National Australia Bank

# full year results

Incorporating the requirements of Appendix 4E

2007

nab Clydesdale Bank Yorkshire Bank Bank of New Zealand nabCapital A division of National Australia Bank Limited MLC

National Australia Bank Limited ABN 12 004 044 937 (the 'Company')

This full year results announcement incorporates the preliminary final report and is given to the Australian Securities Exchange (ASX) under Listing Rule 4.3A

**This page has been left intentionally blank**

# Results for announcement to the market

Report for the year ended 30 September 2007

| | | | | 30 September 2007 $m |
|---|---|---|---|---|
| Revenue from ordinary activities [1] | **up** | 16.2%* | **to** | 44,448 |
| Profit after tax from ordinary activities attributable to members of the Company | **up** | 4.2%* | **to** | 4,578 |
| Net profit attributable to members of the Company | **up** | 4.2%* | **to** | 4,578 |

| **Dividends** | **Amount per share** | **Franked amount per share** |
|---|---|---|
| Final dividend | **95 cents** | 100.0% |
| Interim dividend | **87 cents** | 90.0% |
| Record date for determining entitlements to the final dividend | | 22 November 2007 |

## Highlights[2]

| | | | |
|---|---|---|---|
| Group cash earnings | up | 17.7% | Strong cash earnings growth of 17.7%. This has been delivered through net operating income growth of 8.3% primarily as a result of strength in relationship banking and wealth management in Australia, and strong growth in nabCapital and New Zealand. Disciplined cost management has also seen operating expenses increase by a modest 0.9% on the 2006 year. |
| Cash return on equity (ROE) | up | 120 bps | Cash return on equity has increased to 17.1%. |
| Diluted cash earnings per share | up | 37.9 cents | Diluted cash earnings per share increased 16.4% on September 2006 reflecting strong cash earnings performance. |
| Banking cost to income | down | 370bps | Disciplined ongoing cost management throughout the Group and continued successful application of six-sigma and other efficiency techniques to improve business processes and maintain operating expense growth within inflation. |
| Tier 1 Capital ratio | down | 68bps | Tier 1 capital ratio of 6.67% is within the Group's target range of 6.00-6.75%. |
| Full time equivalent employees | up | 403 | We continue to invest in our frontline operations. |

*A Glossary of Terms is included in Section 7.*

* *On previous corresponding period (12 months ended 30 September 2006).*

(1) *The sum of Interest income, Premium and related revenue, Investment revenue and Other income.*

(2) *All growth rates are calculated on an ongoing basis.*

**This page has been left intentionally blank**

National Australia Bank

# Table of Contents

**Section 1 – Media Release**

**Section 2 - Highlights**

2. Group Performance
2. Strategic Highlights
2. Financial Highlights
2. Shareholder Returns
3. Key Performance Measures
3. Group Performance Indicators
4. Group Results
4. Group Balance Sheet Key Items
5. Regional Performance
5. Regional Results
5. Regional Performance Indicators

**Section 3 - Review of Group Strategy, Operations and Results**

8. Group Strategy and Operating Environment
8. Group Strategy
9. Outlook/Operating Environment
10. Review of Group Operations and Results
10. Group Results
19. Summary Balance Sheet
22. Asset Quality
25. Earnings per Share
26. Capital Management
27. Funding
28. Full Time Equivalent Employees
28. Other Matters

**Section 4 - Review of Regional Operations**

33. Business Structure
34. Divisional Performance Summary
38. Australia Region
43. Australia Banking (nab)
47. Wealth Management (MLC)
54. UK Region
62. New Zealand Region
68. nabCapital
73. Central Functions

**Section 5 – Financial Report**

76. Consolidated Financial Statements
81. Notes to the Consolidated Financial Statements
104. Compliance Statement

**Section 6 – Supplementary Information**

**Section 7 – Glossary of Terms**

This page has been left intentionally blank

## Section 1 – Media Release

**This page has been left intentionally blank**

National Australia Bank

National Australia Bank

**Group Corporate Affairs**
500 Bourke Street, Melbourne
Victoria 3000
Australia

www.nabgroup.com

ABN 12 004 044 937

## ASX Announcement

*Friday, 9 November 2007*

# NAB cash earnings up 17.7% to record $4.4 billion.

### Group Financial Highlights*

| | |
|---|---|
| Cash earnings | ▲ 17.7% to $4.4 billion |
| Cash return on equity | ▲ to 17.1% from 15.9% |
| Revenue | ▲ 8.3% to $14.6 billion |
| Expenses | ▲ 0.9% to $7.4 billion |
| Cash EPS (Diluted) | ▲ 16.4% to 268.5 cents per share |
| Net Profit | ▲ 4.2% to $4.6 billion |
| Final dividend | ▲ 8 cps to 95 cps, fully franked |
| Full year dividend | ▲ 15 cps to $1.82 cps |

*Ongoing operations, FY '07 compared with FY '06

### Group Performance

National Australia Bank today announced a 17.7% increase in cash earnings to $4.4 billion for the year ended 30 September 2007. NAB Group Chief Executive Officer, John Stewart said: "The National Australia Bank is in great shape."

"This is a strong result built on the sound foundations of improved customer satisfaction along with employee and community engagement.

"Revenue was up by more than 8% while operating expenses grew less than 1%. This demonstrates the underlying business is going from strength to strength.

"We will continue to simplify processes and efficiency opportunities are still significant.

"All of our businesses recorded double digit growth in cash earnings and have strong momentum.

"Total lending increased 13.8% to $394.7 billion and customer deposits grew by 15.2% to $268.4 billion.

All our banking operations reduced their cost to income ratios with the total banking cost to income ratio down from 54.5% to 50.8% for the year. The Group cost to income ratio was 49.9% for the September half year.

"Asset quality measures show early signs of moving up from historically low levels but are within expectations for this stage of the credit cycle.

"We are well positioned for the years ahead and I am very optimistic about our future.

"We have a clearly defined strategic agenda based on three areas of core capability. These are integrated Financial Services, Agri banking and Wealth Management and we are making real progress in execution of this program," Mr Stewart said.

## Review of Operations*

| | Full Year to Cash Earnings ($m) | | % Change |
|---|---|---|---|
| | 30 Sept 2007 | 30 Sept 2006 | |
| **Australia** | 2,874 | 2,341 | +22.8 |
| **United Kingdom** | 592 | 518 | +14.3 |
| **New Zealand** | 379 | 321 | +18.1 |
| **nabCapital** | 715 | 613 | +16.6 |
| **Other**** | (174) | (65) | large |
| **Cash earnings** | 4,386 | 3,728 | +17.7 |

*Ongoing operations
**Other includes income on retained earnings (IORE) and Central Functions.

### Australia

The strong result of a 22.8% cash earnings growth from both banking and MLC businesses was driven by 11.4% revenue growth and flat expenses.

This reflects the success of our program to be truly competitive in areas including customer satisfaction, cross-selling and engagement with employees and the community.

This was achieved with careful balance sheet management and cost control, while at the same time investing approximately $500 million during the year.

Banking

Banking revenue increased by 10.9%, expense growth was 0.2% and cash earnings rose 21.2% to $2.47 billion due to careful margin management and strong growth in retail and business deposits, transaction banking and business lending.

Efficiency and productivity initiatives reduced the banking cost to income ratio to 44.8% in the September half. Comparing the full year, the cost to income ratio fell from 51.1% to 46.0%.

