hurdle (described above) where an executive ceases employment with the Group as the result of death or total and permanent disablement.			In addition to the terms for previous grants (as shown on the left), where the Board determines that securities may be retained on cessation of employment (generally only in cases of retirement, redundancy, contract completion, death, or total and permanent disablement) and where this occurs during the restriction period, then only a pro-rated amount of securities may be retained, and for a maximum of two years from the date of cessation. This does not apply to securities provided on commencement.
Board discretion	The Board may also allow security holders to exercise the securities 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.			

LIFE CYCLE OF A LONG-TERM INCENTIVE EQUITY INSTRUMENT



Remuneration report

Intrinsic value of performance options at vesting

The following table illustrates the link between long-term performance of the Group and individual reward. That is, vesting has only occurred where the Group has returned superior TSR performance against the selected peer group.

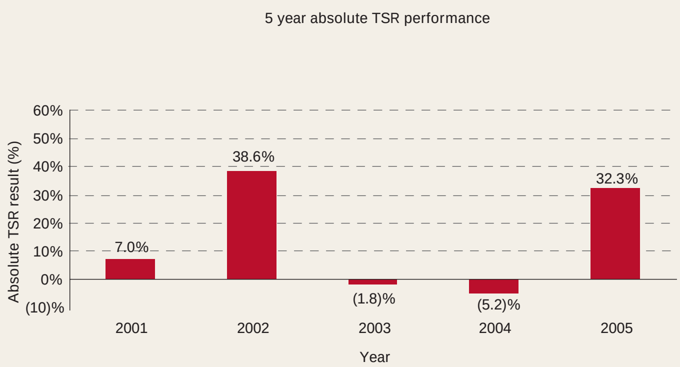
	Vesting			Value on vesting			Shareholder wealth		
Year of allocation	**Start of test period**	**Relative TSR percentile ranking at initial test date**	**Percentage of options that vested at initial test date (1)**	**Closing share price at test date**	**Exercise price**	**Intrinsic value of each option at initial test date**	**Dividends from grant to initial test date**	**Share price movement from grant to initial test date**	**Three-year absolute TSR from grant to initial test date (2)**
2000	March 23, 2003	88th	100%	$30.90	$21.29	$9.61	$4.05	$9.61	65%
2001	March 23, 2004	50th	50%	$31.45	$27.85	$3.60	$4.45	$3.60	29%
2002	June 14, 2005	12th	-	$30.97	$36.14	-	$4.87	($5.17)	-
Not yet in test period		**Theoretical Relative TSR percentile at Sep 30, 2005**					**Dividends from grant to Sep 30, 2005**	**Share price movement from grant to Sep 30, 2005**	**TSR result from grant to Sep 30, 2005**
2003	March 21, 2006	12th	-	-	$30.46	-	$4.12	$2.59	25%
2004	January 16, 2007	14th	-	-	$30.25	-	$2.49	$2.80	20%
2005	February 7, 2008	60th	-	-	$29.93	-	$0.83	$3.12	14%

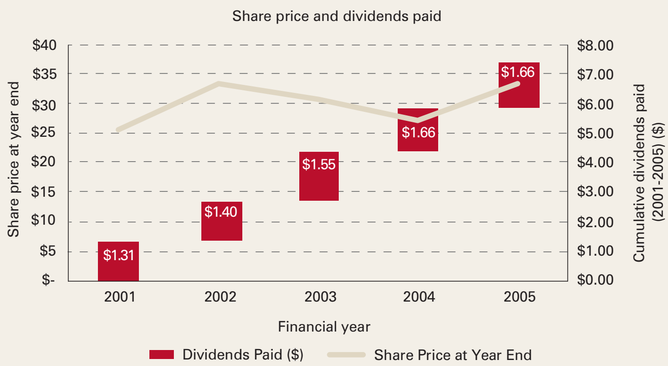
(1) For each of the vested allocations shown in the table, vesting has only occurred on the initial test date as shown. No subsequent vesting has occurred.

(2) Absolute TSR movement from grant to vesting is calculated on the basis that all dividends and distributions are reinvested in Company shares.

Summary of the Group's annual TSR performance

	2001	2002	2003	2004	2005
Share price at year end	$25.66	$33.48	$30.80	$26.98	$33.05
Net dividends paid during year	$1.31	$1.40	$1.55	$1.66	$1.66
Annual TSR performance result	7.0%	38.6%	-1.8%	-5.2%	32.3%





Remuneration report

Review of long-term incentive for 2006

With the introduction of the Company's new regional business model, the Remuneration Committee has made a number of changes to the structure of the Group's LTI plans. These are designed to strengthen the alignment to shareholders, help drive appropriate management behaviour and reinforce the ongoing cultural change agenda.

The changes described below will be effective for the October 1, 2005 to September 30, 2006 performance year.

Delivery of long-term reward in performance options and performance rights

Details of the current performance options and performance rights programs are set out on pages 46 to 47.

The Remuneration Committee reviews the performance options and performance rights program on an annual basis to ensure that it reinforces the Group's long-term objectives and focus, delivers a competitive level of LTI reward, and reflects prevailing market and shareholder views. The Remuneration Committee initiated a number of changes to the program for 2005, which was set out in last year's annual report *(and as summarised in 'Summary of all long-term equity instruments on issue' on page 46)*.

It is currently intended that key aspects of the 2006 program will be:

- retention of the current mix of performance options and performance rights, where each comprises 50% of the LTI value delivered (based on fair values);
- vesting under all relative performance hurdles to commence at the 51st percentile of the peer group – but for the current 50% vesting to be reduced to 35% vesting at the 51st percentile;
- vesting under all relative hurdles to increase on a scale up to maximum (100%) vesting above the 75th percentile;
- achievement of relative TSR performance measures to be based on TSR results over the 30 days prior to any hurdle test;
- elimination of multiple hurdle retesting with a new testing schedule to be introduced for all relative performance hurdles. One-third of each allocation will be tested at the three-year anniversary, one-third of each allocation at the four-year anniversary, and the final one-third at the five-year anniversary. Once a testing date has passed, any unvested securities in that one-third group may be retested once only (at the next test date) and if not then vested, will lapse immediately. The final one-third tranche will not be retested;
- an increase in the maximum life of all securities from five years to five and one-half years, to enable time for exercise of any vested securities from the final hurdle test; and
- differentiation in the performance hurdles to apply to performance options and performance rights that are granted to senior executives and to regional and other executives. This will reinforce the Group's new regionally integrated model, and significantly increase the line of sight to performance outcomes for regional executives. The new hurdles will be:
  - for senior executives: half of the performance options and half of the performance rights to be tested on relative TSR performance against the existing top 50 ASX peer group (excluding property trusts). The other half of the performance options and the performance rights to be tested on the existing relative TSR performance against the selected financials peer group from ASX200;
  - for regional and other executives: performance rights to be tested on EPS performance against the selected financials peer group from ASX200 as above. Performance options to be tested against a new non-market factor-based measure where vesting is dependent on achievement of a cash earnings target for each region (eg. Australia, New Zealand, UK) with the target set in line with each operational business plan. Threshold vesting (35%) would commence where 90% of the cash earnings target is achieved, with maximum (100%) vesting occurring upon achievement of 120% of the regional target measure (and a straight-line scale in between). The timing of vesting will vary according to announcements of achievements against target. Vesting will only occur where regional ROE achieved is within 1% of business plan. The exercise price of the performance options will continue to be set at or around the time of allocation and will serve as an additional performance criterion.

Remuneration report

Summary of remuneration for executive directors

The following table summarises the remuneration arrangements for executive directors. Arrangements for specified executives are shown on page 51 and arrangements for non-executive directors are shown on pages 60 to 61.

	Mr JM Stewart	Mr A Fahour	Mr MJ Ullmer
Position	Director (executive) appointed August 11, 2003 Managing Director and Group Chief Executive – commenced February 2, 2004	Director (executive) commenced October 7, 2004 Chief Executive Officer, Australia – commenced September 1, 2004	Director (executive) commenced October 7, 2004 Director, Finance and Risk – commenced September 1, 2004
Term of employment agreement	3 years from February 2, 2004 May be extended for one further year by mutual agreement	4 years from September 1, 2004 May be extended for one further year by mutual agreement	4 years from September 1, 2004 May be extended for one further year by mutual agreement
Notice period	Employee – six months Company – six months notice plus 12 month termination payment	Employee – 13 weeks Company – 52 weeks	Employee – 13 weeks Company – 52 weeks
Total employment cost (TEC)	$2,250,000 (no increase) (TEC at September 30, 2005: $2,250,000)	$1,514,482 (no increase) (TEC at September 30, 2005: $1,514,482)	$1,060,000, an increase of $49,978 (5%) (TEC at September 30, 2005: $1,010,022)
	■ TEC is reviewed annually in October, with the next review around October 2006. The increases above will be effective from January 12, 2006. A portion of TEC may be taken in the form of packaged benefits (such as a motor vehicle and parking), and is inclusive of fringe benefits tax and employer superannuation contributions [(1)].		
Short-term incentive	$1,402,500 in cash $1,402,500 in shares (represents 125% of 2005 target) Target STI – 100% of TEC	Nil in cash $2,880,000 in shares (represents 146% of 2005 target) Target STI – 130% of TEC	$640,500 in cash $640,500 in shares (represents 127% of 2005 target) Target STI – 100% of TEC
	■ STI remuneration is determined annually in accordance with the Group's STI plan. Refer to page 43 for details. The rewards above are in respect of performance for the period October 1, 2004 to September 30, 2005. The cash portion was paid in November 2005. The issue of the shares is subject to any required shareholder approval at the Company's annual general meeting to be held on January 30, 2006 and it is intended that the shares will be granted in February 2006.		
	■ Each year, the Board agrees or determines reasonable performance measures and targets for use in assessing each executive director's performance. After the end of each financial year, the Board reviews each executive director's performance by reference to these measures and targets. STI targets (as a percentage of TEC) are determined annually by the Board for the coming year. TEC is base remuneration inclusive of superannuation and benefits but excludes leave accrued not taken.		
	■ At least one-half of the STI remuneration must be provided in the form of Company shares (subject to any required shareholder approval). Shares are to be held in trust for each executive director under the terms of the National Australia Bank Staff Share Ownership Plan. While the shares are held in trust, the executive directors are entitled, through the trustee, to receive dividend payments and to exercise voting rights attaching to those shares. The shares may be forfeited in limited circumstances. The shares will be restricted from trading during the term of each executive director's employment agreement.		
Long-term incentive	Nil [(2)]	Performance options and performance rights (estimated financial value $2,272,000)	Performance options and performance rights (estimated financial value $1,272,000)
	■ The performance options and performance rights shown above are in respect of performance and potential assessments as at September 30, 2005. The granting of this LTI is subject to shareholder approval at the Company's annual general meeting to be held on January 30, 2006 and, if approved, the performance options and performance rights will be granted in February 2006.		
	■ The LTI component comprises each executive director's 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. Continued LTI allocations are not guaranteed, as they are subject to annual assessments.		
	■ On the cessation of each executive director's employment with the Company, the retention of any performance options and performance rights granted to them during their employment with the Company will be determined in accordance with the terms of grant under the respective plans.		
	■ The method used to value the performance options and performance rights, as prescribed by AASB 1046A "Director and Executive Disclosures by Disclosing Entities" is set out on page 57. *The performance hurdle is detailed on page 47 in the remuneration report which forms part of the report of the directors.*		
Other benefits	■ Executive directors are eligible to participate in other benefits that are normally provided to executives employed by the Company, subject to any overriding legislation prevailing at the time including the *Corporations Act* 2001 (Cth) and the United States *Sarbanes-Oxley Act of 2002*.		

(1) The Company 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 Company agrees to pay annual superannuation contributions to the National Australia Bank Group Superannuation Fund. Those contributions form part of Mr Stewart's annual fixed remuneration. 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 pay.

(2) Mr Stewart was offered an LTI allocation at the commencement of his three year employment agreement which was designed to cover his contract period, and to tie the value of any reward to the change in shareholder wealth over that agreement period. 900,000 performance options and 210,000 performance rights (combined estimated annualised value $0.917 million based on a grant date of January 31, 2005) were subsequently awarded in February 2005, following approval by shareholders at the January 31, 2005 annual general meeting. Should Mr Stewart resign before the end of his employment agreement on February 2, 2007, he will retain the performance options and performance rights on a pro-rated basis calculated from his appointment date of February 2, 2004 to the date of termination. Such performance options and performance rights will have two years from the date of his resignation to satisfy the performance conditions after which they will lapse if not exercised.

Specified executives' employment agreements

Remuneration and other terms of employment for specified executives are formalised in individual employment agreements. Each of these agreements provides for performance-related cash bonuses, fringe benefits plus other benefits, including participation where eligible, in performance option and performance rights plans, and termination benefits. Termination benefits are generally calculated as the Company notice period multiplied by fixed pay. Details of the term of employment and the fixed remuneration and STI arrangements for specified executives as at September 30, 2005 are set out below.

Name	Position	Term of agreement/contract and date commenced, if during the year	Annual TEC $ (1)	STI – % TEC (2)	Notice period – Employee	Notice period – Company (3)
Specified executives – current						
Cameron A Clyne	Executive General Manager, Group Development	No fixed term.	551,100	65%	13 weeks	52 weeks
Michael J Hamar	Group Chief Risk Officer	4 years with option of renewal for one further year by mutual agreement. Contract commenced November 29, 2004.	682,122	80%	13 weeks	26 weeks
John E Hooper	Executive General Manager, Institutional Markets & Services	No fixed term. Current contract commenced July 1, 2005.	750,000	130%	13 weeks	52 weeks
Lynne M Peacock (4)	Chief Executive Officer, United Kingdom (from October 28, 2004) Executive General Manager, People & Culture	No fixed term. Current contract commenced October 28, 2004.	GBP 525,000	100%	Three months	12 months
Peter L Thodey (4)	Chief Executive Officer, Bank of New Zealand	No fixed term.	NZD 630,000	100%	One month	One month
Specified executives – former						
Elizabeth C Hunter (5)	Executive General Manager, People & Culture	No fixed term. Commenced this position on October 28, 2004.	525,000	50%	13 weeks	52 weeks
Ian G MacDonald (5) (6)	Chief Information Officer	No fixed term.	731,100	100%	Four weeks	65 weeks
Ross E Pinney (5) (7)	Executive General Manager, Office of Chief Executive (from October 28, 2004) Chief Executive, Financial Services Europe	No fixed term. Current contract commenced October 28, 2004.	749,100	100%	13 weeks	78 weeks
Peter B Scott	Executive General Manager, Wealth Management	No fixed term. Contract ceased July 31, 2005.	771,000	100%	N/A	12 months
Gavin R Slater (5)	Group General Manager, Office of the CEO (to January 1, 2005)	No fixed term.	454,014	80%	Four weeks	65 weeks
Graeme D Willis (5) (8)	Group General Manager, Regulatory Affairs (from December 1, 2004) Acting Executive General Manager, Risk Management	No fixed term. Current contract commenced December 1, 2004.	501,100	50%	13 weeks	65 weeks

(1) TEC is base remuneration inclusive of superannuation, non-monetary benefits but excludes leave accrued not taken.

(2) Target STI as a percentage of TEC is subject to achievement of individual and Group performance goals and to passing the compliance and behavioural 'quality gates', with the target percentage (of fixed remuneration shown above) being earned for an 'on-target' performance. The actual outcome may be nil to 200% based on the performance framework. Refer to page 56 for STI as a percentage of fixed remuneration, which measures remuneration inclusive of superannuation, non-monetary benefits and leave accrued not taken.

(3) Termination benefits vary depending upon the circumstances of termination. Termination benefits shown are payable where the Company 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 in certain circumstances depending on the relevant program, including on termination for serious misconduct involving dishonesty, on resignation, on failure to meet compliance gates in the 12 months after allocation, on summary termination or on breach of the Company's Code of Conduct.

(4) For the purposes of this table, fixed pay is expressed in the currency agreed in the employment agreement. On average, A$1.00 bought GBP0.4141 and, A$1.00 bought NZD1.0847 for the year.

(5) Ms Hunter, Mr MacDonald, Mr Pinney and Mr Willis continued to hold positions with the Group at September 30, 2005 but ceased to act as specified executives on September 15, 2005 due to the changes made to the Group Executive Committee. Mr Slater continued to hold a position within the Group at September 30, 2005 but ceased to act as a specified executive on January 1, 2005 due to a change in employment position within the Group.

(6) In October 2005, the Group announced that Mr MacDonald would be leaving the Company's service in 2006.

(7) In September 2005, the Group announced that Mr Pinney would be leaving the Company's service in 2006.

(8) In November 2005, Mr Willis entered into a deed of settlement and release with the Company, which sets out the agreed settlement of the terms of the cessation of his employment with the Company on February 15, 2006 (refer 'shareholder information' page 274 in the annual financial report 2005).