Business and Private banking maintained and extended its leadership position with revenue growth running at approximately 13%.

Retail banking is gaining momentum whilst continuing to invest in distribution to maximise the quality, depth and longevity of customer relationships. Revenue growth is running at approximately 8%.

Wealth Management (MLC)

MLC has delivered an outstanding result with a strong platform for continued growth, reflecting the successful execution of its strategy of being truly competitive.

MLC's strong revenue growth of 14.5%, combined with a 1.3% increase in operating expenses, drove a cash earnings before IORE increase of 30.5% to $402 million.

Efficiency and productivity initiatives reduced the MLC cost to net income ratio to 54.9% in the September half, with the full year cost to net income ratio falling from 64.1% to 56.7%.

MLC's investment division cash earnings increased 42.3%. This was driven by a 213% increase in net funds flow to $6.4 billion, and together with favourable investment earnings, resulted in a 17.1% increase in FUM.

Cross-sell momentum continued with investment sales up 67% and insurance sales up 15% in the bank channel.

## United Kingdom

The UK business continued to deliver strong and sustainable growth during turbulent market conditions.

Cash earnings in local currency were 13.6% higher while operating expenses decreased by 3%.

The cost to income ratio improved from 62.2% to 60.1%.

In addition to a good retail performance, business banking through our integrated Financial Solutions Centres continued to power ahead with income, lending and deposits all up more than 20%.

This growth has been supported by a conservative approach to risk, liquidity and funding.

A number of key milestones were achieved during the year including the convergence of the Yorkshire and Clydesdale back office systems and the roll out of a new branch teller system and our first mortgage securitisation of £3 billion.

## New Zealand

The New Zealand business reported a strong increase in cash earnings, up 18.1% in local currency.

This was achieved through a focus on three strategic themes of simplification, culture and new revenue streams.

The focus on clear strategic themes has had a positive impact on branch satisfaction, reaching a record high of 85% and a market leading position in New Zealand.

Average lending volumes increased 12.4%, with mortgage volumes up 13.1% and business lending volumes up 13%.

Retail deposits increased 9.4%. Overall key product market share levels have remained stable as the Bank of New Zealand continued to focus on profitable volume growth.

The cost to income ratio fell from 53.5% to 50.1%.

## nabCapital

nabCapital's Originate-Warehouse-Distribute operating model continued to provide the basis for sustained improvement in performance with cash earnings up 16.6%.

Key contributions to the strong performance included the:

- Improved momentum in key product lines;
- Acceleration of new business initiatives;
- Ongoing development of our global distribution businesses;
- Improved earnings in Global Markets from risk management and trading activities following the recent market disruption;
- 16% income increase while expense growth was 3.3%; and
- Reduced cost to income ratio, down from 50.7% to 45.1%.

nabCapital's capabilities were further increased during the year with the launch of an alternative investments business, a project finance business in Asia and the agreement to acquire a 20% stake in the China-based Union Trust & Investment Ltd.

## Capital and Basel II

The Group has revised its Tier 1 target range from 6.25%-7.00% to 6.00%-6.75%. This reflects the bank's focus on an efficient capital structure and is consistent with the Group's credit rating and peers.

National Australia Bank Group is targeting achievement of Basel II accreditation in a phased manner due to the nature of its operations which are in three regulatory jurisdictions.

The Group already has advanced accreditation for Traded Market Risk and is targeting advanced accreditation for Operational Risk, Credit Risk and Interest Rate Risk in the Banking Book for the Australian, nabCapital and New Zealand operations during 2008.

The UK operations will move to advanced accreditation for operational risk and credit risk at a time to be agreed with APRA and the FSA.

## Outlook

"We plan to grow our revenue at better than system growth rates in key customer segments, primarily in the areas related to integrated Financial Services, Agribusiness and Wealth Management," Mr Stewart said.

"Our guidance that annual operating expense growth will remain within inflation is extended to 2010.

"Organic growth remains our preferred option but acquisition opportunities will be assessed against both our strategic agenda and shareholder value driven criteria.

"This will be achieved with careful consideration of funding and capital management.

"Our medium term target dividend payout ratio is 65%, and given the business portfolio, franking in the 80% to 100% range.

"Attracting and retaining a disproportionate share of talent is a key strategic priority to ensure we can achieve the growth agenda we are setting ourselves and create sustainable growth in shareholder value," he said.

**For further information:**


**Media**

Brandon Phillips
Group Manager, Media Relations
M 0419 369 058

Kerrina Lawrence
Media Relations Manager
M 0417 034 738

**Investor Relations**

Hany Messieh
Head of Investor Relations
M 0414 446 876

Lyndal Kennedy
Investor Relations Manager
M 0400 983 038

## Section 2 - Highlights

2. Group Performance
2. Strategic Highlights
2. Financial Highlights
2. Shareholder Returns
3. Key Performance Measures
3. Group Performance Indicators
4. Group Results
4. Group Balance Sheet Key Items
5. Regional Performance
5. Regional Results
5. Regional Performance Indicators

# Group Performance

## Strategic Highlights

The purpose of the Group and its businesses is to deliver sustainable satisfactory returns to shareholders.

The business strategies that underpin this purpose are focused on:

- Above system revenue growth potential in our chosen segments.
- Sustainable cost base with further operational efficiencies to be achieved.
- Capability and value-driven investment.
- Group-wide focus on ROE and disciplined capital management.
- Management bench strength.

The Group has set clear and measurable targets and regularly monitors the progress we are making to execute these strategies.

During 2007:

- Good revenue growth has been delivered in our key segments and relationship businesses across the Group.
- Significant infrastructure development and investment in each of our businesses has delivered increased productivity and efficiency.
- The commencement of the transfer of the UK region integrated Financial Solutions (iFS) model to the Australia and New Zealand Regions and increased resources for our Business Development function is allowing us to leverage our strengths across the Group whilst providing options for new sources of future growth.
- Our significant share buy-back program, and the development of other balance sheet and funding programs for each of our businesses has delivered improved capital efficiency, whilst allowing us to deal with the effects of the recent market disruptions.
- A senior executive has been appointed to the Group Executive Committee, dedicated to the goal of further developing our people. Recent executive appointments demonstrate the development of future leadership.

## Financial Highlights

The Group's regional businesses produced strong growth as a result of good progress on executing our business strategies. Cash earnings for the half year ended 30 September 2007 was $2,315 million, an increase of 11.8% on the March 2007 half. Cash earnings for the full year ended 30 September 2007 were $4,386 million, up 17.7% on the 2006 year.

Cash return on equity has increased to 17.7% for the September 2007 half and 17.1% for the 2007 full year, a significant increase from 16.5% for the prior half and 15.9% for the prior year.

Good revenue momentum was experienced during the half with net operating income up 4.3% for the September 2007 half and 8.3% for the full year. This has been driven by strong lending volumes within key markets, offset by a reduction in the net interest margin as a result of competitive pressures within Australia and New Zealand and managed contraction within the UK. nabCapital had strong revenue growth in all key product lines.

Wealth management net operating income, up 11.2% for the half and 14.5% for the full year, continues to improve and is supported by strong investment markets and growth in sales as we continue to see advisers embrace the fee for service model.

The Group continues to deliver effective cost management, with operating expenses up 0.3% for the September 2007 half and 0.9% on the prior year.

Asset quality remains generally sound across regions, with softening of some indicators, albeit off historically low levels.

## Shareholder Returns

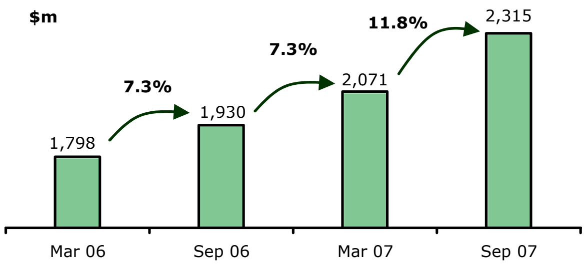
The Group's financial objective is to deliver sustainable, satisfactory shareholder returns. Over the 12 months to September 2007, the Group delivered a 1 year total shareholder return of 11.52%.

Diluted cash earnings per share is 142.1 cents for the half and 268.5 cents for the year, reflecting strong growth in cash earnings and various capital management initiatives.

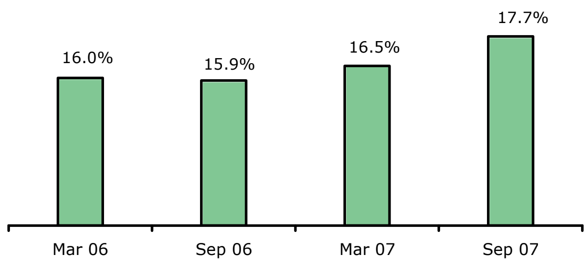
The final dividend for the year is 95 cents per share, up 8 cents on the prior half representing a dividend payout ratio of 66.7% for the half year on a cash earnings basis. The dividend payment is 100% franked, and will be paid on 18 December 2007. Shares will be quoted ex-dividend on 16 November 2007.

## Key Performance Measures (1)

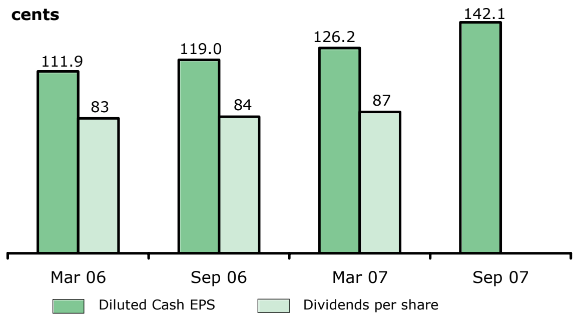
**Cash Earnings – ongoing operations**



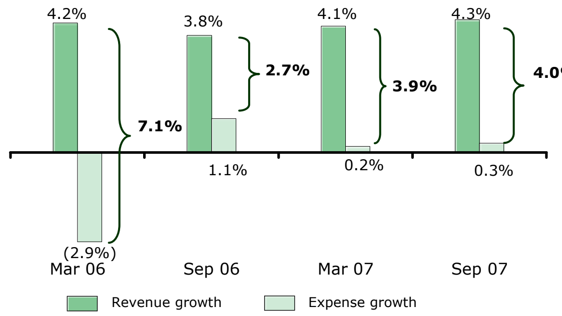

**Cash Return on Equity (ROE)**




**Diluted Cash EPS and Dividends per Share**




**Revenue – Expense Differential**




## Group Performance Indicators (1)

| | Half year to | | Year to | |
|---|---|---|---|---|
| | **Sep 07** | **Mar 07** | **Sep 07** | **Sep 06** |
| **Key Indicators** | | | | |
| Cash earnings per share (cents) - basic | **142.5** | 127.6 | **270.1** | 233.0 |
| - diluted | **142.1** | 126.2 | **268.5** | 230.6 |
| Cash return on equity (ROE) | **17.7%** | 16.5% | **17.1%** | 15.9% |
| **Profitability, performance and efficiency measures** | | | | |
| Dividends per share (cents) | **95** | 87 | **182** | 167 |
| Dividend payout ratio | **66.7%** | 68.2% | **67.4%** | 71.7% |
| Cash earnings on average assets | **0.85%** | 0.83% | **0.84%** | 0.81% |
| Cash earnings per average FTE ($'000) | **118** | 107 | **113** | 97 |
| Banking cost to income ratio | **49.9%** | 51.8% | **50.8%** | 54.5% |
| Net interest margin: - Australia Banking | **2.40%** | 2.42% | **2.41%** | 2.41% |
| - UK Region | **2.96%** | 3.16% | **3.06%** | 3.54% |
| - New Zealand Region | **2.40%** | 2.51% | **2.45%** | 2.57% |
| **Capital** | | | | |
| Tier 1 ratio | **6.67%** | 7.33% | **6.67%** | 7.35% |
| Total capital ratio | **9.99%** | 10.51% | **9.99%** | 10.81% |
| Adjusted common equity (ACE) ratio | **4.90%** | 5.46% | **4.90%** | 5.35% |
| **Volumes ($bn)** | | | | |
| Gross loans and advances (2) | **394.7** | 366.5 | **394.7** | 346.7 |
| Average interest earning assets | **440.9** | 412.2 | **426.6** | 375.7 |
| Risk weighted assets | **355.3** | 330.5 | **355.3** | 318.3 |
| Total average assets | **540.0** | 498.8 | **519.3** | 460.8 |
| **Asset quality** | | | | |
| Gross impaired assets to gross loans and acceptances | **0.28%** | 0.21% | **0.28%** | 0.26% |
| Total provisions to gross impaired assets | **211%** | 293% | **211%** | 238% |
| Specific provision to gross impaired assets | **28.1%** | 25.4% | **28.1%** | 20.4% |
| **Other** | | | | |
| Funds under management and administration ($bn) | **113.4** | 105.7 | **113.4** | 97.2 |
| Annual inforce premiums ($m) | **795.6** | 742.5 | **795.6** | 707.6 |
| Full Time Equivalent Employees (no.) | **38,822** | 39,033 | **38,822** | 38,419 |

(1) *All key performance measures and Group performance indicators are calculated on an ongoing basis unless otherwise stated. A Glossary of Terms is included in Section 7.*

(2) *Including acceptances and loans at fair value.*

## Group Results

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 07 v Mar 07 % | Sep 07 $m | Sep 06 $m | Sep 07 v Sep 06 % |
| Net interest income | **4,966** | 4,799 | 3.5 | **9,765** | 8,777 | 11.3 |
| Other operating income | **1,796** | 1,723 | 4.2 | **3,519** | 3,554 | (1.0) |
| Wealth Management net operating income | **677** | 609 | 11.2 | **1,286** | 1,123 | 14.5 |
| **Net operating income** | **7,439** | 7,131 | 4.3 | **14,570** | 13,454 | 8.3 |
| Operating expenses | **(3,719)** | (3,709) | (0.3) | **(7,428)** | (7,360) | (0.9) |
| **Underlying profit** | **3,720** | 3,422 | 8.7 | **7,142** | 6,094 | 17.2 |
| Charge to provide for doubtful debts | **(400)** | (390) | (2.6) | **(790)** | (605) | (30.6) |
| **Cash earnings before tax, IoRE and distributions** | **3,320** | 3,032 | 9.5 | **6,352** | 5,489 | 15.7 |
| Income tax expense | **(877)** | (845) | (3.8) | **(1,722)** | (1,563) | (10.2) |
| **Cash earnings before IoRE and distributions** | **2,443** | 2,187 | 11.7 | **4,630** | 3,926 | 17.9 |
| IoRE | **18** | 21 | (14.3) | **39** | 56 | (30.4) |
| Distributions | **(146)** | (137) | (6.6) | **(283)** | (254) | (11.4) |
| **Cash earnings [(1)] – ongoing operations** | **2,315** | 2,071 | 11.8 | **4,386** | 3,728 | 17.7 |
| Disposed operations | **(16)** | 24 | large | **8** | 175 | (95.4) |
| **Cash earnings [(1)]** | **2,299** | 2,095 | 9.7 | **4,394** | 3,903 | 12.6 |
| Non-cash earnings items | **143** | 41 | large | **184** | 489 | (62.4) |
| **Net profit attributable to members of the company** | **2,442** | 2,136 | 14.3 | **4,578** | 4,392 | 4.2 |