Executive remuneration

The following tables shows details of the nature and amount of each element of the remuneration paid or payable with respect to services provided for the period as executive directors of the Company and specified executives of the Group during 2005. All executive directors and specified executives are paid in Australian dollars with the exception of Ms Peacock, who is paid in GBP (converted at a rate of A$1.00 = GBP 0.4141) and Mr Thodey who is paid in NZD (converted at a rate of A$1.00 = NZD 1.0847).

No performance options or performance rights have been granted to executive directors or specified executives since the end of 2005. No retirement benefits were paid or payable to executive directors or specified executives in 2005.

At least 50% of the value of bonus paid and payable to executive directors under STI rewards are paid in the form of Company shares. For the purposes of the remuneration tables below, all bonus entitlements are disclosed as primary benefits. *Separate disclosure of the nature of the STI rewards is disclosed in the following section 'Short-term and long-term incentive remuneration*'.

Executive director remuneration (current executive directors at September 30, 2005)

		Primary				Post-employment	Equity		Other		Total
		Cash salary fixed $	Leave accrued not taken (1) fixed $	STI bonus (2) at risk $	Non-monetary benefits (3) fixed $	Super-annuation fixed $	Shares (4) at risk $	Performance options and rights (5) at risk $	Termination benefits (6) fixed $	Other fixed $	$
A Fahour	**2005**	**1,491,447**	**126,207**	**2,880,000**	**4,718**	**12,624**	**984,191**	**416,149**	**-**	**-**	**5,915,336**
	2004	121,785	11,063	-	141	1,023	6,017,937	-	-	4,211,881	10,363,830
JM Stewart*	**2005**	**2,086,213**	**37,500**	**2,805,000**	**82,742**	**78,768**	**-**	**842,442**	**-**	**-**	**5,932,665**
	2004	1,528,172	142,255	1,445,000	28,261	70,301	-	2,060,964	-	-	5,274,953
MJ Ullmer	**2005**	**986,159**	**-**	**1,281,000**	**7,595**	**12,624**	**-**	**209,375**	**-**	**-**	**2,496,753**
	2004	80,311	7,375	-	633	1,023	-	-	-	-	89,342
Total	**2005**	**4,563,819**	**163,707**	**6,966,000**	**95,055**	**104,016**	**984,191**	**1,467,966**	**-**	**-**	**14,344,754**
Total	2004	2,407,917	160,693	1,445,000	36,375	76,299	6,017,937	2,290,587	6,618,595	4,211,881	23,265,284

* Included within Mr Stewart's remuneration for performance options and performance rights is an adjustment to reflect the valuation of 900,000 performance options and 210,000 performance rights using a fair valuation at the grant date of January 31, 2005, being the date of the 2005 annual general meeting. The valuation at January 31, 2004 revises the previous valuation estimated in 2004 at the 'promise' date of February 2, 2004. The revision to correct the fair valuation from promise date has reduced Mr Stewart's remuneration from performance options and performance rights. Excluding this, Mr Stewart's total 2005 remuneration would have been higher by $965,671.

Footnotes are disclosed below the executive remuneration table on page 53.

Mr A Fahour and Mr MJ Ullmer were appointed as executive directors on October 7, 2004 and, therefore, their remuneration for 2004 was reported as specified executive remuneration in 2004. The totals for 2004 have been reclassified as executive director remuneration above for comparability. Mr Fahour's and Mr Ullmer's remuneration for 2004 represents remuneration for the period from September 1, 2004 to September 30, 2004.

The table above discloses individuals who were specified executive directors in 2005. Therefore, Group totals in respect of 2004 do not equal the sum of the individuals disclosed as different individuals were specified in 2004. *Refer to page 60 for total remuneration for specified directors (executive and non-executive directors).*

Remuneration report

Executive remuneration (current and former specified executives at September 30, 2005)

		Primary				Post-employment	Equity		Other		Total
Current		Cash salary fixed $	Leave accrued not taken (1) fixed $	STI bonus (2) at risk $	Non-monetary benefits (3) fixed $	Superannuation fixed $	Shares (4) at risk $	Performance options and rights (5) at risk $	Termination benefits (6) fixed $	Other fixed $	$
CA Clyne	**2005**	**530,798**	**45,925**	**420,000**	**-**	**12,624**	**976**	**221,481**	**-**	**-**	**1,231,804**
	2004	74,217	6,732	-	-	1,808	-	-	-	-	82,757
MJ Hamar	**2005**	**481,626**	**28,209**	**493,323**	**28,391**	**62,818**	**269,571**	**70,892**	**-**	**-**	**1,434,830**
JE Hooper	**2005**	**739,929**	**18,750**	**1,141,000**	**5,245**	**87,968**	**81,338**	**297,702**	**-**	**-**	**2,371,932**
	2004	219,259	25,000	194,093	70,971	42,072	159,638	75,418	-	-	786,451
LM Peacock	**2005**	**1,242,525**	**34,003**	**1,775,312**	**47,708**	**2,070**	**976**	**561,624**	**-**	**-**	**3,664,218**
	2004	314,478	26,614	173,667	42,471	-	-	156,834	-	-	714,064
PL Thodey	**2005**	**537,766**	**29,040**	**726,958**	**24,098**	**-**	**976**	**945,217**	**-**	**-**	**2,264,055**
	2004	471,900	28,768	244,358	23,226	-	-	945,833	-	-	1,714,085
Former											
EC Hunter (7)	**2005**	**437,696**	**30,973**	**226,542**	**30,510**	**11,427**	**27,136**	**207,176**	**-**	**-**	**971,460**
IG MacDonald (7)	**2005**	**679,768**	**70,883**	**683,699**	**7,287**	**12,087**	**960**	**1,179,858**	**-**	**-**	**2,634,542**
	2004	694,465	113,099	-	6,338	12,015	-	1,421,448	-	-	2,247,365
RE Pinney (7)	**2005**	**654,936**	**59,860**	**700,959**	**100,944**	**77,039**	**960**	**759,938**	**1,033,241**	**-**	**3,387,877**
	2004	652,511	36,218	-	287,623	81,282	-	1,008,360	-	-	2,065,994
PB Scott (8)	**2005**	**230,727**	**-**	**250,575**	**3,958**	**31,116**	**26,737**	**419,154**	**1,076,398**	**-**	**2,038,665**
	2004	674,216	75,452	385,500	10,335	88,578	28,157	1,588,146	-	-	2,850,384
GR Slater (7)	**2005**	**85,496**	**5,733**	**127,072**	**6,222**	**8,685**	**86,192**	**38,027**	**-**	**-**	**357,427**
	2004	281,033	5,863	37,014	20,562	32,988	89,057	54,924	-	-	521,441
GD Willis (7)	**2005**	**429,793**	**17,351**	**210,822**	**34,717**	**12,087**	**120,247**	**338,445**	**-**	**-**	**1,163,462**
	2004	191,004	28,450	57,267	64,121	6,637	150,689	209,893	-	-	708,061
Total	**2005**	**6,051,060**	**340,727**	**6,756,262**	**289,080**	**317,921**	**616,069**	**5,039,514**	**2,109,639**	**-**	**21,520,272**
Total (9)	2004	6,780,952	498,514	1,229,899	577,717	353,371	427,541	10,678,953	6,761,890	-	27,308,837

(1) Annual leave and where applicable, long service and bank extended leave entitlements accrued but not taken during the year have been recognised as part of primary remuneration benefit.

(2) Reflects all short-term performance-based remuneration awarded in the year. Specified executives in Australia can nominate to be provided their up-to-target bonus in the form of cash, Company shares or additional superannuation or a combination of these. Above-target bonuses in excess of $300 are generally provided in Company shares only. For the purposes of the allocation above, the entire bonus has been included in Primary, bonus at risk.

(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 LTI amounts awarded as Commencement shares, shares received under a share ownership plan, or the value of deferred shares received as part of a LTI program. Mr Hamar received 13,388 Commencement shares on December 22, 2004 in connection with commencement of his employment as a specified executive. These shares vest over a period from July 1, 2005 to July 1, 2006 subject to performance conditions.

(5) Performance options and performance rights are issued as part of the Group's LTI program. Remuneration for former executives who continue to hold performance options and rights at September 30, 2005 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) Mr Pinney will leave the service of the Company in 2006. The termination benefit shown is payable in accordance with the terms of his agreement. Mr Scott left the service of the Group on July 31, 2005. No specified executives had post-employment benefits that required approval by members of the Company in accordance with the *Corporations Act* 2001 (Cth).

(7) Ms Hunter, Mr MacDonald, Mr Pinney, and Mr Willis continued to hold positions with the Group at September 30, 2005, but ceased to act as specified executives on September 15, 2005 due to the changes made to the Group Executive Committee. Remuneration disclosed above represents remuneration until September 15, 2005. Mr Slater continued to hold a position within the Group at September 30, 2005 but ceased to act as a specified executive on January 1, 2005 due to a change in employment position within the Group. Remuneration disclosed above represents remuneration until January 1, 2005.

(8) Mr Scott's remuneration as a specified executive is from October 1, 2004 to January 31, 2005.

(9) This is the total for specified executives disclosed in last year's annual financial report (adjusted to exclude Mr Fahour and Mr Ullmer who have been restated to executive directors in 2005). It differs from the sum of current specified executives' 2004 remuneration totals due to changes in executives during the year. The 2004 total includes remuneration paid to Mr Richard McKinnon during his employment as a specified executive of the Group. Mr McKinnon ceased as a specified executive on August 31, 2004 and, as a result, no amounts have been included in the remuneration totals above for 2005. On September 30, 2005, Mr McKinnon ceased employment with the Group and received a severance payment, accrued annual leave and long service leave payments and defined incentive payments totalling $3,440,348. These termination payments were made to Mr McKinnon in accordance with the deed of settlement and release that was disclosed in the Company's annual financial report 2004.

Remuneration report

2004 remuneration for certain specified executives represents remuneration for part of the 2004 financial year as follows: Mr Clyne (1.7 months); Mr Hooper (6.5 months); Ms Peacock (4.7 months); Mr Slater (5.9 months); Mr Willis (6.5 months).

In addition to remuneration benefits above, the Company paid a premium for a contract insuring all directors of the Company and specified executives of the Group as officers. It is not possible to allocate the benefit of this premium between individual directors or specified executives. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the premium paid under the contract.

The following table shows separately the full-year remuneration details of each of the five named Company executives (who may or may not be specified executives) and additional Group executives who received the highest remuneration for the year. Remuneration totals in the table below will differ from those disclosed above if the executive ceased their position as a specified executive during the year.

	Primary				Post-employment	Equity		Other		Total
	Cash salary fixed	Leave accrued not taken fixed	STI bonus at risk	Non-monetary benefits fixed	Super-annuation fixed	Shares at risk	Options and rights at risk	Termination benefits fixed	Other fixed	
	$	$	$	$	$	$	$	$	$	$
Company – current										
G Frazis	528,472	17,927	918,782	-	11,367	260,738	144,136	-	-	1,881,422
JE Hooper (1)	739,929	18,750	1,141,000	5,245	87,968	81,338	297,702	-	-	2,371,932
IG MacDonald (1)	708,936	72,120	713,000	7,595	12,624	976	1,229,135	-	-	2,744,386
RE Pinney (1)	683,744	62,425	731,000	101,252	78,674	976	792,382	1,033,241	-	3,483,694
SJ Tucker	534,646	50,092	857,244	3,897	70,545	976	369,141	-	-	1,886,541
Group – current										
LM Peacock	1,242,525	34,003	1,775,312	47,708	2,070	976	561,624	-	-	3,664,218
PL Thodey	537,766	27,225	726,958	24,098	-	976	945,217	-	-	2,262,240
Group – former										
PB Scott	319,947	-	250,575	9,125	74,274	26,737	1,163,539	1,076,398	-	2,920,595

(1) In addition to being Company executives Mr Hooper, Mr MacDonald and Mr Pinney are Group executives who received the highest remuneration for the year.

Remuneration report

Short-term and long-term incentive remuneration

Remuneration linked to Company performance

The following outlines percentage of total remuneration (executive directors' and specified executives' remuneration) linked to company performance in 2005.

	Remuneration not linked to Company performance (1)	Performance related remuneration					Total
		Cash-based	Equity-based				
		STI bonus (2)	Performance shares (3)	Performance options	Performance rights	Total	
	%	%	%	%	%	%	%
Executive directors							
A Fahour	28	-	65	3	4	72	100
JM Stewart	39	23	23	8	7	38	100
MJ Ullmer	40	26	26	4	4	34	100
Specified executives – current							
CA Clyne	48	29	5	8	10	23	100
MJ Hamar	42	34	19	2	3	24	100
JE Hooper	36	41	10	7	6	23	100
LM Peacock	36	33	15	7	9	31	100
PL Thodey	26	25	7	26	16	49	100
Specified executives – former							
EC Hunter	53	23	3	12	9	24	100
IG MacDonald	29	26	-	30	15	45	100
RE Pinney	57	21	-	13	9	22	100
PB Scott	67	12	1	14	6	21	100
GR Slater	30	28	32	7	3	42	100
GD Willis	43	18	10	18	11	39	100

(1) Remuneration not linked to Company performance consists of all fixed remuneration, inclusive of cash salary, leave accrued not taken, non-monetary benefits, superannuation and termination benefits.

(2) Reflects all short-term performance-based remuneration awarded in the year that is to be paid in cash. Specified executives have nominated to be provided their up-to-target bonus in the form of cash or Company shares. The portion of short-term performance-based remuneration elected to be paid in Company shares has been included in the Equity based, Performance shares percentage.

(3) Performance shares as a percentage of total remuneration includes short-term performance-based remuneration awarded in the year in the form of Company shares plus any long-term Commencement or Recognition shares granted as part of remuneration during the year.

Percentage of target short-term incentive awarded during the year

The following table shows the percentage of each executive director's and specified executive's STI target that has been awarded in respect of their period as an executive director or specified executive for the year. A commencement date is shown where the STI award related to a partial year only (either due to the individual commencing employment with the Group or commencing as a specified executive position during the performance period):

				Short-term incentive awarded					
				Cash		Shares		Total cash and shares	
	Period as specified executive in 2005 (if not full year)	STI target as % of fixed remuneration (1)	STI awarded as % of fixed remuneration	2005 $	% of STI bonus	$	% of STI bonus	2005 $	2004 $
Executive directors									
A Fahour		120	176	-	-	2,880,000	100	2,880,000	-
JM Stewart		98	123	1,402,500	50	1,402,500	50	2,805,000	1,445,000
MJ Ullmer		100	127	640,500	50	640,500	50	1,281,000	-
Specified executives – current									
CA Clyne		61	71	358,974	85	61,026	15	420,000	-
MJ Hamar	from Nov 29, 2004	91	82	493,323	100	-	-	493,323	-
JE Hooper		114	134	975,214	85	165,786	15	1,141,000	194,093
LM Peacock		92	134	1,213,889	68	561,423	32	1,775,312	173,667
PL Thodey		97	123	573,537	79	153,421	21	726,958	244,358
Specified executives – former									
EC Hunter (2)	Oct 28, 2004 to Sep 15, 2005	45	44	226,542	100	-	-	226,542	-
IG MacDonald	to Sep 15, 2005	91	89	683,699	100	-	-	683,699	-
RE Pinney	to Sep 15, 2005	37	36	700,959	100	-	-	700,959	-
PB Scott	to Jan 31, 2005	19	19	250,575	-	-	-	250,575	385,500
GR Slater	to Jan 1, 2005	92	120	98,912	78	28,160	22	127,072	37,014
GD Willis	to Sep 15, 2005	49	43	210,822	100	-	-	210,822	57,267

(1) For the purposes of this calculation, fixed remuneration includes cash salary, annual leave accrued not taken, non-monetary benefits, superannuation and termination benefits. STI target as a percentage of fixed remuneration differs from STI target as a percentage of TEC, as described on page 51 as TEC excludes annual leave accrued not taken.

(2) Included within Ms Hunter's cash short-term incentive is an amount of $23,225 paid in the form of superannuation. The component paid in superannuation represents 10% of the short-term incentive paid to Ms Hunter as a specified executive.