## Group Balance Sheet Key Items

| | As at | | | | |
|---|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 06 $m | Sep 07 vs Mar 07 % | Sep 07 vs Sep 06 % |
| **Assets** | | | | | |
| Cash and liquid assets | **12,796** | 13,761 | 12,768 | (7.0) | 0.2 |
| Due from other banks | **25,144** | 20,608 | 24,372 | 22.0 | 3.2 |
| Marketable debt securities | **27,633** | 16,870 | 16,621 | 63.8 | 66.3 |
| Loans and advances at fair value | **19,564** | 17,832 | 16,774 | 9.7 | 16.6 |
| Other assets at fair value | **5,625** | 5,271 | 5,349 | 6.7 | 5.2 |
| Other financial assets at fair value | **25,189** | 23,103 | 22,123 | 9.0 | 13.9 |
| Loans and advances including acceptances | **370,192** | 344,178 | 325,503 | 7.6 | 13.7 |
| Investments relating to life insurance business | **62,630** | 59,056 | 54,784 | 6.1 | 14.3 |
| Other assets | **41,050** | 31,259 | 28,614 | 31.3 | 43.5 |
| **Total assets** | **564,634** | 508,835 | 484,785 | 11.0 | 16.5 |
| **Liabilities** | | | | | |
| Due to other banks | **42,566** | 38,262 | 37,489 | 11.2 | 13.5 |
| Deposits at fair value | **14,133** | 12,987 | 10,622 | 8.8 | 33.1 |
| Other liabilities at fair value | **7,717** | 8,579 | 7,058 | (10.0) | 9.3 |
| Other financial liabilities at fair value | **21,850** | 21,566 | 17,680 | 1.3 | 23.6 |
| Deposits and other borrowings | **254,225** | 222,456 | 222,277 | 14.3 | 14.4 |
| Liability on acceptances | **30,443** | 35,678 | 32,114 | (14.7) | (5.2) |
| Bonds, notes and subordinated debt | **80,983** | 70,738 | 65,006 | 14.5 | 24.6 |
| Other liabilities | **104,682** | 90,568 | 82,247 | 15.6 | 27.3 |
| **Total liabilities** | **534,749** | 479,268 | 456,813 | 11.6 | 17.1 |

*(1)* *Cash earnings is a key financial performance measure used by the Group, the investment community and Australian peers. For a full reconciliation between the Group's cash earnings and statutory accounting profit refer to page 119. For the current reporting period the Group has revised its definition of cash earnings to exclude volatility attributable to the Group's application of the Fair Value Option and ineffectiveness from designated hedge accounting relationships. The Group excludes this volatility to provide a better indicator of its ongoing business performance. Comparatives have been adjusted to reflect this treatment. A Glossary of Terms is included in Section 7.*

# Regional Performance

## Regional Results

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | **Sep 07 $m** | **Mar 07 $m** | **Sep 07 v Mar 07 %** | **Sep 07 $m** | **Sep 06 $m** | **Sep 07 v Sep 06 %** |
| Australia Banking | **1,301** | 1,170 | 11.2 | **2,471** | 2,038 | 21.2 |
| Wealth Management | **219** | 183 | 19.7 | **402** | 308 | 30.5 |
| Other (incl. Asia) | **1** | - | - | **1** | (5) | large |
| Australia Region | **1,521** | 1,353 | 12.4 | **2,874** | 2,341 | 22.8 |
| UK Region | **298** | 294 | 1.4 | **592** | 518 | 14.3 |
| New Zealand Region | **196** | 183 | 7.1 | **379** | 321 | 18.1 |
| nabCapital | **377** | 338 | 11.5 | **715** | 613 | 16.6 |
| Central Functions [1] | **(95)** | (118) | 19.5 | **(213)** | (121) | (76.0) |
| IoRE | **18** | 21 | (14.3) | **39** | 56 | (30.4) |
| **Cash earnings – ongoing operations** | **2,315** | 2,071 | 11.8 | **4,386** | 3,728 | 17.7 |
| Disposed operations | **(16)** | 24 | large | **8** | 175 | (95.4) |
| **Cash earnings** | **2,299** | 2,095 | 9.7 | **4,394** | 3,903 | 12.6 |
| Non-cash earnings items | **143** | 41 | large | **184** | 489 | (62.4) |
| **Net profit attributable to members of the company** | **2,442** | 2,136 | 14.3 | **4,578** | 4,392 | 4.2 |

[1] *Central Functions include distributions.*

## Regional Performance Indicators

| | Half year to | | Year to | |
|---|---|---|---|---|
| | **Sep 07** | **Mar 07** | **Sep 07** | **Sep 06** |
| **Australia Banking** | | | | |
| Cash earnings growth | **11.2%** | 9.8% | **21.2%** | 12.5% |
| Cash earnings on average assets | **1.10%** | 1.04% | **1.07%** | 1.00% |
| Net interest margin | **2.40%** | 2.42% | **2.41%** | 2.41% |
| Net operating income growth | **6.3%** | 5.0% | **10.9%** | 8.1% |
| Cost to income ratio | **44.8%** | 47.4% | **46.0%** | 51.1% |
| **Wealth Management Australia** | | | | |
| Cash earnings growth (before IoRE) | **19.7%** | 12.3% | **30.5%** | 2.0% |
| Investment cost to average FUM | **53bps** | 54bps | **54bps** | 58bps |
| Insurance cost to average inforce premium | **23%** | 25% | **24%** | 30% |
| **UK Region £ (pounds sterling)** | | | | |
| Cash earnings growth | **5.9%** | 2.6% | **13.6%** | 5.4% |
| Cash earnings on average assets | **0.79%** | 0.84% | **0.82%** | 0.88% |
| Net interest margin | **2.96%** | 3.16% | **3.06%** | 3.54% |
| Net operating income growth | **1.7%** | - | **0.9%** | 6.7% |
| Cost to income ratio | **59.9%** | 60.3% | **60.1%** | 62.2% |
| **New Zealand Region (NZD)** | | | | |
| Cash earnings growth | **6.7%** | 17.5% | **18.1%** | 7.7% |
| Cash earnings on average assets | **1.05%** | 1.06% | **1.05%** | 1.01% |
| Net interest margin | **2.40%** | 2.51% | **2.45%** | 2.57% |
| Net operating income growth | **1.2%** | 6.1% | **6.7%** | 4.0% |
| Cost to income ratio | **49.6%** | 50.7% | **50.1%** | 53.5% |
| **nabCapital** | | | | |
| Cash earnings growth | **11.5%** | 2.4% | **16.6%** | 6.2% |
| Cash earnings on average risk weighted assets | **1.11%** | 1.12% | **1.09%** | 0.96% |
| Net operating income growth | **6.4%** | 8.0% | **16.0%** | 5.6% |
| Cost to income ratio | **44.3%** | 46.0% | **45.1%** | 50.7% |

**This page has been left blank intentionally**

## Section 3 - Review of Group Strategy, Operations and Results


8. Group Strategy and Operating Environment
8. Group Strategy
9. Outlook/Operating Environment
10. Review of Group Operations and Results
10. Group Results
19. Summary Balance Sheet
22. Asset Quality
25. Earnings per Share
26. Capital Management
27. Funding
28. Full Time Equivalent Employees
28. Other Matters

## Group Strategy and Operating Environment
John Stewart

### Group Strategy

Our corporate purpose is to deliver sustainable, satisfactory returns to our shareholders. Five pillars underpin this objective:

- *Above system revenue growth potential in our chosen segments*. The Group has superior relationship-based capabilities and franchises that allows it to compete successfully in economically attractive segments in its key geographies (eg, Agri and Business Banking in Australia and New Zealand, iFS in the UK, Wealth Management).
- *Sustainable cost base with further operational efficiencies to be achieved*. The restructuring carried out over the past few years has been undertaken in a sustainable way, and has been coupled with a significant investment program that has laid the foundations for future growth. This, together with the development of operational excellence disciplines and off-shoring capabilities, and moves to further exploit cross-Group scale, should allow us to continue to achieve further operational efficiencies.
- *Capability and value-driven investment*. In addition to the Group's strong organic growth prospects, we expect to create additional, but geographically-agnostic, growth by selectively building or acquiring businesses that leverage our relationship-based capabilities, or which provide synergies to our existing portfolio.
- *Group-wide focus on ROE with disciplined capital management*. We have considerably strengthened our Treasury, Risk and business management processes. We have implemented an effective capital management framework and a robust balance sheet funding model. We have aligned our incentive schemes to the twin targets of cash earnings growth and ROE. We are now focusing our attention on the disciplined management of ROE in our business, customer and product portfolios.
- *Management bench-strength*. To enable us to execute this agenda, we will continue to invest in our people so as to attract and retain a disproportionate share of talent, and continue to leverage our 'regional accountability model' to empower our teams with the accountability and authority for driving sustainable bottom line business performance.

Good progress has been made over the past year against each element of this agenda.

| Strategic pillars | Initiatives and accomplishments |
|---|---|
| Above system revenue growth potential in our chosen segments | Net operating income has increased 4.3% for the September 2007 half and 8.3% for the full year.<br>Significant drivers of revenue growth have been the reinforcement of our relationship businesses particularly within business banking in the Australia Region and the UK through iFS centres, and in Wealth Management.<br>Growth of 6.4% for the September 2007 half and 16.0% for the full year has been achieved within nabCapital as a result of strong Markets income in the September half, and growth across all businesses for the full year. |
| Sustainable cost base with further operational efficiencies to be achieved | Disciplined sustainable cost management throughout the Group restricted expense growth to 0.3% for the September 2007 half year, and to 0.9% for the full year. This is in line with the Group's expectation of maintaining expense growth for the year within inflation.<br>Continued successful application of lean/six sigma, Kaizen and other productivity techniques to improve business processes, reduce cost and increase productivity and efficiency. |
| Capability and value-driven investment | Commenced the transfer of the UK Region iFS model to leverage upon capability across the Group.<br>Agreement to purchase 20% of Union Trust & Investment Limited (UT&I).<br>Strengthened our Group Business Development team. |
| Group-wide focus on ROE with disciplined capital management | On-market share buy back successfully completed.<br>Implemented a balance sheet management framework to drive an appropriate mix of retail, short term and term wholesale funding sources across a diverse range of debt markets. As a result, there has been a continued shift in funding toward retail and term wholesale. This positioned the Group well for the recent market disruption.<br>Tier 1 capital position of 6.67%, which is within the revised target range of 6.00-6.75%. Appropriate capability now being deployed to focus on capital management at a Regional business portfolio level.<br>Dividend of 95 cents per share for the half, up 8 cents, reflecting the underlying strength of the Group's capital framework. |
| Management bench-strength | Significant investment in developing and growing senior executive pipeline.<br>Group's growth agenda will create opportunities for career development.<br>Empowerment model with remuneration focussed on reward for performance.<br>Recent executive appointments demonstrate the development of future leadership. |

## Outlook/Operating Environment

Economic and credit market conditions were very strong across our major markets - Australia, New Zealand and the UK - through the financial year. Current disruption in financial markets has the potential to dampen economic and credit growth over the next year. The lagged impact of a series of policy-induced increases in key interest rates as well as a temporary rise in the cost of wholesale funding will also slow economic growth.

This disruption in financial markets occurred against the background of exceptionally strong global economic conditions that should limit the extent of 'knock-on' effects on activity. The downturn in the US economy is clearly slowing the pace of growth around the world, producing the inevitable spill-over effects in our key markets. However the exceptional strength in Chinese and Indian economic growth has ensured that global economic growth has been maintained at a rapid pace, supporting commodity demand and boosting incomes and activity in Australia and New Zealand. Overall, we expect only a very modest slowing in our core markets GDP growth in 2008 from the rapid rate experienced in 2007.

A combination of slower global economic growth and higher interest rates will impact on the pace of credit growth through the next year, especially in the household sector. There were already signs of a slowing in lending expansion in certain markets (notably housing in New Zealand, unsecured credit in the UK) and an expectation that credit quality was likely to deteriorate in most economies from the exceptionally high levels seen in recent years. The reduced access to wholesale asset backed markets facing some competitors in markets like Australia and the UK may partially offset those negative aspects of the outlook.

The extent to which the harsher operating environment is reflected in slower credit growth and higher impairments is now the crucial assessment. There is evidence that housing markets are softening in the UK and New Zealand, but not in Australia, and the housing slowdown seen in the first two economies is expected to be moderate by historical standards. Business credit growth has been exceptionally rapid in all three markets and again it is expected to slow. However, underlying demand is expected to stay solid, profitability is high and economy-wide business balance sheets are in reasonable shape.

As for asset quality, with the exception of unsecured credit in the UK, system-wide loan arrears and impairments have remained at historic lows in recent years. There is currently no evidence in any of our major markets of the type of economic pre-conditions that led to previous major deteriorations in asset quality. Unemployment rates are generally very low, wage inflation is reasonable and economy-wide profits are not under stress. Accordingly we envisage a modest deterioration in asset quality that would still leave impairments at low levels by historical standards.