Remuneration report

Range of potential short-term and long-term incentive payments

The following table shows the composition and aggregate minimum and maximum values of STI and LTI payments earned as part of remuneration as executive directors or specified executives for 2005:

	Short-term incentives					Long-term incentives	
	Paid %	Forfeited %	Deferred (1) %	Minimum deferred value $	Maximum deferred value $	Minimum value (all deferred) $	Maximum value (all deferred) $
Executive directors							
A Fahour	-	-	100	-	2,880,000	-	1,400,340
JM Stewart	50	-	50	-	1,402,500	-	842,442
MJ Ullmer	50	-	50	-	640,500	-	209,375
Specified executives – current							
CA Clyne	85	-	15	-	61,026	-	222,457
MJ Hamar	100	-	-	-	-	-	340,463
JE Hooper	85	-	15	-	165,786	-	379,040
LM Peacock	68	-	32	-	561,423	-	562,600
PL Thodey	79	-	21	-	153,421	-	946,193
Specified executives – former							
EC Hunter	100	-	-	-	-	-	234,312
IG MacDonald	100	-	-	-	-	-	1,180,818
RE Pinney	100	-	-	-	-	-	760,898
PB Scott	100	-	-	-	-	-	445,891
GR Slater	78	-	22	-	28,160	-	124,219
GD Willis	100	-	-	-	-	-	458,692

(1) Deferred STI is provided in the form of Company shares, and are generally held in trust with restrictions on trading for a minimum of one year (or longer period) if nominated by the employee. Various forfeiture conditions apply as set out in 'deferral of STI rewards'

Fair value basis used to determine equity remuneration

The disclosure of the allocation of fair value of performance options and performance rights in the earlier 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 performance right.

Prior to October 1, 2002, the Company disclosed the fair value of performance options granted during the 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 remuneration 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 2005, are amounts related to unvested performance options granted in prior years that were disclosed as part of emoluments in the relevant prior years.

It should be noted, 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 were 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 remuneration 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 options or performance rights likely to vest. *For further details, refer to note 38 in the annual financial report 2005.*

Remuneration **report**

Value of performance options and performance rights granted

The following tables show the value of performance options and performance rights issued to executive directors and specified executives as part of their remuneration that were granted, exercised or lapsed during the year. Footnotes are disclosed below the performance rights table below. *Further details regarding performance options and performance rights, including grant information and movements in holdings over the year is provided in note 51 in the annual financial report 2005.*

	Number of performance options			Value of performance options		
	Granted No.	Exercised No.	Lapsed No.	Granted (1) $	Exercised (2) $	Lapsed (3) $
Executive directors						
A Fahour	-	-	-	-	-	-
JM Stewart	900,000	-	-	1,386,000	-	-
MJ Ullmer	-	-	-	-	-	-
Specified executives – current						
CA Clyne	55,000	-	-	154,000	-	-
MJ Hamar	40,000	-	-	133,200	-	-
JE Hooper	70,000	-	-	196,000	-	-
LM Peacock	100,000	-	-	280,000	-	-
PL Thodey	100,000	100,000	-	280,000	661,000	-
Specified executives – former						
EC Hunter	42,000	-	-	117,600	-	-
IG MacDonald	46,000	-	-	128,800	-	-
RE Pinney	75,000	-	-	210,000	-	-
PB Scott	-	242,000	-	-	1,261,080	-
GR Slater	45,000	-	-	126,000	-	-
GD Willis	42,000	30,000	-	117,600	114,000	-

	Number of performance rights			Value of performance rights		
	Granted No.	Exercised No.	Lapsed No.	Granted (1) $	Exercised (2) $	Lapsed (3) $
Executive directors						
A Fahour	-	-	-	-	-	-
JM Stewart	210,000	-	-	1,547,700	-	-
MJ Ullmer	-	-	-	-	-	-
Specified executives – current						
CA Clyne	13,750	-	-	235,812	-	-
MJ Hamar	10,000	-	-	141,100	-	-
JE Hooper	17,500	-	-	300,125	-	-
LM Peacock	25,000	-	-	428,750	-	-
PL Thodey	25,000	-	-	428,750	-	-
Specified executives – former						
EC Hunter	10,500	-	-	180,075	-	-
IG MacDonald	11,500	-	-	197,225	-	-
RE Pinney	18,750	-	-	321,563	-	-
PB Scott	-	-	-	-	-	-
GR Slater	11,250	-	-	192,938	-	-
GD Willis	10,500	-	-	180,075	-	-

(1) Value of performance options and performance rights granted is determined as the fair value at grant date multiplied by the total number of performance options or performance rights granted. The value of performance options and performance rights disclosed above represents the full value over the vesting period, which is greater than one year.

(2) Value of performance options and performance rights exercised is determined as the difference between the market price at exercise date and the exercise price of the performance option or performance right.

(3) Value of performance options and performance rights lapsed is determined as the difference between the market price at lapse date and the exercise price of the performance option or performance right.

Remuneration report

Non-executive director remuneration

The following persons were non-executive directors of the Company at September 30, 2005:

Name	Position	Date commenced, if during year
MA Chaney	Director	December 6, 2004
	Chairman	September 28, 2005
PJB Duncan	Director	-
RG Elstone	Director	-
DT Gilbert	Director	-
PJ Rizzo	Director	-
JS Segal	Director	-
JG Thorn	Director	-
GA Tomlinson	Director	-
GM Williamson	Director	-

The following person resigned from his position as a non-executive director of the Company during the year ended September 30, 2005:

Name	Position	Date resigned
GA Kraehe	Director	September 27, 2005
	Chairman	September 27, 2005

Remuneration policy

The fees paid to non-executive directors on 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 by the Group to members of the Board, including fees paid for their involvement on Board committees, are kept within the total approved by shareholders from time to time. Shareholders approved a maximum fee pool of $3.5 million per annum 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 is provided in this form and a maximum of 40%). 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.

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 shares in the Company (to be held in trust until retirement).

All directors now have flexibility in relation to their remuneration, including the opportunity to set aside additional Company superannuation contributions.

The appointment letters for the non-executive directors set out the terms and conditions of their appointments. These terms and conditions are in conjunction with, and subject to, the Company's constitution and the charters and policies approved by the Board from time to time *(refer to the 'corporate governance' section on page 30)*.

Non-executive director remuneration (current and former non-executive directors at September 30, 2005)

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 2005 year. Total retirement benefits paid during the 2004 year relating to benefits accrued in current and prior years are set out in footnote (3) below. No performance options or performance rights have been granted to non-executive directors during or since the end of 2005.

		Primary			Post-employment		Equity		Other		Total
Non-executive directors		Cash salary and fees (1) fixed $	Bonus at risk $	Non-monetary benefits fixed $	Super-annuation (2) fixed $	Retirement benefits (3) fixed $	Shares (4) fixed $	Performance options and rights at risk $	Termination benefits fixed $	Other fixed $	$
Current (5)											
M A Chaney	**2005**	**116,665**	**-**	**-**	**11,491**	**-**	**11,250**	**-**	**-**	**-**	**139,406**
PJB Duncan	**2005**	**176,083**	**-**	**-**	**18,512**	**-**	**30,072**	**-**	**-**	**-**	**224,667**
	2004	154,598	-	-	13,913	11,385	27,971	-	-	-	207,867
RG Elstone	**2005**	**176,255**	**-**	**-**	**-**	**-**	**17,804**	**-**	**-**	**-**	**194,059**
	2004	12,224	-	-	-	-	1,246	-	-	-	13,470
DT Gilbert	**2005**	**147,218**	**-**	**-**	**15,903**	**-**	**29,750**	**-**	**-**	**-**	**192,871**
	2004	11,215	-	-	1,009	-	1,246	-	-	-	13,470
PJ Rizzo	**2005**	**200,135**	**-**	**-**	**-**	**-**	**19,000**	**-**	**-**	**-**	**219,135**
	2004	13,746	-	-	-	-	1,401	-	-	-	15,147
JS Segal	**2005**	**123,982**	**-**	**-**	**15,976**	**-**	**54,356**	**-**	**-**	**-**	**194,314**
	2004	8,868	-	-	798	-	985	-	-	-	10,651
JG Thorn	**2005**	**164,217**	**-**	**-**	**18,367**	**-**	**40,500**	**-**	**-**	**-**	**223,084**
	2004	143,843	-	-	12,946	-	26,750	-	-	-	183,539
GA Tomlinson	**2005**	**326,605**	**-**	**-**	**30,220**	**-**	**10,767**	**-**	**-**	**-**	**367,592**
	2004	208,313	-	-	18,576	33,074	79,356	-	-	-	339,319
GM Williamson	**2005**	**507,122**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**507,122**
	2004	212,610	-	-	-	-	-	-	-	-	212,610
Former											
GJ Kraehe	**2005**	**424,419**	**-**	**-**	**42,999**	**-**	**70,499**	**-**	**-**	**-**	**537,917**
	2004	284,017	-	-	25,562	27,369	67,883	-	-	-	404,831
Total	**2005**	**2,362,701**	**-**	**-**	**153,468**	**-**	**283,998**	**-**	**-**	**-**	**2,800,167**
Total (6)	2004	1,588,069	-	-	121,281	328,309	339,302	-	-	-	2,376,961
Specified directors											
Total (7)	**2005**	**7,090,227**	**6,966,000**	**95,055**	**257,484**	**-**	**1,268,189**	**1,467,966**	**-**	**-**	**17,144,921**
Total (6) (8)	2004	4,156,679	1,445,000	36,375	197,580	328,309	6,357,239	2,290,587	6,618,595	4,211,881	25,642,245

(1) Non-executive directors' remuneration represents fees in connection with their roles, duties and responsibilities as a non-executive director, and includes attendance at meetings of the Board, Board committees and boards of controlled entities and includes payments of $160,890 (2004: $109,219) to Mr Tomlinson and $362,230 (2004: $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 $14,412 (2004: $9,739) for Mr Tomlinson in respect of services performed as a non-executive director of controlled entity boards and committees. Mr Elstone and Mr Rizzo have elected to have their superannuation paid as cash remuneration.

(3) No 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 contractual entitlements. The value of accumulated retirement benefits which were provided to directors during 2004 in the form of shares was: 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 $5,135 (2004:$42,388) provided to Mr Tomlinson in respect of services performed as a non-executive director of controlled entity boards and committees.

(5) Mrs Patricia Cross and Mr T Kerry McDonald were appointed as non-executive directors of the Company in December 2005 and accordingly, had not received any remuneration with respect to their office as at September 30, 2005.

(6) Specified executives who commenced executive directorships during 2005 have been reclassified in the 2004 specified directors' total.

(7) Specified directors include all executive and non-executive directors of the Company.

(8) This is the total for non-executive directors and specified directors disclosed in last year's annual financial report and differs from the sum of current non-executive directors' 2004 remuneration totals due to changes in non-executive directors during the year.

Non-executive director fees

Fees are paid by the Group to non-executive members of the Board and include amounts paid for their involvement on Board committees. The following table shows details of the components of non-executive director remuneration paid in the form of Board and committee fees:

Board and committee remuneration

	Board $	Audit Committee $	Risk Committee $	Remuneration Committee $	Nomination Committee $	Meetings of controlled entities $	Non-recurring committees $	Total $
Current (1)								
MA Chaney	124,457	-	-	-	-	-	3,458	127,915
PJB Duncan	150,000	3,550	40,000	6,930	-	-	5,675	206,155
RG Elstone	150,000	-	20,000	-	-	8,036	-	178,036
DT Gilbert	150,000	20,000	-	-	-	-	6,968	176,968
PJ Rizzo	150,000	20,000	20,000	-	-	-	11,147	201,147
JS Segal	150,000	11,087	-	12,500	-	-	4,751	178,338
JG Thorn	150,000	40,000	-	12,500	-	-	2,217	204,717
GA Tomlinson	150,000	-	-	25,000	-	160,890	1,482	337,372
GM Williamson	144,892	-	-	-	-	362,230	-	507,122
Former								
GA Kraehe	480,326	-	-	-	-	-	14,593	494,919
Total	**1,799,675**	**94,637**	**80,000**	**56,930**	**-**	**531,156**	**50,291**	**2,612,689**

(1) Mrs Patricia Cross and Mr T Kerry McDonald were appointed as non-executive directors of the Company in December 2005, and accordingly no fees were paid to either in respect of their office as non-executive director as a September 30, 2005.

Included within the table above are fees paid by the Company of $2,250,459 and fees paid by controlled entities of $362,230. Fees above are paid either in cash or in the form of Company shares.

Report of the directors

The directors of National Australia Bank Limited (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, 2005.

Directors

The Board of directors (Board) has power to appoint persons as directors to fill any vacancies. Other than the Managing Director and Group Chief Executive 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 Michael A Chaney

AO, BSc, MBA, Hon. LLD Western Australia, FAIM, FAICD
Mr Chaney was appointed Chairman in September 2005 and has been a non-executive director since December 2004. He is the Chairman of the Nomination Committee.

Experience

22 years with Wesfarmers Limited, including Managing Director and Chief Executive Officer from 1993 until July 2005. Three years with investment bank Australian Industry Development Corporation, 1980 to 1983.

Directorships of listed entities within the last three years

Wesfarmers Limited from 1984 to July 2005, BHP Billiton Limited from May 1995 until November 2005, BHP Billiton Plc from June 2001 until November 2005 and Woodside Petroleum Ltd from November 2005.

Other directorships

Chairman of Gresham Partners Holdings Limited – director since 1985 and a director of the Centre for Independent Studies. He is President of the Business Council of Australia and Chairman of Australian Research Alliance for Children and Youth Limited. He is a Council Member of the Australian National Gallery, a member of the JP Morgan International Advisory Council and a Trustee of the Committee for the Economic Development of Australia.

Mrs Patricia A Cross

BSc (Hons), FAICD, FAIM
Mrs Cross was appointed as a non-executive director in December 2005. She is a member of the Nomination Committee.

Experience

25 years in international banking and finance, including management and senior executive roles in Europe, the United States and Australia with Chase Manhattan Bank, Banque Nationale de Paris and National Australia Bank. Mrs Cross is a Fellow of the Finance and Treasury Association and was a founding member of the Financial Sector Advisory Council to the Federal Treasurer serving for five years until 2003. In 2003, she received a Centenary Medal for service to Australian society through the finance industry.

Directorships of listed entities within the last three years

AMP Limited from August 2000 until February 2003. Director of Wesfarmers Limited since February 2003 and Qantas Airways Limited since January 2004.

Other directorships

Director of the Murdoch Childrens Research Institute.

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 Remuneration Committee (formerly Human Resources 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. Director of GasNet Australia Limited from October 2001 to September 2005 and Woodside Petroleum Limited from May 1999 to February 2002.

Other directorships

Chairman of Scania Australia Pty Limited and Director of Cranlana Foundation. President of the Australian German Association, CSIRO from June 2002 to September 2005 and Governor of Committee for Economic Development of Australia (CEDA).

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

25 years in financial and senior management roles and has been Managing Director and Chief Executive Officer of SFE Corporation Limited 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 management programs at the Harvard and Stanford business schools.

Directorships of listed entities within the last three years

Managing Director of SFE Corporation Limited since May 2000.

Other directorships

SFE Corporation Limited related entities, including the Sydney Futures Exchange, SFE Clearing Corporation and Austraclear Limited.

Report of the directors

Mr Ahmed Fahour

BEc (Hons), MBA, FAIM

Mr Fahour was appointed as Chief Executive Officer, Australia in September 2004 and an executive director in October 2004.

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 including Chief Executive Officer and Vice Chairman of Citigroup Investment Ltd. Previously Managing Director, iFormation Private Equity Group and a director of Boston Consulting Group from 1995 to 1999. He is an honorary Business Ambassador for Melbourne's North.

Other directorships

Rip Curl Group Pty Ltd.

Mr Daniel T Gilbert

AM, 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 Thomas (Kerry) McDonald

BCom, MCom (Hons), FID, FNZIM

Mr McDonald was appointed as a non-executive director in December 2005. He is a member of the Nomination Committee.

Experience

40 years in economic consulting, energy, resources, logistics and banking in Australia and New Zealand with a particular interest in organisation performance and improvement. He was a senior executive of Comalco from 1981 and a Managing Director and member of the Group Executive Committee from 1988 to 2000.

Directorships of listed entities within the last three years

Carter Holt Harvey Limited from April 1998 until December 2005. Chairman of Oceana Gold Limited since December 2003. Director of Owens Group Limited from April 2000 until October 2003.

Other directorships

Ports of Auckland Limited (delisted September 2005). Chairman of Bank of New Zealand and Advanced Dynamics NZ Ltd. Director of Gough Gough & Hamer Limited and Dux Industries Limited until November 2005. He is the New Zealand Chairman of the Australia – New Zealand Leadership Forum, Deputy Chairman of NZ Institute of Economic Research, a Life Member of the Australia New Zealand Business Council, on the National Council of the Institute of Directors and a member of the Governing Board of Antarctica New Zealand.

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 Ltd from 1966 to 1990.

Directorships of listed entities within the last three years

BlueScope Steel Limited since May 2002. Director of NM Rothschild Australia Holdings Ltd from 2001 to 2003.

Other directorships

Consultant director to Mallesons Stephen Jaques.

Ms Jillian S Segal

AM, BA, LLB, LLM (Harvard), FAICD

Ms Segal was appointed a non-executive director in September 2004. She is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Experience

Over 20 years as a lawyer and regulator, most recently at the Australian Securities and 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. 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 Group Chief Executive in February 2004 and has been an executive director since August 2003. He is a member of the Risk 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.