# Review of Group Operations and Results

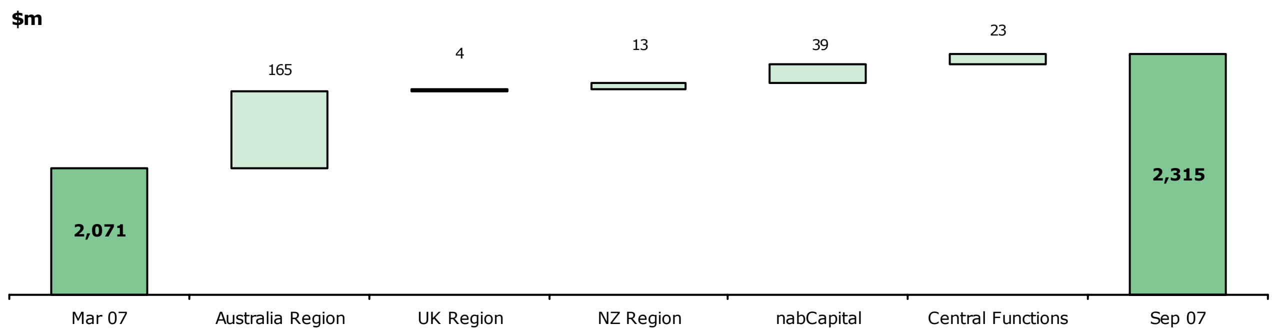
Michael Ullmer

## Group Results

The Group delivered strong cash earnings growth of 11.8% for the September 2007 half over the March 2007 half and 17.7% for the September full 2007 year over 2006. This has been achieved through good net operating income growth of 4.3% for the September 2007 half and 8.3% over the 2006 year, reflecting strength in relationship banking in Australia, the UK and New Zealand, strong momentum in Wealth Management and growth in nabCapital. Disciplined cost management has also seen the increase in operating expenses restricted to a modest 0.3% for the September 2007 half and 0.9% over the 2006 year. This has had a positive impact on the banking cost to income ratio, which is 49.9% for the half, 190 basis points lower than the March 2007 half and 50.8% for the full year, 370 basis points lower than 2006.

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | **Sep 07 $m** | **Mar 07 $m** | **Sep 07 v Mar 07 %** | **Sep 07 $m** | **Sep 06 $m** | **Sep 07 v Sep 06 %** |
| Net interest income | **4,966** | 4,799 | 3.5 | **9,765** | 8,777 | 11.3 |
| Other operating income | **1,796** | 1,723 | 4.2 | **3,519** | 3,554 | (1.0) |
| Wealth Management net operating income | **677** | 609 | 11.2 | **1,286** | 1,123 | 14.5 |
| **Net operating income** | **7,439** | 7,131 | 4.3 | **14,570** | 13,454 | 8.3 |
| Operating expenses | **(3,719)** | (3,709) | (0.3) | **(7,428)** | (7,360) | (0.9) |
| **Underlying profit** | **3,720** | 3,422 | 8.7 | **7,142** | 6,094 | 17.2 |
| Charge to provide for doubtful debts | **(400)** | (390) | (2.6) | **(790)** | (605) | (30.6) |
| **Cash earnings before tax, IoRE and distributions** | **3,320** | 3,032 | 9.5 | **6,352** | 5,489 | 15.7 |
| Income tax expense | **(877)** | (845) | (3.8) | **(1,722)** | (1,563) | (10.2) |
| **Cash earnings before IoRE and distributions** | **2,443** | 2,187 | 11.7 | **4,630** | 3,926 | 17.9 |
| IoRE | **18** | 21 | (14.3) | **39** | 56 | (30.4) |
| Distributions | **(146)** | (137) | (6.6) | **(283)** | (254) | (11.4) |
| **Cash earnings – ongoing operations** | **2,315** | 2,071 | 11.8 | **4,386** | 3,728 | 17.7 |
| Disposed operations | **(16)** | 24 | large | **8** | 175 | (95.4) |
| **Cash earnings** | **2,299** | 2,095 | 9.7 | **4,394** | 3,903 | 12.6 |
| *Non-cash earnings items (after tax):* | | | | | | |
| Distributions | **146** | 137 | 6.6 | **283** | 254 | 11.4 |
| Treasury shares | **(31)** | (92) | (66.3) | **(123)** | (126) | (2.4) |
| Fair value and hedge ineffectiveness | **53** | 101 | (47.5) | **154** | 64 | large |
| IoRE discount rate variation | **(22)** | (22) | - | **(44)** | (6) | large |
| Revaluation gains/(losses) on exchangeable capital units | **(3)** | (83) | (96.4) | **(86)** | (112) | (23.2) |
| Net profit on sale of controlled entities | **-** | - | - | **-** | 108 | large |
| Fair value gain on economic hedge of the proceeds on sale of controlled entities | **-** | - | - | **-** | 22 | large |
| Significant items | **-** | - | - | **-** | 285 | large |
| **Net profit attributable to members of the company** | **2,442** | 2,136 | 14.3 | **4,578** | 4,392 | 4.2 |

**Cash earnings – ongoing operations**



## Group Results

Financial Analysis

### September 2007 v March 2007

**Cash earnings** from ongoing operations of $2,315 million for the September 2007 half increased $244 million or 11.8% compared with the March 2007 half year. The increase is due to good revenue growth driven by a market leading position in key segments in Australia, the continued maturing of iFS in the UK along with growth in nabCapital and New Zealand. This result was supported by disciplined cost management and continued sound asset quality through the period.

**Net interest income** increased by $167 million or 3.5%. This reflects delivery of strategies across the Group in key segments such as business lending in Australia, iFS in the UK, solid growth in New Zealand, continued growth in nabCapital and strong performance of customer deposits products across the Group. This growth is offset by a decline in the Group net interest margin due to competitive pressures within Australia Banking and New Zealand Region and the managed margin contraction within the UK Region.

**Other operating income** increased $73 million or 4.2% mainly from a strong contribution from nabCapital and positive treasury results. The result has also been impacted by one-off items in both periods.

**Wealth management net operating income** increased $68 million or 11.2% driven by increased funds under management with improved adviser productivity, particularly in the bank channel, and a favourable economic environment. MLC's Retail (excluding cash) attrition rate in the Investments business was in line with market average and lapses in the Insurance business at below market average.

The Group's **cost to income ratio** declined 190 basis points for the half to 49.9%, and represents continuation of the progress made in the March 2007 half.

**Operating expenses** increased $10 million or 0.3% reflecting volume related expenses, further investment in frontline staff and the maintenance of a significant investment programme, offset by productivity and efficiency initiatives across the Group.

**Charge to provide for doubtful debts** increased by $10 million or 2.6%. This increase has been driven by volume growth across all regions, an increase in the level of specific charges in nabCapital and the Australia Region and a reduction in the level of collective provisions as a result of a general level of underlying improvements in customer ratings.

### September 2007 v September 2006

**Cash earnings** of $4,386 million for the September 2007 year increased $658 million or 17.7% compared with the September 2006 year. Consistent with the trend of the September 2007 half, this was a result of continuing strong volume growth across the Group and FUM in the Wealth Management business, supported by disciplined cost management in all regions.

**Net interest income** increased $988 million or 11.3%. This has driven strong lending growth in key segments in all regions along with growth in customer deposits. This was partly offset by a decline in the Group's net interest margin in the UK and New Zealand Regions.

**Other operating income** decreased $35 million or 1.0%. Increases from lending and account fees driven by volume growth across all regions, higher card revenue and a strong contribution from nabCapital have been offset by a mix shift to low fee products and the impact of one-off items in the September 2006 year.

**Wealth Management net operating income** increased $163 million or 14.5% driven by strong sales momentum with improved adviser productivity, particularly in the bank channel along with strong funds flow.

The Group's **cost to income ratio** declined 370 basis points in 2007.

**Operating expenses** increased $68 million or 0.9%. Higher costs associated with increased business volumes have been offset by the success of the Group's transformation and efficiency initiatives.

**Charge to provide for doubtful debts** increased by $185 million or 30.6%. The increase is consistent with expectations and is a result of the strong growth in lending volumes, softening credit conditions and a reduction in the level of specific write backs from the prior year.