Report of the directors

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 Remuneration 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
Amcor Limited since December 2004, 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 Remuneration 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 director of Amcor Limited since March 1999 and Mirrabooka Investments Limited since February 1999. 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 Director, Finance and Risk in September 2004 and an executive director in October 2004.

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.

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 Chairman of National Australia Group Europe Limited and on the boards of the Company's main controlled entity boards in the UK.

Experience
48 years in banking and finance in the United Kingdom and the United States. He served with Barclays 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, Britannic Group PLC from October 2004 until September 2005, Deputy Chairman and Senior Independent Director Resolution PLC (formed from a merger of Britannic Group PLC and Resolution Life Group Limited) since September 2005, director Securicor PLC from April 2004 until May 2004 and director of Group 4 Securicor PLC (formed from a merger of Securicor PLC and Group 4 Falk) since May 2004.

Other directorships
Director of JP Morgan Cazenove Holdings since April 2005.

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

Mr Garry F Nolan
MBus, FCIS, FAIBF, FAICD, 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, GDip App Fin, 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. He has senior management experience in corporate finance, corporate governance and financial planning.

Board changes
Mr Michael A Chaney was appointed to the Board as a non-executive director on December 6, 2004 and was appointed Chairman in September 2005. The Company has announced that Mrs Patricia A Cross and Mr Thomas (Kerry) McDonald would be appointed as non-executive directors on December 1, 2005.
Mr Graham J Kraehe resigned as Chairman and non-executive director on September 27, 2005.

Report of the directors

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 certain non-executive directors of related bodies corporate of the Company.

The Company has, under deeds of settlement and release, agreed to release a former officer, Mr Peter B Scott, and agreed to release and indemnify an officer, Mr Graeme D Willis (who will cease employment with the Company on February 15, 2006), in respect of all actions, claims and costs which the Company has or may otherwise have arising out of their respective employment or termination of employment.

For more detailed summaries of the deeds of settlement and release, refer to pages 271 to 274 in the annual financial report 2005.

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

Summary of financial performance

		Group	
	2005	2004	2003
	$m	$m	$m
Net profit attributable to members of the Company	**4,132**	3,177	3,955
Adjust for significant items:			
Significant revenue	**(2,493)**	(993)	-
Significant expenses	**2,209**	1,675	-
Attributable income tax benefit	**(87)**	(298)	-
Significant items after tax	**(371)**	384	-
Net profit attributable to members of the Company before significant items	**3,761**	3,561	3,955
Net profit attributable to members of the Company	**4,132**	3,177	3,955
Adjust for:			
Distributions on other equity instruments	**(204)**	(187)	(183)
Significant items after tax	**(371)**	384	-
Movement in the excess of net market value over net assets of life insurance controlled entities	**(335)**	137	160
Attributable income tax (benefit)/expense	**(10)**	(153)	40
Amortisation of goodwill	**98**	103	98
Cash earnings before significant items	**3,310**	3,461	4,070

Report of the directors

Year ended September 30, 2005 compared with year ended September 30, 2004

Net profit attributable to members of the Company of $4,132 million in 2005, increased $955 million or 30.1% compared with 2004. Net profit of $4,742 million in 2005, increased $1,191 million or 33.5% compared with 2004.

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

- net profit of $1,043 million on the sale of Northern Bank Limited and National Irish Bank Limited (Irish Banks) on February 28, 2005;
- restructuring costs of $606 million;
- provision for settlement of tax dispute on TrUEPrS^{SM} of $97 million;
- reversal of a provision in relation to foreign currency options trading losses, of $24 million; and
- reversal of prior year restructuring provisions of $7 million.

The 2004 result included $384 million (after tax) of net significant expenses.

Net profit attributable to members of the Company before significant items of $3,761 million in 2005, increased $200 million or 5.6% compared with 2004. Cash earnings (before significant items) of $3,310 million in 2005, decreased $151 million or 4.4% compared with 2004.

Net interest income of $7,082 million in 2005, was $109 million or 1.5% lower than 2004. This result reflects the loss of net interest income from the sale of the Irish Banks and a decrease in the net interest margin from 2.35% to 2.20%, partly offset by growth in housing lending and improved business lending. The fall in margin largely resulted from the continued strong growth in lower margin mortgages and fixed rate lending within the retail banking business in all regions, as well as a reduction in contribution from the Markets division of Institutional Markets & Services, reflecting a flat yield curve environment.

Net life insurance income increased by $660 million from $1,012 million in 2004 to $1,672 million in 2005. This was driven by an increase in investment earnings resulting from the continued strong performance in global equity markets and favourable claims experience, partly offset by a decrease in premium revenue and an increase in policy liabilities.

Other banking and financial services income of $5,102 million in 2005, was $271 million or 5.6% higher than 2004. This outcome reflects:

- profit from the sale of UK property transactions in September 2005;
- growth in loan fees from banking, reflecting bill fee growth in Australia and the impact of growth from introduction of third party distribution channels and expansion of the integrated financial solutions centres in the UK;
- growth in trading income reflecting an improved trading environment, resulting in increased activity in foreign exchange and interest rate derivatives;
- growth in fees and commissions reflecting higher activity in the master custody and cards businesses;
- growth in other income relating to transitional service income from Danske Bank A/S connected to the sale of the Irish Banks;
- growth in management fee income in wealth management products, partly offset by:
- lower dividend income following the sale of investments in 2004; and
- the impact of the sale of the UK custodian business to the Bank of New York in September 2004.

The movement in the excess of net market value over net assets of life insurance controlled entities was a profit of $335 million in 2005, an increase of $472 million as compared to a loss of $137 million in 2004. This has been impacted by the effect of assumption and experience changes underlying the valuation.

Personnel, occupancy-related and general expenses of $7,304 million in 2005, were $492 million or 7.2% higher than 2004. This outcome reflects:

- growth in personnel expenses (excluding superannuation) reflecting higher annual salaries net of a reduction in average staff numbers, and higher performance-based remuneration in the 2005 year;
- higher superannuation expenses due to a superannuation contribution holiday in Australia reducing the prior year superannuation expense;
- higher occupancy-related costs as a result of annual rent increases and the full occupation of the second Docklands building in Melbourne;
- costs of $56 million associated with the Northern Bank Limited robbery in December 2004;
- costs of $49 million awarded against the Group associated with the outcome of a legal action in South Korea;
- growth in general expenses relating to the provision of transitional services to Danske Bank A/S connected to the sale of the Irish Banks; and
- an increase in non-lending losses, primarily reflecting costs associated with customer overcharging for the Choice package, BAD tax and fixed rate interest-only loans.

The charge to provide for doubtful debts of $534 million in 2005, was $25 million or 4.5% lower than 2004, due to reduced statistical provision charges arising from the exiting of low-yielding assets in Institutional Markets & Services, partly offset by strong volume growth.

Income tax expense relating to ordinary activities of $1,797 million in 2005, was $607 million or 51.0% higher than 2004, reflecting higher profits before tax and increased tax expense attributable to the statutory funds of the life insurance business. In addition, in 2005, income tax expense has been impacted by a one-off tax benefit of $289 million in relation to the non-assessable profit on the sale of the Irish Banks and non-assessable income of $110 million relating to wealth management revaluation income. This was partly offset by the significant income tax item in respect of the provision for the settlement of a tax dispute with the Australian Taxation Office of $97 million in respect of the TrUEPrS^{SM} tax matter. Income tax expense is also impacted by wealth management products and international activities, to which a wide range of tax rates are applied.

Year ended September 30, 2004 compared with year ended September 30, 2003

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.

Report of the directors

The 2004 year result included the following after-tax significant items:

- 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 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. Cash earnings (before significant items) of $3,461 million in 2004, decreased $609 million or 15.0% 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 Institutional Markets & Services.

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 reflected:

- 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 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 election to consolidate under the Australian tax consolidation regime.

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

- 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 Capital Accord and International Financial Reporting Standards;
- higher occupancy-related 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
- $26 million write-off of development work associated with the Integrated Systems Implementation program.

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 was 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 was 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.

Summary of financial position

		Group	
	2005	**2004**	**2003**
	$m	**$m**	**$m**
Assets			
Cash and liquid assets	**8,430**	8,080	8,405
Due from other financial institutions	**15,477**	23,494	29,234
Due from customers on acceptances	**27,627**	16,344	19,562
Trading derivatives	**13,959**	17,939	23,644
Trading, available for sale and investment securities	**27,280**	40,371	38,884
Life insurance business investments	**50,500**	41,013	35,846
Loans and advances	**260,053**	247,836	225,735
All other assets	**16,262**	16,232	16,161
Total assets	**419,588**	411,309	397,471
Liabilities			
Due to other financial institutions	**36,322**	43,768	55,241
Liability on acceptances	**27,627**	16,344	19,562
Trading derivatives	**12,407**	16,150	21,479
Deposits and other borrowings	**209,079**	219,028	198,483
Life insurance policy liabilities	**42,123**	36,134	32,457
Bonds, notes and subordinated debt	**39,238**	32,573	24,257
Other debt issues	**1,559**	1,612	1,743
All other liabilities	**16,953**	15,934	17,038
Total liabilities	**385,308**	381,543	370,260
Total equity	**34,280**	29,766	27,211
Total liabilities and equity	**419,588**	411,309	397,471

Report of the directors

September 30, 2005 compared with September 30, 2004

Total assets at September 30, 2005 increased to $419,588 million from $411,309 million at September 30, 2004. The sale of the Irish Banks on February 28, 2005 removed $16,374 million from the September 30, 2004 statement of financial position. Excluding this and the impact of exchange rate movements, total assets (in Australian dollar terms) grew $34,796 million or 9.0% during the year.

Excluding the Irish Banks, the growth in total assets was primarily driven by the growth in loans and advances, due from customers on acceptances, and life insurance business investments. This was partly offset by declines in due from other financial institutions, trading derivatives, trading securities, available for sale securities and investment securities.

Net loans and advances (excluding the impact of the sale of the Irish Banks) increased $25,299 million or 10.8% to $260,053 million at September 30, 2005. This increase primarily reflects strong growth in housing lending across all regions and solid business term lending growth, particularly in Australia.

Due from customers on acceptances increased $11,283 million or 69.0% from $16,344 million at September 30, 2004 to $27,627 million at September 30, 2005, and are offset by a corresponding increase in liabilities from acceptances. Excluding the impact of the buy-back of the Company's accepted bills, volumes have grown 15.1% from September 30, 2004. Bill acceptances continue to be a preferred product for business customers as a result of favourable pricing arrangements and flexibility.

Investments relating to life insurance business increased by $9,487 million or 23.1% to $50,500 million at September 30, 2005; however, this was largely offset by an increase in life insurance policy liabilities, which increased $5,989 million or 16.6% to $42,123 million at September 30, 2005. This growth resulted from continued strong market conditions increasing asset values.

Amounts due from other financial institutions decreased by $6,858 million or 30.7% (excluding the impact of the sale of the Irish Banks) to $15,477 million at September 30, 2005. This was driven by a reduction in reverse repurchase agreements, as well as certificate of deposits and loans held, following the Group's strategic decision to release capital invested in low-yielding assets in the Institutional Markets & Services business.

Marketable debt securities (trading securities, available for sale securities and investment securities) decreased $13,091 million or 32.4% to $27,280 million at September 30, 2005. The decrease in these securities follows the Group's strategic decision to release capital invested in low yielding assets so as to improve returns in the Institutional Markets & Services business.

Trading derivative assets decreased by $3,980 million or 22.2% to $13,959 million; however, this was offset by a decrease in trading derivative liabilities, which decreased $3,743 million or 23.2% to $12,407 million.

Total liabilities at September 30, 2005 increased to $385,308 million from $381,543 million at September 30, 2004. The sale of the Irish Banks on February 28, 2005, removed $15,272 million from the September 30, 2004 statement of financial position. Excluding this and the impact of exchange rate movements, total liabilities (in Australian dollar terms) grew $27,177 million or 7.6% during the year.

The growth in total liabilities was primarily driven by the growth in liability on acceptances (refer above), life insurance policy liabilities (refer above), and bonds, notes and subordinated debt. This offset declines in due to other financial institutions and trading derivatives (refer above).

Bonds, notes and subordinated debt increased by $6,665 million or 20.5% to $39,238 million at September 30, 2005. The Group has a number of funding programs available, and the increase reflects further issues of the Group's Euro and Domestic medium-term notes programs undertaken to fund asset growth and re-finance of maturing short-term and long-term debt. The increase also reflects the Group's current strategy of lengthening the maturity profile of the Group's debt issues.

Due to other financial institutions (excluding the impact of the Irish Banks sale) declined $5,672 million or 13.5% to $36,322 million at September 30, 2005. This decrease was driven by a reduction in repurchase agreements activity and deposits held, and is consistent with the Group's strategic decision to release capital invested in low yielding assets in the Institutional Markets & Services business, which has reduced funding requirements.

Total equity in the Group increased from $29,766 million at September 30, 2004 to $34,280 million at September 30, 2005. Total parent entity interest in equity increased by $2,156 million from $25,900 million at September 30, 2004 to $28,056 million at September 30, 2005. This reflects an increase in contributed equity of $1,295 million to $11,486 million, primarily reflecting the US$800 million ($1,014 million net of costs) issue of Trust Preferred Securities II on March 23, 2005. The movement in total equity also included an increase in retained profits of $1,388 million to $15,903 million, and an increase in outside equity interest of $2,358 million following consolidation of additional trusts and growth in life insurance assets reflecting continued strong market conditions.

September 30, 2004 compared with September 30, 2003

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 and investments relating to the life insurance business, which offsets declines in due from other financial institutions, due from customers on acceptances and trading derivatives.

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. This increase primarily reflects strong growth in housing lending across all regions and solid other term lending growth.

Investments relating to life insurance business increased by $5,167 million or 14.4% to $41,013 million at September 30, 2004; however, this was largely offset by an increase in life insurance policy liabilities, which increased $3,677 million or 11.3% to $36,134 million at September 30, 2004. This growth resulted from the consolidation of certain managed investment schemes and improved market conditions increasing asset values.

Report of the directors

The $5,740 million decrease in due from other financial institutions primarily reflected the reduction in activity in reverse repurchase agreements.

Due from customers on acceptances decreased $3,218 million or 16.5% to $16,344 million at September 30, 2004, and was offset by a corresponding decrease in liabilities on acceptances. This decrease reflected the impact of the buy-back of the Company's accepted bills.

Trading derivative assets decreased by $5,705 million or 24.1% to $17,939 million; however, this was offset by a decrease in trading derivative liabilities, which decreased $5,329 million or 24.8% to $16,150 million.

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 (refer above) and trading derivatives (refer above).

Deposits and other borrowings increased by $20,545 million or 10.4% to $219,028 million at September 30, 2004, compared with $198,483 million at September 30, 2003. The increase primarily related 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 reflected an increase in the issue of Euro and subordinated medium-term notes, as a result of the Group's increased capital requirements.

The $11,473 million decrease in due to other financial institutions primarily reflected the reduction in activity in repurchase agreements and lower funding 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. This reflected an increase in contributed equity of $463 million to $10,191 million (2003: $9,728 million), reflecting ordinary 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. 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 following consolidation of the registered schemes of the Group's life insurance statutory funds.

Dividends

The directors have declared a final dividend of 83 cents per fully paid ordinary share, 80% franked, payable on December 19, 2005. The proposed payment amounts to approximately $1,304 million.

Dividends paid since the end of the previous financial year:

- the final dividend for the year ended September 30, 2004 of 83 cents per fully paid ordinary share, fully franked, paid on December 8, 2004. The payment amount was $1,289 million; and
- the interim dividend for the year ended September 30, 2005 of 83 cents per fully paid ordinary share, 80% franked, paid on July 13, 2005. The payment amount was $1,297 million.

Information on the dividends paid and declared to date is contained in note 7 in the annual financial report 2005.

The franked portion of these dividends carries 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

Sale of Northern Bank Limited and National Irish Bank Limited

The sale of Northern Bank Limited and National Irish Bank Limited (the Irish Banks) to Danske Bank A/S was completed on February 28, 2005, generating a profit on sale after all disposal costs, including taxation, of $1,043 million. Under the terms of the sale agreement, the Company has certain indemnification obligations and standard warranties that survive the completion of the sale. Transitional services are provided to Danske Bank A/S in respect of the Irish Banks to assist in the smooth transition of ownership of those businesses. Transitional services are provided at cost and are expected to be in place for up to 18 months from the date of sale.

Foreign currency options losses

In January 2004 the Company announced that it had identified losses relating to unauthorised trading in foreign currency options. The Company recognised the total losses of $360 million before tax during the year ended September 30, 2004.