### Impact of foreign exchange rate movements

Excluding the impact of foreign exchange rate movements, cash earnings have increased $260 million or 12.6% on the March 2007 half and $665 million or 17.8% on the 2006 year.

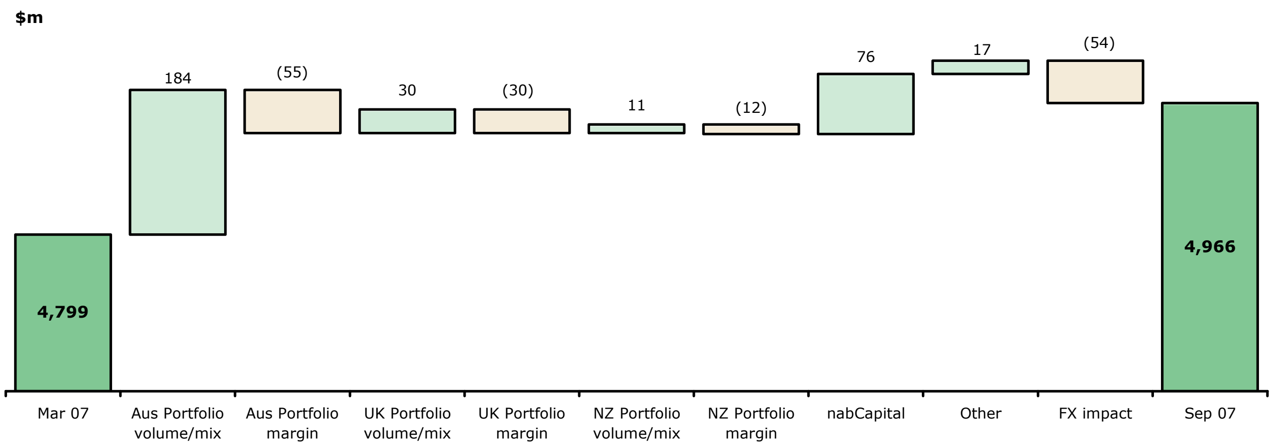
| Favourable/ (unfavourable) September 2007 | Half year since Mar 07 $m | Sep 07 v Mar 07 Ex FX % | Year since Sep 06 $m | Sep 07 v Sep 06 Ex FX % |
|---|---|---|---|---|
| Net interest income | **(54)** | 4.6 | **6** | 11.2 |
| Other operating income | **(17)** | 5.2 | **10** | (1.3) |
| WM net operating income | **-** | 11.2 | **-** | 14.5 |
| Operating expenses | **43** | (1.4) | **(16)** | (0.7) |
| Charge to provide for bad and doubtful debts | **7** | (4.4) | **(4)** | (29.9) |
| Income tax expense | **5** | (4.4) | **(3)** | (10.0) |
| **Cash earnings** | **(16)** | 12.6 | **(7)** | 17.8 |

## Net Interest Income

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | Sep 07 | Mar 07 | Sep 07 v Mar 07 | Sep 07 | Sep 06 | Sep 07 v Sep 06 |
| Net interest income ($m) | **4,966** | 4,799 | 3.5% | **9,765** | 8,777 | 11.3% |
| Average interest earning assets ($bn) | **440.9** | 412.2 | 7.0% | **426.6** | 375.7 | 13.5% |
| Net interest margin (%) | **2.25** | 2.33 | (8bps) | **2.29** | 2.34 | (5bps) |

Net interest income and margin management is a key area of focus for the Regional businesses, given the nature of their customer franchises. It is less significant for nabCapital where the nature of the revenue can vary depending on the structure of a transaction. Group net interest margins represent an amalgam of the individual business outcomes and the analysis below is based on regional drivers.

**Net interest income – contribution to net increase**




### September 2007 v March 2007

Net interest income increased $167 million or 3.5% driven by average interest earning asset growth of 7.0% through the continued success of differentiated relationship banking across the regions, increased business lending market share in Australia and strong growth in the UK with the continued maturity of the iFS business. Customer deposits grew 5.5% from the increasing popularity of online and mortgage offset accounts and strong inflows in the lead up to superannuation reforms in Australia.

This was partly offset by an 8 basis point decline in the Group's net interest margin due to competitive pressures within Australia and New Zealand regions and the managed margin contraction within the UK.

### September 2007 v September 2006

Net interest income increased $988 million or 11.3% on the September 2006 year. Consistent with the trend of the September 2007 half this strong growth was driven by relationship banking and continued growth in mortgage lending across regions, together with increased lending in nabCapital. In addition, customer deposits grew 15.1% from growth across online and term deposits in Australia and offset accounts in UK.

The Group's net interest margin declined 5 basis points over the year mainly due to the managed margin contraction in the UK and competitive pressure in New Zealand.

### Average Interest Earning Assets

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 07 v Mar 07 % | Sep 07 $m | Sep 06 $m | Sep 07 v Sep 06 % |
| Due from other banks | **26,490** | 24,622 | 7.6 | **25,556** | 23,895 | 7.0 |
| Marketable debt securities | **24,384** | 23,802 | 2.4 | **24,093** | 24,953 | (3.4) |
| Loans and advances – housing | **183,066** | 175,116 | 4.5 | **179,091** | 157,984 | 13.4 |
| Loans and advances – non-housing | **150,053** | 136,259 | 10.1 | **143,156** | 122,736 | 16.6 |
| Acceptances | **48,333** | 44,507 | 8.6 | **46,420** | 37,891 | 22.5 |
| Other interest earning assets | **8,571** | 7,915 | 8.3 | **8,243** | 8,232 | 0.1 |
| **Total average interest earning assets** | **440,897** | 412,221 | 7.0 | **426,559** | 375,691 | 13.5 |

### September 2007 v March 2007

Strong growth (7.0%) in average interest earning assets for the September 2007 half was achieved through continued focus on lending to key customer segments. Business lending outpaced mortgage lending with a positive mix impact.

Housing lending increased $7,950 million or 4.5% on March 2007 reflecting:

- continued growth in residential mortgage markets across all regions within a competitive environment. Australian growth is below system as it focuses on the revitalisation of the distribution capability while the UK continues to grow through a managed lending approach and New Zealand has experienced good growth;
- an increase in Australia of $6,228 million or 4.7% from growth in products such as variable rate products as well as fixed rate lending products as borrowers locked in interest rates; and
- an increase in New Zealand of $1,344 million or 7.3% as BNZ continues to focus on profitable volume growth in a competitive environment.

Non-housing lending (business and personal lending) increased $13,794 million or 10.1% on March 2007 due to:

- continued favourable economic conditions;
- an increase of $7,860 million or 11.7% in Australia during the half achieved as the region maintained its strong position in business lending through the successful execution of its distribution initiatives such as the industry specialisation strategies; and
- volume growth of $1,320 million or 6.8% in New Zealand as a result of BNZ's continued core strength in business banking.

Bill acceptances grew $3,826 million or 8.6% on March 2007 as business customers continue to favour this product due to flexible and dynamic market pricing. Almost all of this growth is within Australia.

### September 2007 v September 2006

Average interest-earning assets increased 13.5% on the September 2006 full year. This was primarily driven by a $41,527 million (14.8%) increase in loans and advances and a $8,529 million (22.5%) increase in bill acceptances.