In March 2004, the Australian Prudential Regulatory Authority (APRA) conducted a review of the Company's market trading activities. The review identified remedial actions required by the Company, and further requirements were imposed as follows:

- the Company would remain under close supervision by APRA until these actions were implemented;
- the Company's internal target total capital adequacy was to rise to 10%;
- the Company's approval to use an internal model to determine market risk capital was withdrawn; and
- the Company's currency options desk was to remain closed to corporate business and proprietary trading until substantial progress had been made to redress the issues raised by APRA in its report.

Significant progress has been made in addressing deficiencies in market risk systems, governance processes and organisational culture in accordance with the remedial actions specified by APRA.

Report of the directors

A key outcome was the re-opening in May 2005 of the foreign currency options trading desk. The Company is also progressing with remedial action leading to its internal model re-accreditation and reduction in capital adequacy levels.

Detailed resources are deployed on all of these initiatives and the Company anticipates that all APRA requirements will be completed in 2006.

Claim for compensation for foreign currency options trading losses

In September 2005, the Company issued letters of demand claiming compensation exceeding $539 million against ICAP plc and another broker in relation to the foreign currency options trading losses announced in January 2004.

The Company is seeking compensation for losses including foreign currency trading losses, additional capital expenses and loss of profit as a result of the disruption to foreign currency options trading services. The Company has also indicated its intention to seek exemplary damages against ICAP plc in any proceedings brought against that firm.

The Company has conducted a detailed forensic investigation over the course of more than a year in preparing its claims, and has also had regard to evidence gained during inquiries by APRA and Pricewaterhouse-Coopers.

The Company is confident it has a strong case to seek compensation from the parties involved in the foreign currency options trading losses. While the Company would prefer to resolve its claims against those parties by negotiation, it may be necessary for it to bring legal proceedings against them to enforce its rights.

Enforceable undertaking

On October 20, 2004, the Company announced that it provided ASIC with an enforceable undertaking relating to the foreign currency options trading losses that occurred in January 2004. Under the enforceable undertaking, the Company was obliged to review key systems and controls across businesses which operate under the primary Australian Financial Services Licence (AFSL) applicable to the Group's Australian banking business. In summary, the undertaking covered three main areas requiring reports on how the Group:

- identifies, records and informs ASIC of any breaches of the relevant AFSL;
- ensures that there are appropriate procedures relating to the role of responsible officers of the Group; and
- ensures that there are appropriate procedures relating to the role of representatives of the Group.

The reports have been submitted by the Company and audited by the Company's external auditors under the agreed terms of the enforceable undertaking with ASIC. The remedial actions noted by the external auditor will be completed in 2006.

In addition to the significant changes above, the following general developments occurred during the year:

- a program of work was undertaken to transform the Australia regional business. The re-alignment of the organisational structure was completed by March 2005, with Australian Banking and Wealth Management moving into a single, regional business centred around customers, products and services;
- there were 23 financial solutions centres opened in the South East of England during the year, with progress made to roll out the financial solutions concept into the markets in the north of England and Scotland. This is a two-year program to update all business banking centres and third party distribution; and
- a detailed review of the operating model for Institutional Markets & Services was undertaken during the year with consolidation of the Asian operations, including establishing a business hub in Hong Kong and the exit of activities in Seoul, Singapore, Tokyo and Malaysia. The non-core business operations were also exited in the Americas.

Events subsequent to balance date

The Group announced in November 2005 that it was undertaking a process to seek expressions of interest for its wholly owned fleet leasing and management business, Custom Fleet, which is a leading player in the vehicle fleet management and leasing industries in Australia and New Zealand. No firm decision has been made to sell the business and any decision will be made after conclusion of this process.

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 the opinion of the directors, disclosure of any further future developments would be likely to result in unreasonable prejudice to the interests of the Group.

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).

Environmental regulation

The Group has a key role, as a global provider of financial products and services, to contribute to environmental sustainability of communities in which it operates. The Group's commitment to environmental sustainability is outlined in its environmental policy at www.nabgroup.com and the Group's management of direct and indirect environmental impacts is outlined in the 2005 Corporate Social Responsibility Report.

The operations of the Group are not subject to any particular or significant environmental regulation under 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 financial report to the nearest million dollars, except where indicated.

Remuneration report

The remuneration report is set out on pages 40 to 61 and is incorporated by reference into and forms part of the report of the directors. Certain disclosures required by AASB 1046 "Director and Executive Disclosures by Disclosing Entities" have been made in the remuneration report. Pages 40 to 41 and pages 50 to 61 of the remuneration report have been audited as required.

Executive performance options and performance rights

Performance options and performance rights are granted by the Group 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). The executive share option plan was approved by shareholders by special resolution in January 1997 and again at the 2002 annual general meeting. *Refer to the remuneration report for a description of the key terms and conditions of performance option and performance right plans.*

All performance options that have not expired are detailed in note 38 in the annual financial report 2005. 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 by the Company during 2005 and since the end of the year over ordinary shares 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, 2005 (No.)	Lapsed during the period (3) (No.)	Granted since October 1, 2004 (No.)	Fair value as at grant date (4)
Performance options						
Dec 21, 2004	Sep 1, 2007 - Aug 31, 2009	$26.59	237,500	-	237,500	$790,875
Feb 7, 2005	Feb 7, 2008 - Feb 6, 2010	$29.93	5,492,778	460,601	5,953,379	$16,669,461
Feb 22, 2005 (5)	Feb 2, 2007 - Feb 1, 2009	$30.41	900,000	-	900,000	$1,386,000
Apr 18, 2005	Feb 7, 2008 - Feb 6, 2010	$28.90	155,000	-	155,000	$375,100
Apr 18, 2005	Feb 7, 2008 - Feb 6, 2010	$29.93	17,500	-	17,500	$49,000
Jul 8, 2005	Feb 7, 2008 - Feb 6, 2010	$30.40	220,375	-	220,375	$577,383
Jul 8, 2005	Feb 7, 2008 - Feb 6, 2010	$29.93	3,000	-	3,000	$8,400

Grant date	Exercise period (1)	Exercise price (2)	Held at September 30, 2005 (No.)	Lapsed during the period (3) (No.)	Granted since October 1, 2004 (No.)	Fair value as at grant date (4)
Performance rights						
Dec 21, 2004	Sep 1, 2007 - Aug 31, 2009	$1.00	59,450	-	59,450	$838,840
Feb 7, 2005	Feb 7, 2008 - Feb 6, 2010	$1.00	1,373,303	115,113	1,488,416	$26,047,280
Feb 22, 2005 (5)	Feb 2, 2007 - Feb 1, 2009	$1.00	210,000	-	210,000	$1,547,700
Apr 18, 2005	Feb 7, 2008 - Feb 6, 2010	$1.00	43,125	-	43,125	$710,700
Jul 8, 2005	Feb 7, 2008 - Feb 6, 2010	$1.00	55,844	-	55,844	$1,022,504

(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 performance option or performance right. Refer above and to note 38 in the annual financial report 2005 for further information.

(5) Approval of the granting of 900,000 performance options and 210,000 performance rights was sought and obtained at the 2004 annual general meeting held on January 31, 2005. The agreement date for these performance options and performance rights commenced on February 2, 2004 and the grant date was January 31, 2005.

Performance options and performance rights on issue and number exercised

There are currently 41,444,420 performance options and 4,634,848 performance rights which are exercisable, or may become exercisable in the future, under the respective plans.

There were 1,794,820 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 $43,170,463. There were 132,260 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 $3,356,879.

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 in the annual financial report 2005.

No person holding a performance option has or had, by virtue of the performance 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 attended by members of the Committee		Risk Committee meetings of the Company attended by members of the Committe	
Directors	Scheduled meetings attended	Scheduled meetings held	Unscheduled meetings attended [(1)]	Unscheduled meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held
MA Chaney [(5)]	8	8	2	2	-	-	-	-
PJB Duncan	11	11	2	2	4 [(4)]	4 [(4)]	12	12
RG Elstone [(6)]	11	11	2	2	-	-	12	12
A Fahour	11	11	1 [(1)]	2 [(1)]	-	-	-	-
DT Gilbert	11	11	2	2	11	12	-	-
GJ Kraehe	11	11	2	2	-	-	-	-
PJ Rizzo	11	11	2	2	12	12	12	12
JS Segal	11	11	2	2	10 [(4)]	10 [(4)]	-	-
JM Stewart	11	11	2	2	-	-	8	12
JG Thorn	11	11	2	2	12	12	-	-
GA Tomlinson	11	11	2	2	-	-	-	-
MJ Ullmer	11	11	2	2	-	-	-	-
GM Williamson	11	11	1 [(1)]	2 [(1)]	-	-	-	-

Footnotes for the above table are on page 73.

Report of the directors

Directors	Remuneration Committee meetings of the Company: Meetings attended	Remuneration Committee meetings of the Company: Meetings held	Nomination Committee meetings of the Company: Meetings attended	Nomination Committee meetings of the Company: Meetings held	Directors' meetings of controlled entities (2): Meetings attended	Directors' meetings of controlled entities (2): Meetings held	Additional meetings (3): Meetings attended
MA Chaney	-	-	2	2	4	4	8
PJB Duncan	1 (7)	2 (7)	3	3	6	6	3
RG Elstone	-	-	3	3	7	7	8
A Fahour	-	-	-	-	6	6	8
DT Gilbert	-	-	3	3	6	6	9
GJ Kraehe	-	-	3	3	7	7	34
PJ Rizzo	-	-	3	3	6	6	7
JS Segal	7	7	3	3	6	6	13
JM Stewart	-	-	-	-	6	6	15
JG Thorn	7	7	3	3	6	6	8
GA Tomlinson	7	7	3	3	39	40	3
MJ Ullmer	-	-	-	-	6	6	28
GM Williamson	-	-	2	3	43	45	4

(1) 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 views of the director are obtained.

(2) 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, 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.

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

(4) Mr Duncan resigned as a member of the Audit Committee after the Audit Committee meeting held on December 2, 2004. Mr Duncan attended three meetings as a member and one as a non-member. Ms Segal was appointed a member of the Audit Committee after the Audit Committee meeting held on March 10, 2005. Ms Segal attended five meetings as a non-member and five as a member.

(5) Mr Chaney was appointed to the Board on December 6, 2004.

(6) Mr Elstone was appointed to the board of National Wealth Management Holdings Limited and principal subsidiaries in July 2005 and resigned in November 2005.

(7) Mr Duncan was appointed to the Remuneration Committee on August 18, 2005.

Report of the directors

Directors' and executives' interests

The tables below show the interests of each director and executive 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 or senior executive held an interest in Trust Preferred Securities, Trust Preferred Securities II or exchangeable capital units of the Company.

Directors	Fully paid ordinary shares of the Company	Performance options over fully paid ordinary shares of the Company (1)	Performance rights over fully paid ordinary shares of the Company (1)	National Income Securities	Registered schemes
MA Chaney	20,853	-	-	-	-
PA Cross	8,294	-	-	-	-
PJB Duncan (2)	11,184	-	-	-	-
RG Elstone (2)	2,913	-	-	-	-
A Fahour	302,865	160,000	40,000	-	-
DT Gilbert (2)	6,997	-	-	1,253	-
T McDonald	-	-	-	-	-
PJ Rizzo (2)	2,845	-	-	-	-
JS Segal (2)	7,729	-	-	180	-
JM Stewart	27,373	1,175,000	278,750	-	-
JG Thorn (2)	4,607	-	-	-	-
GA Tomlinson (2)	36,478	-	-	500	-
MJ Ullmer	2,863	100,000	25,000	-	-
GM Williamson	5,196	-	-	-	-
Senior executives (3)					
CA Clyne	2,852	110,000	27,500	-	-
MJ Hamar	13,403	40,000	10,000	-	-
JE Hooper	14,173	175,000	30,000	-	-
EC Hunter	10,120	139,500	19,875	-	-
IG MacDonald	6,385	796,000	74,000	-	-
LM Peacock	16,911	250,000	62,500	-	-
RE Pinney	61,466	775,000	62,500	500	-
GR Slater	8,353	112,500	19,375	-	-
PL Thodey	4,761	587,500	71,875	-	-
GD Willis	26,648	199,500	26,125	-	-

(1) Exercise price, exercise period, expiry date and fair value of performance options and performance rights for those issued during the year are disclosed in note 51 in the annual financial report 2005.

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

(3) Senior executives in current employment with the Group as at September 30, 2005 where information on shareholdings is disclosed in note 51 in the annual financial report 2005.

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.

Past employment with external auditor

Ernst & Young has been the Company's external auditor since January 31, 2005. There is no person who has acted as an officer of the Group during the year who has previously been a partner at Ernst & Young when that firm conducted the Company's audit.

Non-audit services

Fees paid or due and payable to the external auditor, Ernst & Young, for non-audit services provided by the external auditor to the Group during the year to September 30, 2005 are set out in the table below:

	Group 2005 $'000
Audit-related fees (regulatory)	
APRA reporting (attestation in connection with the Company's Basel II accreditation program)	1,760
Regulatory audits/attestations for Wealth Management entities (in all regions)	420
APRA reporting (attestation relating to Prudential Standard APS 310)	385
National Custodian Services Auditing Guidance Statement (AGS) 1026 reports	287
UK regulatory audits/attestations	212
New Zealand regulatory audits/attestations	122
Other regulatory audits/attestations (in all regions)	81
Asia regulatory audits/attestations	77
Audit of the Company's Australian Financial Services Licence	36
Total audit-related fees (regulatory)	**3,380**
Audit-related fees (non-regulatory)	
Procedures with regards to internal controls relating to the requirements of section 404 of the United States *Sarbanes-Oxley Act of 2002*	1,957
Assurance services relating to the content of the Company's Basel II accreditation application to APRA	619
Agreed-upon procedures on results announcements	191
Provision of audit commentary on the Group's proposed accounting treatment for transactions	153
Procedures with regard to the reconciliation of half-year financials under Australian GAAP to US GAAP	67
Audit of employee benefit plans	37
Other (including procedures in relation to the Group's corporate social responsibility report)	13
Total audit-related fees (non-regulatory)	**3,037**
Tax fees	
Tax services to expatriate employees	1,532
Provision of standard tax compliance software to Wealth Management Australia	2
Total tax fees	**1,534**
All other fees	
Sub-lease of office space to BNZ on commercial terms	670
Attestation procedures regarding certain risk management functions as required by ASIC under the enforceable undertaking	648
Regulatory or compliance audits/attestations for Wealth Management entities (in all regions) unrelated to the audit or review of the Group's financial statements	383
Other regulatory audits/attestations (in all regions) unrelated to the audit or review of the Group's financial statements	32
Total all other fees	**1,733**
Total non-audit services fees	**9,684**

Fees exclude goods and services tax, value added tax or equivalent taxes.

Report of the directors

Ernst & Young issued several comfort letters to underwriters in connection with the Company's funding programs. The fees paid or due and payable to Ernst & Young for these services during the year to September 30, 2005 total approximately $1,361,000. These services are classified by the Audit Committee as audit services.

Ernst & Young 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 Ernst & Young for these services during the year to September 30, 2005 total approximately $1,932,000.

KPMG resigned as the Group's external auditor effective January 31, 2005. During the period October 1, 2004 to January 31, 2005, KPMG provided non-audit services to the Group for which KPMG was paid $807,000.

These services included regulatory audits and other reviews and assurances for reporting periods ended before, on or around September 30, 2004, and procedures in relation to the Group's 2004 corporate social responsibility report. The fees paid to KPMG include $297,000 for work performed by KPMG in connection with the transition to Ernst & Young as external auditor.

During the period October 1, 2004 to January 31, 2005, KPMG also provided audit and non-audit services to 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 to KPMG for these services total approximately $141,000.

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, 2005 by Ernst & Young, and during the period October 1, 2004 to January 31, 2005 by KPMG, 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 assessed each service, having regard to auditor independence requirements of applicable laws, rules and regulations, and concluded in respect of each non-audit service or type of non-audit service that the provision of that service or type of service would not impair the independence of Ernst & Young or KPMG (as the case may be).

A description of the Audit Committee's pre-approval policies and procedures is set out on page 35. Details of the services provided by Ernst & Young and KPMG to the Group during 2005 and the fees paid or due and payable for those services are set out in note 52 in the annual financial report 2005. A copy of Ernst & Young's independence declaration is set out on the following page.

ASIC relief – Ernst & Young Australia bank accounts

In connection with Ernst & Young becoming the Group's external auditor for the year to September 30, 2005, ASIC granted transitional relief to Ernst & Young from certain provisions of the *Corporations Act* 2001 (Cth). By virtue of Order 04/1168 dated September 30, 2004, ASIC granted Ernst & Young Australia and its partners relief from sections 324CF(1) and 324CF(2) of the *Corporations Act* 2001 (Cth) to permit the following relationships to continue during the period October 1, 2004 to November 30, 2004:

- a relationship that consists of one partner of Ernst & Young Australia owing an amount to the Company of more than $5,000 but less than $1,200,000 solely as a result of that partner also being a member of a certain other partnership, and where:
  - that partner is not engaged on the audit of the Company or a related body corporate of the Company, whether having actual carriage and control of the audit or not;
  - that partner is not involved in the management of the firm as a whole, does not undertake audits, and does not practise mainly in Melbourne; and
  - the indebtedness arose prior to July 31, 2004 upon ordinary commercial terms as to the rate of interest, the terms of repayment of principal and payment of interest, the security to be provided and otherwise; and
- a relationship that consists of Ernst & Young Australia maintaining one deposit account with the Company, where such account is at no time overdrawn (other than by reason of the imposition of fees and taxes ordinarily applied to accounts of that type).

The relief was granted on the following conditions:

- the existence of the relief and the terms of the Order must be summarised in the report of the directors of the Company for the half year ended March 31, 2005 and the year ended September 30, 2005, and in the report of the directors of any related body corporate of the Company that is required to lodge a financial report for either or both of those periods;
- the Company must report to ASIC within seven days of the occurrence of any event of default and any enforcement action taken in relation to the indebtedness of the one partner of Ernst & Young Australia referred to above;
- at intervals of not greater than two business days (and forthwith after expiry of the relief), Ernst & Young Australia must transfer the balance in the deposit account referred above to an account maintained by it with another Australian authorised deposit-taking institution; and
- within seven days after the signing of the audit report for the Company for the year ended September 30, 2005, the directors must report to ASIC whether or not, in the Audit Committee's opinion, the above conditions have been complied with, and Ernst & Young Australia must report to ASIC whether or not the conduct of its audit or the content of its audit report has been influenced by the relationships referred to in the Order, as described above.

Report of the directors

Auditor's Independence Declaration to the directors of National Australia Bank Limited

In relation to our audit of the financial report of National Australia Bank Limited ("National") for the financial year ended September 30, 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act* 2001 (Cth) (the "Act") or any applicable code of professional conduct, other than for one employee of Ernst & Young who inadvertently held an insignificant number of ordinary shares in the National whilst engaged in the audit and two instances where immaterial bank account balances belonging to unrelated third parties were held in the name of Ernst & Young which constitute contraventions of the auditor independence requirements of the Act.

In my opinion, due to the nature of these contraventions and the rectification steps which were promptly taken upon identification of these contraventions, these matters have not impaired our audit independence for the year ended September 30, 2005.

Ernst & Young

Ernst & Young

SJ Aldersley
Partner
December 1, 2005

Directors' signatures

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

Michael A Chaney
Chairman

John M Stewart
Managing Director and Group Chief Executive
December 1, 2005

Chief Financial Officer's report

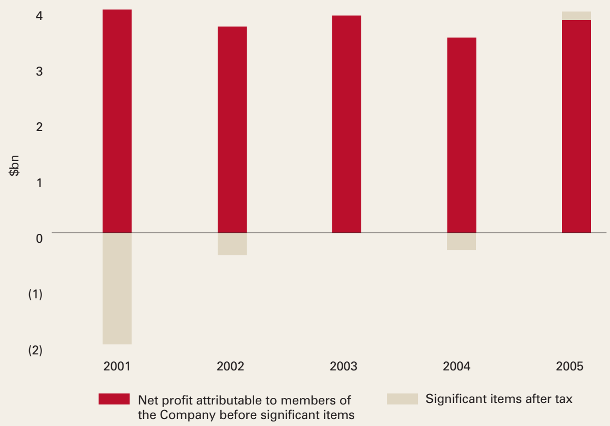
Michael Ullmer
Director, Finance & Risk

The 2005 year was one of stabilisation. Operating results bottomed in the first half and strong underlying revenue growth was a feature of the second half. This reflects improving business momentum with market share gains in all regions at acceptable margins. Asset quality was maintained and the Group is strongly capitalised.

During the year, the Group restructured its business model to management and accountability along regional lines. The charges associated with these activities are reflected as a significant item. A gain on disposal of the Group's Irish banking operations more than offsets the restructuring charges.

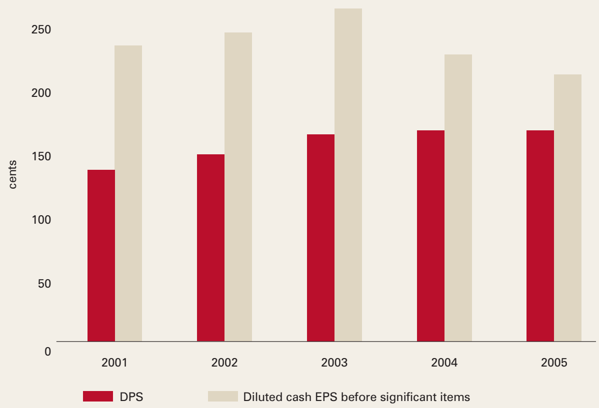
For the 12 months to 30 September 2005, net profit (after significant items) attributable to members of the Company increased 30.1% from the prior year to $4,132 million. Net profit attributable to members of the Company before significant items increased 5.6% to $3,761 million.

Net profit & significant items



Diluted earnings per share before significant items increased 2.2% to 225.2 cents from 220.4 cents. Diluted cash earnings per share before significant items decreased 7.0% to 210.1 cents from 226.0 cents. Cash earnings is defined in footnote (6) on page 81.

Diluted cash earnings per share before significant items & dividends per share



The final dividend declared in respect of the year ended 30 September 2005 was in line with the interim dividend at 83 cents per fully paid ordinary share, 80% franked. This brings the total of dividends declared in the year to 166 cents per share (80% franked).

Return on average equity before significant items decreased from 15.8% to 15.0%. Cash earnings on average equity before significant items decreased from 16.2% to 14.0%.

Income

Net interest income declined 1.5% in 2005. Net loans and advances grew 4.9% to $260 billion and deposits and other borrowings declined 4.5% to $209 billion. Average net interest margin fell from 2.35% in 2004 to 2.20%. The fall largely reflects the mix effect of growth in lower margin lending and disproportionate lending and retail deposit growth.

Non-interest income grew 15.9% reflecting higher income from life insurance businesses along with growth in trading income, loan fees from banking and fees and commissions.

Expenses

Before significant items expenses grew 7.2% to $7,304 million from $6,812 million. Expenses were unfavourably impacted by one-off items including the Northern Bank Limited robbery in December 2004, the outcome of a legal action in South Korea and non-lending losses primarily associated with customer overcharging in the Australian region. The Group has also continued its investment in rebuilding the Australian franchise and re-shaping the business.

Asset quality

Asset quality levels continue to remain sound. The proportion of gross non-accrual loans to gross loans and acceptances decreased from 0.46% to 0.35%.

The total charge to provide for doubtful debts (before significant items) was $534 million compared with $559 million in 2004.

Management of capital

Total regulatory capital represents 10.5% of risk-weighted assets. Tier 1 capital represents 7.9%.

During the year the Group's Tier 1 capital increased, and is above the Group's stated target range at 30 September 2005. Capital ratios were positively impacted as a consequence of a deliberate strategy to reduce low yielding assets, the significant gain on sale of the Irish banking operations and the growth in contributed equity as a result of the issue of Trust Preferred Securities II on 23 March 2005. Restructuring charges negatively impacted the capital ratios in the year.

The adjusted common equity ratio is 5.49% (2004: 5.30%), and reflects the capital available to support the banking operations after deducting the Group's investment in Wealth Management operations.

Credit ratings

There were no changes to the Group's credit ratings during the year.

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

Chief Financial Officer's report

Australian Equivalents to International Financial Reporting Standards (AIFRS)

The Group will adopt AIFRS for the financial year commencing 1 October 2005. The adoption of these standards does not affect the underlying economics of the business. However, it is expected to have a material effect on the way that the Group accounts for certain transactions that it undertakes and therefore on the Group's reported financial performance and position.

Further details of the impact of AIFRS on the Group can be found in the annual financial report 2005.

Divisional performance

The Group conducts banking and wealth management operations in Australia, various parts of Asia, the United Kingdom and New Zealand and provides debt financing, financial risk management and investor services and products to the Group's customers through its Institutional Markets & Services (IMS) business. IMS operates through an international network of offices and is responsible for relationship management of financial institutions on a global basis and selected corporate relationships:

- Total Australia's net profit* increased 12.5% to $2,620 million. An increase in net interest income of 4.8% reflects continued strong growth in business and housing lending and retail deposits, offset by a reduction in the net interest margin of 14 basis points. Non-interest income increased 42.2% primarily due to growth in Wealth Management life insurance revenue.

  Contributing to the expense increase of 32.7% were volume related life insurance costs, personnel and occupancy costs and significantly higher non-lending losses associated with refunds relating to customer overcharging.

- Total United Kingdom's ^ net profit* decreased 5.3% to $429 million. The result reflects a business that has been investing in key areas to turn around a period of declining profits. In local currency, revenues grew 6.8%. Strong lending and deposit growth was partly offset by declines due to a changing portfolio mix. Growth in non-interest income came from lending fees, commissions and profit from property transactions.

  Higher personnel and occupancy related expenses largely reflect investment in growth initiatives offset by benefits from restructuring.

- Total New Zealand's net profit* increased 9.1% to $324 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 costs and higher technology and compliance expenses. Asset quality remained stable.

- IMS net profit* increased 9.9% to $613 million. During the year considerable effort has been applied to remedial actions and an improved control framework as a result of the currency options incident in 2004. Management focus has returned to building a portfolio of businesses that will deliver sustainable client income streams and improved return on equity. Institutional Markets & Services has undergone significant rebasing of its businesses in Asia and the Americas and is transforming to a lower capital base business by reducing capital invested in low yielding risk weighted assets.

Franchise and brand re-investment

Franchise investment continued throughout the 2005 year with the following developments:

- Australia invested in the front line telling platform to enable better customer service, improved significantly the speed of decision making and introduced systems enabling bankers to quote and sell general insurance products at point of sale;
- United Kingdom continued to establish a network of Financial Solutions centres in the north of England and Scotland; and
- New Zealand continued to invest in sales and service training ranking best in customer service for a contact centre over 50 seats across all industries.

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.

Compliance costs and remedial action plans

Significant expenditure was incurred in all regions to achieve compliance with the requirements of AIFRS, Basel II and the US *Sarbanes-Oxley Act of 2002*. The Group is taking the opportunity to improve our capability and infrastructure beyond minimum regulatory requirements.

The Group continues to invest in programs to strengthen its operational risk management and control environments as well as refining a risk appetite framework and developing an economic capital allocation capability as required under Basel II.

Satisfactory 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 in 2004. A key outcome was the re-opening in May 2005 of the foreign currency options trading desk. Reaccreditation has yet to be achieved for use of the internal model for calculating risk-weighted assets in the markets division.

Outlook

The process to implement the operational changes required to stabilise the Group's performance is now largely complete. Focus will move to rebuilding the competitive position of each business and restoring the Group's profitability. The structural move that has been undertaken by the Group in 2005 towards a regional based model is expected to deliver ongoing efficiency and productivity enhancements, streamlined functions and ongoing cost reductions. Through these changes we aim to lay the foundation for future sustainable growth enabling us to deliver strong returns to our shareholders.

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

^ Ongoing United Kingdom activities excludes the contribution of the Irish banking operations which were sold on 28 February 2005

Selected financial data

For years ended 30 September	2005 (1) $m	2004 $m	2003 $m	2002 (2) $m	2001 (3) $m
Summary of financial performance					
Net interest income	**7,082**	7,191	7,419	7,222	6,960
Net life insurance income	**1,672**	1,012	444	(10)	128
Other banking and financial services income	**5,102**	4,831	5,010	7,006	4,749
Mortgage servicing and origination revenue	**-**	-	-	378	810
Movement in the excess of net market value over net assets of life insurance controlled entities	**335**	(137)	(160)	(155)	510
Significant revenue	**2,493**	993	-	2,671	5,314
Operating expenses	**(7,304)**	(6,812)	(6,354)	(8,707)	(6,470)
Amortisation of goodwill	**(98)**	(103)	(98)	(101)	(167)
Charge to provide for doubtful debts	**(534)**	(559)	(633)	(697)	(989)
Significant expenses	**(2,209)**	(1,675)	-	(3,266)	(6,866)
Profit from ordinary activities before income tax expense	**6,539**	4,741	5,628	4,341	3,979
Income tax expense relating to ordinary activities	**(1,797)**	(1,190)	(1,681)	(962)	(1,891)
Net profit	**4,742**	3,551	3,947	3,379	2,088
Net loss/(profit) attributable to outside equity interest – Life insurance business	**(610)**	(365)	16	(6)	(5)
Net profit attributable to outside equity interest – Other	**-**	(9)	(8)	-	-
Net profit attributable to members of the Company	**4,132**	3,177	3,955	3,373	2,083

(1) Includes amounts relating to National Europe Holdings (Ireland) Limited, the immediate parent of National Irish Bank Limited and Northern Bank Limited, to 28 February 2005. The Group sold this entity on 28 February 2005.

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

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

As at 30 September	2005 $m	2004 $m	2003 $m	2002 (1) $m	2001 $m
Summary of financial position					
Investments relating to life insurance business	**50,500**	41,013	35,846	31,012	31,381
Loans and advances (after provisions for doubtful debts)	**260,053**	247,836	225,735	212,929	197,827
Total assets	**419,588**	411,309	397,471	377,387	374,720
Total risk-weighted assets (2)	**289,833**	286,805	254,266	253,135	257,513
Deposits and other borrowings	**209,079**	219,028	198,483	199,325	187,850
Life insurance policy liabilities	**42,123**	36,134	32,457	30,425	30,257
Bonds, notes and subordinated debt	**39,238**	32,573	24,257	24,961	24,984
Perpetual floating rate notes	**328**	350	367	460	507
Exchangeable capital units	**1,231**	1,262	1,262	1,262	1,262
Net assets	**34,280**	29,766	27,211	23,251	23,557
Contributed equity	**11,486**	10,191	9,728	9,931	10,725
Ordinary shares	**7,552**	7,271	6,078	7,256	8,050
Equity instruments (3)	**3,934**	2,920	3,650	2,675	2,675
Total equity (excludes outside equity interest)	**28,056**	25,900	24,407	23,184	23,489

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

(2) The calculation to determine the market risk capital component of risk-weighted assets at 30 September 2005 and 30 September 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.

(3) Equity instruments comprise preference shares, National Income Securities, Trust Preferred Securities and Trust Preferred Securities II.

Selected financial data

	2005 (1) $m	2004 $m	2003 $m	2002 (2) $m	2001 (3) $m
Shareholder information					
Earnings per share (4)					
Basic	**2.52**	1.97	2.49	2.06	1.22
Diluted (5)	**2.48**	1.96	2.44	2.03	1.21
Earnings per share before significant items (4)					
Basic	**2.28**	2.23	2.49	2.32	2.47
Diluted (5)	**2.25**	2.20	2.44	2.27	2.43
Cash earnings per share (6)					
Basic	**2.36**	2.03	2.69	2.22	1.11
Diluted	**2.33**	2.02	2.62	2.18	1.11
Cash earnings per share before significant items (6)					
Basic	**2.12**	2.29	2.69	2.48	2.37
Diluted	**2.10**	2.26	2.62	2.43	2.33
Dividends per share (7)	**1.66**	1.66	1.63	1.47	1.35
Dividends per American depositary share (ADS) (7)	**8.30**	8.30	8.15	7.35	6.75
Dividend payout ratio (%) (7)	**78.19**	72.14	56.46	56.62	56.13
Selected financial ratios (%)					
Average equity (ordinary shareholder funds) to average total assets (excluding statutory funds)	**6.2**	5.8	5.7	6.3	6.4
Return on average assets	**0.9**	0.7	1.0	0.9	0.5
Return on average equity (ordinary shareholder funds)	**16.6**	14.0	18.3	15.1	9.0
Average net interest spread	**1.71**	1.94	2.18	2.39	2.34
Average net interest margin	**2.20**	2.35	2.53	2.67	2.71
Gross non-accrual loans to gross loans and acceptances	**0.35**	0.46	0.65	0.76	0.87
Total provisions for doubtful debts to gross impaired assets	**235.8**	198.1	138.0	141.5	143.5
Capital – risk asset ratios					
Tier 1	**7.9**	7.3	7.7	7.6	7.5
Total	**10.5**	10.6	9.6	10.0	10.2
Other information (number)					
Total staff					
Full-time and part-time	**40,689**	47,025	45,206	46,642	49,710
Full-time equivalent (8)	**38,933**	43,517	42,540	43,202	47,597

(1) Includes amounts relating to National Europe Holdings (Ireland) Limited, the immediate parent of National Irish Bank Limited and Northern Bank Limited, to 28 February 2005. The Group sold this entity on 28 February 2005.
(2) Includes amounts relating to operating assets and operating platform of HomeSide US to 28 February 2002, sold on 1 March 2002, and SR Investment, Inc. (the parent entity of HomeSide US) to 30 September 2002, sold on 1 October 2002.
(3) Includes amounts relating to Michigan National Corporation and its controlled entities to 31 March 2001. The Group sold this entity on 1 April 2001.
(4) Refer to notes 8 and 56 in the annual financial report 2005 for an explanation of earnings per share.
(5) The 2001 dilutive calculations have been restated to exclude certain anti-dilutive potential ordinary shares that were previously included, in order to comply with Australian Accounting Standard AASB 1027 “Earnings per share”.
(6) 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.
(7) 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. Dividends and book value per ordinary share and per American depositary share (ADS) calculations are based on year-end fully paid equivalent ordinary shares, adjusted for loans and rights issues as appropriate. Dividend payout ratio is the dividend amounts for a year by cash earnings before significant items.
(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 30 September	2005 $m	Group 2004 $m	2003 $m
Interest income	**20,872**	18,650	17,022
Interest expense	**(13,790)**	(11,459)	(9,603)
Net interest income	**7,082**	7,191	7,419
Premium and related revenue	**906**	1,005	949
Investment revenue	**7,698**	4,842	2,759
Claims expense	**(590)**	(702)	(958)
Change in policy liabilities	**(5,570)**	(3,368)	(1,518)
Policy acquisition and maintenance expense	**(739)**	(723)	(713)
Investment management fees	**(33)**	(42)	(75)
Net life insurance income	**1,672**	1,012	444
Other banking and financial services income	**5,102**	4,831	5,010
Movement in the excess of net market value over net assets of life insurance controlled entities	**335**	(137)	(160)
Significant revenue			
Proceeds from the sale of controlled entities	**2,493**	-	-
Proceeds from the sale of strategic shareholdings	**-**	993	-
Personnel expenses	**(3,736)**	(3,616)	(3,416)
Occupancy-related expenses	**(622)**	(591)	(556)
General expenses	**(2,946)**	(2,605)	(2,382)
Amortisation of goodwill	**(98)**	(103)	(98)
Charge to provide for doubtful debts	**(534)**	(559)	(633)
Significant expenses			
Cost of controlled entities sold	**(1,416)**	-	-
Restructuring costs	**(838)**	-	-
Reversal of prior years restructuring provision	**11**	-	-
Foreign currency options trading (losses)/reversal	**34**	(360)	-
Cost of sale of strategic shareholdings	**-**	(678)	-
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	-
Profit from ordinary activities before income tax expense	**6,539**	4,741	5,628
Income tax expense relating to ordinary activities	**(1,797)**	(1,190)	(1,681)
Net profit	**4,742**	3,551	3,947
Net (profit)/loss attributable to outside equity interest – Life insurance business	**(610)**	(365)	16
Net profit attributable to outside equity interest – Other	**-**	(9)	(8)
Net profit attributable to members of the Company	**4,132**	3,177	3,955
Other changes in equity other than those resulting from transactions with owners as owners			
Net credit to asset revaluation reserve	**1**	71	9
Net credit/(debit) to foreign currency translation reserve	**(614)**	226	(1,251)
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	**(613)**	297	(91)
Total changes in equity other than those resulting from transactions with owners as owners	**3,519**	3,474	3,864
Basic earnings per share (cents)	**251.9**	197.3	248.8
Diluted earnings per share (cents)	**248.1**	196.1	243.6
Dividends per ordinary share (cents)			
Interim	**83**	83	80
Final	**83**	83	83

Consolidated statement of financial position

As at 30 September	Group 2005 $m	Group 2004 $m
Assets		
Cash and liquid assets	**8,430**	8,080
Due from other financial institutions	**15,477**	23,494
Due from customers on acceptances	**27,627**	16,344
Trading securities	**15,957**	24,248
Trading derivatives	**13,959**	17,939
Available for sale securities	**3,857**	4,610
Investment securities	**7,466**	11,513
Investments relating to life insurance business	**50,500**	41,013
Loans and advances	**260,053**	247,836
Shares in controlled entities, joint venture entities and other securities	**75**	158
Regulatory deposits	**118**	177
Property, plant and equipment	**1,974**	2,257
Income tax assets	**1,530**	1,367
Goodwill	**522**	632
Other assets	**12,043**	11,641
Total assets	**419,588**	411,309
Liabilities		
Due to other financial institutions	**36,322**	43,768
Liability on acceptances	**27,627**	16,344
Trading derivatives	**12,407**	16,150
Deposits and other borrowings	**209,079**	219,028
Life insurance policy liabilities	**42,123**	36,134
Income tax liabilities	**1,381**	1,178
Provisions	**1,823**	1,129
Bonds, notes and subordinated debt	**39,238**	32,573
Other debt issues	**1,559**	1,612
Other liabilities	**13,749**	13,627
Total liabilities	**385,308**	381,543
Net assets	**34,280**	29,766
Equity		
Contributed equity	**11,486**	10,191
Reserves	**667**	1,194
Retained profits	**15,903**	14,515
Total parent entity interest	**28,056**	25,900
Outside equity interest – Life insurance business	**6,224**	3,866
Total equity	**34,280**	29,766

Consolidated statement of cash flows

For the year ended 30 September	2005 $m	Group 2004 $m	2003 $m
Cash flows from operating activities			
Interest received	**20,588**	18,594	17,372
Interest paid	**(13,605)**	(11,136)	(10,115)
Dividends received	**2**	23	39
Fees and other income received	**5,271**	5,068	3,026
Life insurance			
Premiums received	**7,594**	7,467	6,546
Investment and other revenue received	**1,853**	1,339	1,857
Policy payments	**(6,837)**	(6,694)	(5,778)
Other life insurance payments	**(350)**	(641)	(476)
Personnel expenses paid	**(3,544)**	(3,521)	(3,327)
Occupancy-related expenses paid	**(545)**	(521)	(489)
General expenses paid	**(3,225)**	(3,048)	(2,959)
Income tax paid	**(1,416)**	(1,567)	(1,830)
Goods and services tax paid	**(33)**	(30)	(52)
Net decrease/(increase) in trading securities	**8,161**	(449)	(4,345)
Net decrease/(increase) in mortgage loans held for sale	**38**	(22)	50
Net cash provided by/(used in) operating activities	**13,952**	4,862	(481)
Cash flows from investing activities			
Movement in available for sale securities			
Purchases	**(4,465)**	(5,727)	(15,052)
Proceeds from sale	**1,384**	2,002	3
Proceeds on maturity	**3,560**	5,399	13,500
Movement in investment securities			
Purchases	**(27,155)**	(15,032)	(15,449)
Proceeds on maturity	**30,184**	12,373	18,578
Movements in life insurance business investments and policy liabilities			
Purchases	**(13,292)**	(5,166)	(6,837)
Proceeds from disposal	**10,026**	3,483	3,187
Net increase in loans and advances	**(31,614)**	(20,657)	(28,402)
Movement in shares in joint venture entities and other securities			
Purchases	**(18)**	(33)	(254)
Proceeds from disposal	**106**	642	682
Payments for acquisition of controlled entities	**-**	-	(83)
Proceeds from sale of controlled entities	**2,495**	110	2,671
Transaction costs of disposal of controlled entities sold	**(177)**	-	-
Payments for property, plant and equipment	**(552)**	(660)	(534)
Proceeds from sale of strategic shareholdings	**-**	993	-
Proceeds from sale of property, plant and equipment (net of costs)	**173**	157	166
Decrease/(increase) in regulatory deposits	**6**	47	(113)
Net decrease/(increase) in other assets	**(554)**	(1,507)	2,791
Net cash used in investing activities	**(29,893)**	(23,576)	(25,146)

Consolidated statement of cash flows

For the year ended 30 September	2005 $m	Group 2004 $m	2003 $m
Cash flows from financing activities			
Net increase in deposits and other borrowings	**7,951**	18,377	11,727
Proceeds from bonds, notes and subordinated debt (net of costs)	**13,837**	14,059	10,136
Repayments of bonds, notes and subordinated debt	**(5,768)**	(5,473)	(7,017)
Payments from provisions	**(496)**	(270)	(340)
Proceeds from issue of ordinary shares (net of costs)	**45**	739	216
Net proceeds from issue of Trust Preferred Securities	**-**	-	975
Net proceeds from issue of Trust Preferred Securities II	**1,014**	-	-
Payments made under on-market buy-back of ordinary shares	**-**	(162)	(1,565)
Payments made on buy-back of preference shares	**-**	(582)	-
Dividends and distributions paid	**(2,453)**	(1,976)	(2,255)
Net increase/(decrease) in other liabilities	**1,041**	(978)	(204)
Net cash provided by financing activities	**15,171**	23,734	11,673
Net increase/(decrease) in cash and cash equivalents	**(770)**	5,020	(13,954)
Cash and cash equivalents at beginning of year	**(12,194)**	(17,602)	(7,508)
Effects of exchange rate changes on balance of cash held in foreign currencies	**532**	396	3,889
Cash and cash equivalents of controlled entities acquired	**-**	-	8
Cash and cash equivalents of controlled entities sold	**17**	(8)	(37)
Cash and cash equivalents at end of year	**(12,415)**	(12,194)	(17,602)

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 2005 of the Company and the Group. The annual financial report 2005 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 2005. Accordingly, this concise financial report should be read in conjunction with the annual financial report 2005.

A full description of the accounting policies adopted is contained in the annual financial report 2005. There have been no changes in accounting policy from those policies applied at 30 September 2004.

Comparative amounts have been reclassified to accord with changes in presentation made in 2005, except where otherwise stated.

All amounts are expressed in Australian dollars unless otherwise stated.

Rounding of amounts

In accordance with Australian Securities and Investments Commission Class Order 98/100 dated July 10, 1998, all amounts have been rounded to the nearest million dollars, except where indicated.

Reclassification of financial information

During the year, the Group introduced a revised common chart of general ledger accounts across its business operations and subsidiaries globally. In preparation for the introduction of this global chart of accounts, an extensive and detailed Group-wide review of general ledger account classification was undertaken. As a result, changes were made to the classification between certain categories in the Group's consolidated statement of financial position and consolidated statement of financial performance to more appropriately reflect the nature of specific items, as follows:

- transfer of certain loans within 'loans and advances' from 'overdrafts' to 'other term lending' totalling $5,346 million at 30 September 2004;
- transfer of certain loans within 'loans and advances' from 'overdrafts' to 'market rate advances' totalling $450 million at 30 September 2004;
- transfer of certain exposures from 'on-demand and short-term deposits' within 'deposits and other borrowings' to 'due to other financial institutions' totalling $2,663 million at 30 September 2004;
- transfer of certain exposures within 'deposits and other borrowings' from 'on-demand and short-term deposits' to 'securities sold under agreements to repurchase' totalling $694 million at 30 September 2004;
- transfer of certain exposures from 'due to other financial institutions' to 'on-demand and short-term deposits' within 'deposits and other borrowings' totalling $939 million at 30 September 2004;
- reclassification of certain fee income revenue from 'fees and commissions' to 'fleet management fees' totalling $23 million for the year ended 30 September 2004; and
- reclassification of certain occupancy-related expenses from 'maintenance and repairs' to 'operating lease rental expense' totalling $20 million for the year ended 30 September 2004.

Corresponding reclassifications have also been made to cash flow classifications.

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 1 January 2005.

The Group is required to adopt these standards for the financial year commencing 1 October 2005 and they will be first reflected in the Group's financial statements for the half-year ending 31 March 2006.

AIFRS frequently require application of fair value measurement techniques. This will potentially introduce greater volatility to the Group's reported financial performance. The adoption of these standards has a material effect on the Group's reported financial performance and financial position, however, the underlying economics of the business will not change.

A more detailed discussion of the impact of AIFRS on the Group's accounting policies and the quantified impacts of the application of relevant AIFRS on total equity and profit is set out in the annual financial report 2005.

Notes to the concise financial statements

2 Segment information

The following segment information is disclosed in accordance with Australian Accounting Standards AASB 1039 "Concise Annual 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 Group Chief Executive, as well as other members of senior management.

During 2005, the Group reorganised its business into four operating segments, which are managed along regional lines: Total Australia, Total United Kingdom and Total New Zealand, which include banking and wealth management products; as well as Institutional Markets & Services (which is managed globally). Institutional Markets & Services (IMS) comprises Markets, Corporate Loan Portfolio, Structured Products, Credit Products, Financial Institutions and a Support Services unit, to provide products across the Group's business base. With the exception of Financial Institutions, the client relationships served by IMS are maintained within the regional structures across the Group. The Group's 'Other' business segment includes Corporate Centre and Group Funding, which are not considered to be separate reportable operating segments. Corporate Centre comprises Financial & Risk Management, People & Culture, and Group Development. The reorganisation of the Group aims to improve integration across divisions and build a more customer-focused organisation.

Previously, the Group's business was organised on a divisional basis into five major operating segments: Financial Services Australia, Financial Services Europe, Financial Services New Zealand, Corporate & Institutional Banking and Wealth Management. The Group's 'Other' business segment was broadly consistent with the structure under the reorganisation.

Comparatives for the year ended 30 September 2004 have been restated to reflect the new organisational structure. There is no overall financial impact to the Group in respect of the change to the segment information.

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.

Business segments

	Total Australia	Total United Kingdom	Total New Zealand	Institutional Markets & Services	Other	Inter-segment eliminations	Total Group
Year ended 30 September 2005	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Net interest income (1)	3,876	1,837	782	543	44	-	7,082
Non-interest income	11,658	1,002	393	923	65	-	14,041
Significant revenue (2)	-	2,374	-	-	119	-	2,493
Inter-segment revenue/(expenses)	90	50	14	(4)	83	(233)	-
Total revenue after interest expense (3)	15,624	5,263	1,189	1,462	311	(233)	23,616
Significant expenses (4)	(403)	(1,600)	(14)	(86)	(106)	-	(2,209)
Other expenses	(10,931)	(2,126)	(660)	(627)	(524)	-	(14,868)
Inter-segment (expenses)/revenue	(52)	(50)	(49)	(132)	50	233	-
Total expenses excluding interest expense	(11,386)	(3,776)	(723)	(845)	(580)	233	(17,077)
Profit/(loss) from ordinary activities before tax	4,238	1,487	466	617	(269)	-	6,539
Income tax (expense)/benefit (5)	(1,292)	(177)	(152)	(80)	(96)	-	(1,797)
Net profit/(loss)	2,946	1,310	314	537	(365)	-	4,742
Net profit attributable to outside equity interest	(610)	-	-	-	-	-	(610)
Net profit/(loss) attributable to members of the Company	2,336	1,310	314	537	(365)	-	4,132
Total assets (6)	243,609	49,810	34,245	147,912	2,149	(58,137)	419,588
Total liabilities (6)	232,268	41,672	32,942	138,876	(2,313)	(58,137)	385,308

Notes to the concise financial statements

Segment information (continued)

Business segments

Year ended 30 September 2004	Total Australia $m	Total United Kingdom $m	Total New Zealand $m	Institutional Markets & Services $m	Other $m	Inter-segment eliminations $m	Total Group $m
Net interest income (1)	3,699	2,158	720	618	(4)	-	7,191
Non-interest income	8,206	1,029	388	875	43	-	10,541
Significant revenue (2)	-	-	-	-	993	-	993
Inter-segment revenue/(expenses)	55	46	14	(9)	132	(238)	-
Total revenue after interest expense (3)	11,960	3,233	1,122	1,484	1,164	(238)	18,725
Significant expenses (4)	(192)	(182)	(68)	(416)	(817)	-	(1,675)
Other expenses	(8,249)	(2,357)	(588)	(686)	(429)	-	(12,309)
Inter-segment (expenses)/revenue	(32)	(67)	(76)	(132)	69	238	-
Total expenses excluding interest expense	(8,473)	(2,606)	(732)	(1,234)	(1,177)	238	(13,984)
Profit/(loss) from ordinary activities before tax	3,487	627	390	250	(13)	-	4,741
Income tax (expense)/benefit (7)	(928)	(206)	(139)	25	58	-	(1,190)
Net profit	2,559	421	251	275	45	-	3,551
Net (profit)/loss attributable to outside equity interest	(365)	-	-	(9)	-	-	(374)
Net profit attributable to members of the Company	2,194	421	251	266	45	-	3,177
Total assets (6)	216,390	65,465	31,151	163,908	(1,985)	(63,620)	411,309
Total liabilities (6)	207,794	59,658	29,645	155,531	(7,465)	(63,620)	381,543

(1) Net interest income includes interest on capital employed by business segments.

(2) In 2005, significant revenue represents the proceeds from the sale of National Europe Holdings (Ireland) Limited, the immediate parent entity of Northern Bank Limited and National Irish Bank Limited. In 2004, significant revenue represented the proceeds from the sale of strategic shareholdings in St George Bank Limited, AMP Limited and HHG PLC.

(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) In 2005, significant expenses comprise the cost of the controlled entities sold, National Europe Holdings (Ireland) Limited, the immediate parent entity of Northern Bank Limited and National Irish Bank Limited, restructuring expenses and provisions recognised, reversal of a provision in relation to the foreign currency option losses recorded in the 2004 year, and a reversal of a restructuring provision recognised in the 2002 year. In 2004, significant expenses comprised the cost of the sale of strategic shareholdings in St George Bank Limited, AMP Limited and HHG PLC, losses arising from the unauthorised foreign currency options trading, write-back of a provision for SR Investment, Inc. (the parent entity of HomeSide US) in respect of selling-related costs, the write-down of impaired application software, and the charge to provide for doubtful debts relating to a revision of an accounting estimate.

(5) In 2005, income tax (expense)/benefit includes the tax effect on significant items and comprises an income tax expense of $34 million attributable to the profit on sale of National Europe Holdings (Ireland) Limited, an income tax benefit of $232 million attributable to restructuring expenses and provisions recognised, an income tax expense of $10 million attributable to the reversal of a provision in relation to the foreign currency options trading losses recorded in the 2004 year, and an income tax expense of $4 million attributable to the reversal of a restructuring provision recognised in the 2002 year. Income tax expense also includes a significant tax expense item of $97 million in respect of the provision for the settlement of the TrUEPrS[SM] tax dispute with the Australian Taxation Office.

(6) Total assets and total liabilities for the business segments represent average September balances in accordance with how senior management view the business segments. Consolidation adjustments have been included within the 'Other' segment to align total assets and total liabilities to the Group's statement of financial position.

(7) In 2004, income tax (expense)/benefit included the tax effect on significant items and comprised an income tax benefit of $108 million attributable to the losses arising from the unauthorised foreign currency options trading within the Institutional Markets & Services 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.

Notes to the concise financial statements

3 Individually significant items included in profit from ordinary activities

Restructuring costs

During the 2005 year, the Group recognised restructuring expenses and provisions amounting to $838 million ($606 million after tax). These costs are expected to be recovered through ongoing efficiency and productivity enhancements, streamlined functions and ongoing cost reductions. The restructuring initiatives comprise a fundamental reorganisation of the management and organisational structure of the Group to a regional model, including the integration of the retail banking, corporate banking and wealth management businesses in Australia, the streamlining of operations and reconfiguration of distribution networks in the United Kingdom, the refocusing of the Institutional Markets & Services business, as well as other streamlining and business efficiency programs, property rationalisation and decommissioning systems in all business segments.

The details of this amount are set out as follows:

	Group			
Business segment	**Personnel $m**	**Occupancy $m**	**Other $m**	**Total $m**
Total Australia	198	54	157	409
Total United Kingdom	181	62	23	266
Total New Zealand	3	11	-	14
Institutional Markets & Services	74	10	37	121
Other	28	-	-	28
Total Group	**484**	**137**	**217**	**838**

The personnel costs of $484 million relate to termination benefit expenses for 4,662 positions in management, support and customer-facing roles in the business segments. In 2005, payments of $191 million were made in respect of 1,834 positions made redundant. Future payments for personnel termination benefits are expected to occur during the 2006 and 2007 years.

Occupancy costs of $137 million primarily relate to provisions for surplus lease space and make good costs. The future payments for occupancy costs will be made in periods corresponding with the relevant lease terms. Other costs of $217 million include the reconfiguration of distribution networks, reorganisation of new management teams, management of the integration process, as well as writing off the asset values of decommissioned systems.

In addition, during the 2002 year, the Group recognised significant restructuring costs of $580 million resulting from the Positioning for Growth initiatives. In 2005, excess provisions totalling $11 million ($7 million after tax) were written back to the profit and loss account.

Sale of National Europe Holdings (Ireland) Limited

On 14 December 2004, the Group entered into an agreement with Danske Bank A/S in respect of the sale of all of the share capital of National Europe Holdings (Ireland) Limited. National Europe Holdings (Ireland) Limited is the immediate parent entity of Northern Bank Limited and National Irish Bank Limited (Irish Banks). The transaction settled on 28 February 2005. Following the settlement and change in ownership and control of National Europe Holdings (Ireland) Limited, the assets and liabilities of National Europe Holdings (Ireland) Limited and the Irish Banks no longer form part of the Group.

The profit arising from the sale was as follows:

	Proceeds from sale $m	Cost of assets sold $m	Profit on sale (before tax) $m	Income tax expense $m	Profit on sale (after tax) $m
National Europe Holdings (Ireland) Limited	2,493	(1,416)	1,077	(34)	1,043

Provision for the settlement of Australian Taxation Office tax dispute in relation to TrUEPrS^{SM}

In November 2005, the Company announced that it had reached an in-principle heads of agreement with the Australian Taxation Office (ATO) in respect of a settlement of amounts in dispute in relation to the TrUEPrS^{SM} capital raising transaction.

An amount of $97 million has been recognised as a significant tax item for the 2005 year. The dispute had previously been disclosed to the Australian Stock Exchange. The total potential claim was approximately $210 million including accrued interest and penalties. In accordance with the ATO practice on disputed assessments, the Company had previously paid to the ATO, 50% of the amounts owing under relevant amended assessments. This amount paid to the ATO of approximately $96 million, was recognised by the Company at the time as an asset in the statement of financial position. This amount has been written off reflecting the in-principle heads of agreement reached with the ATO.

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

Notes to the concise financial statements

3 Individually significant items included in profit from ordinary activities (continued)

Foreign currency options trading losses and reversal of residual risk provision

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 recognised 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 was a valuation allowance for long-dated and illiquid trading derivatives in other portfolios of $26 million as at 30 September 2004.

In the 2005 year, following a detailed review of the residual risk in the remaining portfolio, $34 million ($24 million after tax) was written back to the profit and loss account.

Sale of strategic shareholdings

On 28 January 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) in the 2004 year.

Write-down of impaired application software

During the 2004 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 was written down by $200 million to its recoverable amount of $87 million as at 30 September 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 in the 2004 year.

General provision for doubtful debts – revision of accounting estimate

During the 2004 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 30 September 2004. This discount rate is used to determine the present value of cumulative probability of default rates used for the purpose of loan provisioning.

The impact of this reduction in discount rate and flow-on impact was an increase in the charge to provide for doubtful debts of $292 million ($204 million after tax) in the 2004 year.

SR Investment, Inc. – sale of foreign controlled entity and revision of accounting estimate

On 1 October 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 the 2004 year, $64 million of this provision was written back as a revision to the accounting estimate.

Notes to the concise financial statements

4 Dividends

	Amount per share cents	Total amount $m	Franked amount per share %
Dividends recognised by the Company for the years shown below at 30 September:			
2005			
Final 2004 ordinary – paid 8 December 2004 ($1,289 million – franked 83 cents)	**83**	**1,289**	**100**
Interim 2005 ordinary – paid 13 July 2005 ($1,038 million – franked 66.4 cents; $259 million – unfranked 16.6 cents)	**83**	**1,297**	**80**
Deduct: Bonus shares in lieu of dividend	**n/a**	**(132)**	**n/a**
Total dividends paid		**2,454**	
2004			
Final 2003 ordinary – paid 10 December 2003 ($1,250 million – franked 83 cents)	83	1,250	100
Interim 2004 ordinary – paid 14 July 2004 ($1,253 million – franked 83 cents)	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 – paid 11 December 2002 ($1,086 million – franked 67.5 cents; $121 million – unfranked 7.5 cents)	75	1,207	90
Interim 2003 ordinary – paid 2 July 2003 ($1,153 million – franked 80 cents)	80	1,153	100
Deduct: Bonus shares in lieu of dividend	n/a	(105)	n/a
Total dividends paid		2,255	

Franked dividends declared or paid during the year were franked at a tax rate of 30% (2004: 30%, 2003: 30%).

	Amount per share cents	Total amount $m	Franked amount per share %
Proposed final dividend			
On 9 November 2005 the directors declared the following dividend:			
Final 2005 ordinary ($1,043 million – franked 66.4 cents; $261 million – unfranked 16.6 cents)	**83**	**1,304**	**80**

The final 2005 ordinary dividend is payable on 19 December 2005. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 September 2005 and will be recognised in subsequent financial reports.

Australian franking credits

The Company elected during the year ended 30 September 2004 to be taxed as a single entity under the tax consolidation regime in Australia. 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 30 September 2005 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 30 September 2005, after allowing for tax payable in respect of the current reporting period's profit 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 (2004: $nil, 2003: $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$0.07 per share will be attached to the final 2005 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.

Notes to the concise financial statements

5 Asset quality and provisioning for doubtful debts

	Group	
Total impaired assets	**2005 $m**	**2004 $m**
Gross		
Australia	**761**	700
Overseas	**266**	576
	1,027	1,276
Specific provision for doubtful debts		
Australia	**201**	164
Overseas	**115**	211
	316	375
Net		
Australia	**560**	536
Overseas	**151**	365
Total net impaired assets	**711**	901

6 Events subsequent to balance date

The Group announced in November 2005 that it was undertaking a process to seek expressions of interest for its wholly owned fleet leasing and management business, Custom Fleet, which is a leading player in the vehicle fleet management and leasing industries in Australia and New Zealand. No firm decision has been made to sell the business and any decision will be made after conclusion of this process.

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 30 September 2005 as set out on pages 78 to 79 and pages 82 to 92:

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 1st day of December, 2005 and signed in accordance with a resolution of the directors.

Michael A Chaney
Chairman

John M Stewart
Managing Director
& Group Chief Executive

Independent auditor's report

ERNST & YOUNG

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Australia

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Independent audit report to the members of National Australia Bank Limited

Scope

The concise financial report comprises the statement of financial position, statement of financial performance, statement of cash flows and accompanying notes to the financial statements for the Group for the year ended 30 September 2005. The Group comprises both National Australia Bank Limited (the "Company") and the entities it controlled during the year.

The Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Accounting Standard AASB 1046 "Director and Executive Disclosures by Disclosing Entities", under the heading "Remuneration Report" in pages 40 to 41 and pages 50 to 61 of the Directors' Report, as permitted by the *Corporations Regulations* 2001 (Cth).

The directors of the Company are responsible for preparing a concise financial report that complies with Accounting Standard AASB 1039 "Concise Financial Reports", in accordance with the *Corporations Act* 2001 (Cth). This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the concise financial report and the remuneration disclosures. The directors are also responsible for the remuneration disclosures contained in the Directors' Report.

Audit approach

We conducted an independent audit on the concise financial report in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the concise financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 1046 "Director and Executive Disclosures by Disclosing Entities" and the *Corporations Regulations* 2001 (Cth). The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports" and whether the remuneration disclosures comply with Accounting Standard AASB 1046 "Director and Executive Disclosures by Disclosing Entities" and the *Corporations Regulations* 2001 (Cth). We formed our audit opinion on the basis of these procedures, which included:

- testing that the information in the concise financial report and the remuneration disclosures are consistent with the full financial report; and
- examining, on a test basis, information to provide evidence supporting the amounts, discussion and analysis, and other disclosures in the concise financial report and the remuneration disclosures that were not directly derived from the full financial report.

We have also performed an independent audit of the full financial report of the Company for the year ended 30 September 2005. Our audit report on the full financial report was signed on 1 December 2005, and was not subject to any qualification. For a better understanding of our approach to the audit of the full financial report, this report should be read in conjunction with our audit report on the full financial report.

Independence

We are independent of the Company and the Group and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act* 2001 (Cth). We have given to the directors of the Company a written Auditor's Independence Declaration, signed on 1 December 2005 a copy of which is included in the Directors' Report. In addition to our audit of the full and concise financial reports and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements of the full financial report. The provision of these services has not impaired our independence.

Audit opinion

In our opinion:

1 the concise financial report of National Australia Bank Limited complies with Accounting Standard AASB 1039 "Concise Financial Reports".

2 the remuneration disclosures that are contained in pages 40 to 41 and pages 50 to 61 of the Directors' Report comply with Accounting Standard AASB 1046 "Director and Executive Disclosures by Disclosing Entities" and the *Corporations Regulations* 2001 (Cth).

Ernst & Young

Ernst & Young

SJ Aldersley

SJ Aldersley
Melbourne, Australia
1 December 2005

Shareholder Information

Annual financial report 2005

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).

Annual General Meeting

When: 30 January 2006
Where: The Harbourside Auditorium
Sydney Convention and Exhibition Centre
Address: Darling Drive, Darling Harbour, Sydney,
New South Wales Australia
Time: 2.00pm

National Australia Bank Limited

Chairman
Mr Michael A Chaney
AO, BSc, MBA, Hon. LLD Western Australia, FAIM, FAICD

Managing Director and Group Chief Executive
Mr John M Stewart
BA, ACII, FCIB

Company Secretary
Mr Garry F Nolan
MBus, FCIS, FAIBF, FAICD, ASIA, CFTP (Snr)

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Auditor
Ernst & Young
Chartered Accountants
120 Collins Street
Melbourne Victoria 3000
Australia

Telephone: +61 3 9288 8000
Fax: +61 3 8650 7777

Ten largest registered fully paid ordinary shareholders of the Company as at 11 November 2005

	Number of Shares	%
National Nominees Limited	193,553,357	12.28%
JP Morgan Nominees Australia Limited	172,401,073	10.93%
Westpac Custodian Nominees Limited	134,891,613	8.56%
ANZ Nominees Limited	58,004,434	3.68%
Citicorp Nominees Pty Limited	48,740,926	3.09%
Cogent Nominees Pty Limited	25,249,114	1.60%
RBC Global Nominees Pty Limited, PIPOOLED A/C	23,656,390	1.50%
AMP Life Limited	17,887,557	1.13%
Queensland Investment Corporation	17,070,814	1.08%
National Australia Trustees Limited	10,961,048	0.70%
	702,416,326	**44.55%**

The 10 largest registered shareholders held 702,416,326 fully paid ordinary shares, which is equal to 44.55% of the total issue of 1,576,554,727 fully paid ordinary shares.

Substantial shareholder

As at 11 November 2005, there were no persons with a substantial shareholding in the Company.

Ten largest registered National Income Securities (NIS) holders of the Company as at 11 November 2005

	Number of Shares	%
JP Morgan Nominees Australia Limited	1,588,768	7.94%
Westpac Custodian Nominees Limited	816,930	4.08%
National Nominees Limited	676,822	3.38%
ANZ Nominees Limited	597,818	2.99%
Australian Foundation Investment Company Limited	407,721	2.04%
Citicorp Nominees Pty Limited	279,920	1.40%
RBC Global Nominees Pty Limited, MLCI A/C	264,862	1.32%
Australian Executor Trustees Limited	201,732	1.01%
The University of Sydney	199,713	1.00%
UBS Private Clients Australia Nominees Pty Ltd	193,429	0.97%
	5,227,715	**26.13%**

The 10 largest registered NIS holders held 5,227,715 NIS, which is equal to 26.13% 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.

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¢
2005	**83¢**	**83¢**	**166¢**

Change of address

Shareholders are required to advise Shareholder 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%).

Contact details

Principal Share Register

Computershare Investor Services
Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067

Postal address
GPO Box 2333
Melbourne Victoria 3001
Australia
Local call: 1300 367 647
Fax: (03) 9473 2500

Telephone and fax (outside Australia):
Tel: +61 3 9415 4299; Fax: +61 3 9473 2500
Email: web.queries@computershare.com.au

UK Branch Share Register

C/- Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bedminster Down
Bristol BS99 7NH
United Kingdom

Tel: +44 (870) 703 0197
Fax: +44 (870) 703 6101
Website: www.computershare.com

United States ADR Depositary, Transfer Agent and Registrar

The Bank of New York
Depositary Receipts Division
101 Barclay St, 22nd Floor
New York NY 10286
United States of America

Tel: +1 (212) 815 2293
Fax: +1 (212) 571 3050, 3051, 3052
Website: www.adrbny.com

Helping the environment is now as easy as having an email address…

The National Australia Bank is committed to contributing positively to the community and acting responsibly within the environments in which we live and work.

Our partnership with eTree, a Computershare initiative with Landcare Australia that provides an environmental incentive to encourage shareholders to receive shareholder communications electronically, demonstrates our ongoing commitment to developing sustainable initiatives to build a greener future.

Register your email address at www.eTree.com.au/nab to receive your Annual Report from us electronically.

For every email address registered to a validated shareholding, National Australia Bank will donate up to $2 to support revegetation and reforestation projects in Australia.

Your effort goes a long way to help save paper, reduce Company costs and in turn preserve and restore our natural environment.

To find out more about eTree visit www.eTree.com.au

Your action helps us to help the Australian environment!

A Computershare initiative with Landcare Australia

Creative consultants: Perspexa
Design and production: Text Pacific Publishing

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