Housing lending increased $21,107 million or 13.4% on September 2006 reflecting the continued strong economic conditions and sound mortgage markets across all regions. Growth in the United Kingdom of $4,253 million or 20.7% for the year.

Non-housing lending (business and personal lending) increased by $20,420 million or 16.6% on September 2006 reflecting the strength of the franchises and continued favourable economic conditions in all regions. Growth in Australia was achieved as the region maintained its leading position in business lending.

Bill acceptances increased $8,529 million or 22.5% from September 2006 as business customers, particularly in Australia, continue to favour this product.

### Average Interest Bearing Liabilities

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 07 v Mar 07 % | Sep 07 $m | Sep 06 $m | Sep 07 v Sep 06 % |
| Term deposits and certificates of deposit | **103,824** | 101,842 | 1.9 | **102,833** | 100,018 | 2.8 |
| On-demand and savings (short-term) deposits | **113,325** | 106,973 | 5.9 | **110,149** | 93,823 | 17.4 |
| Due to other banks and official institutions | **43,021** | 36,151 | 19.0 | **39,586** | 36,713 | 7.8 |
| Short-term borrowings | **29,807** | 27,235 | 9.4 | **28,521** | 28,299 | 0.8 |
| Long-term borrowings | **77,222** | 67,524 | 14.4 | **72,373** | 51,497 | 40.5 |
| Liability on acceptances | **35,354** | 33,466 | 5.6 | **34,410** | 30,711 | 12.0 |
| Other interest-bearing liabilities | **778** | 1,134 | (31.4) | **956** | 1,830 | (47.8) |
| **Total average interest bearing liabilities** | **403,331** | 374,325 | 7.7 | **388,828** | 342,891 | 13.4 |

#### September 2007 v March 2007

Average interest-bearing liabilities increased $29,006 million or 7.7% on the March 2007 half year. This was primarily driven by increases in on demand and savings deposits, long-term borrowings and amounts due to other banks.

On demand and savings deposits increased by $6,352 million or 5.9% from March 2007 reflecting sound growth in all markets. In Australia, growth is a result of increasing popularity of online and term deposit products within a strong economy. In the UK, growth reflected the continued expansion of the iFS Centres and the convergence of Yorkshire and Clydesdale Bank products with the benefit to customers of rationalised, simpler and more beneficial products.

Long-term borrowings grew by $9,698 million or 14.4% from March 2007. This increase is as a result of continued issuance of debt under the Group’s global medium term program to fund asset growth and to strengthen the balance sheet structure. In addition, Clydesdale and BNZ have also issued long-term debt under their own names, which continues to increase the Group’s access to a diverse and liquid investor base within the global capital markets.

Due to other banks increased by $6,870 million or 19.0% primarily reflecting growth in structured finance transactions in Clydesdale, as well as additional bank placements, which is consistent with the increase in Due from other banks (interest earning assets) during the September 2007 half year.

#### September 2007 v September 2006

Average interest-bearing liabilities increased $45,937 million or 13.4% on the September 2006 full year. This was primarily driven by increases in long-term borrowings, on-demand and savings deposits and acceptances.

Long-term borrowings grew by $20,876 million or 40.5% from September 2006. Consistent with the increase in the March 2007 half, this increase is as a result of the continued issuance of debt to fund asset growth and strengthening of the balance sheet.

On demand and savings deposits increased by $16,326 million or 17.4% from September 2006 reflecting sound growth in all regions and the emphasis of this essential source of funding.

Liability on acceptances has increased by $3,699 million or 12.0% from September 2006, which largely mirrors the related assets.

## Net Interest Margin

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | **Sep 07 $m** | **Mar 07 $m** | **Sep 07 v Mar 07** | **Sep 07 $m** | **Sep 06 $m** | **Sep 07 v Sep 06** |
| Australia Banking | **2.40%** | 2.42% | (2bps) | **2.41%** | 2.41% | - |
| UK Region | **2.96%** | 3.16% | (20bps) | **3.06%** | 3.54% | (48bps) |
| NZ Region | **2.40%** | 2.51% | (11bps) | **2.45%** | 2.57% | (12bps) |
| **Group net interest margin** | **2.25%** | 2.33% | (8bps) | **2.29%** | 2.34% | (5bps) |

### September 2007 v March 2007

The Group's net interest margin declined 8 basis points. Key Regions' net interest margin movements on the March 2007 half are:

- a 2 basis point decrease in Australia Banking mainly due to competitive pressures on lending margins partially offset by favourable deposit mix and higher earnings on allocated capital.
- a slowing in the rate of decline in the UK Region to 20 basis points as the managed shift from unsecured consumer lending to lower margin business and secured home lending products works its way through the portfolio. This contraction is driving the net interest margin closer to its UK peers.
- an 11 basis point decline in the New Zealand Region due to lower lending margins from competitive pressures across the portfolio. This was partially offset by benefit on deposit margins of the 75 basis point increase in the Official Interest Rate during the half.

### September 2007 v September 2006

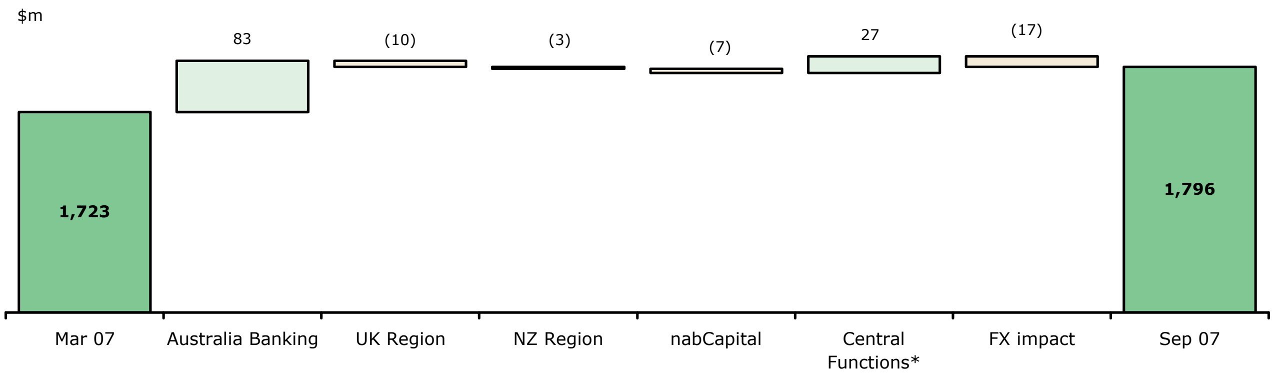
The Group's net interest margin declined 5 basis points. Key Regions' net interest margin movements on the September 2006 year are:

- a steady Australia Banking net interest margin over the year. Tightening of lending margins as competition intensified and the continued shift to lower margin products was offset by favourable deposit margins, improved funding mix and higher earnings on allocated capital.
- a decline of 48 basis points in the UK Region net interest margin reflecting the planned portfolio shift to lower margin business and secured homelending.
- a decline of 12 basis points in the New Zealand Region due to competitive pressure on lending margins, and increased reliance on wholesale funding. This was partially offset by the benefit on deposit margins of the 100 basis point increase in the Official Interest Rate over the year.

## Other Operating Income

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 07 v Mar 07 % | Sep 07 $m | Sep 06 $m | Sep 07 v Sep 06 % |
| Fees and commissions | **625** | 671 | (6.9) | **1,296** | 1,277 | 1.5 |
| Trading income | **260** | 113 | large | **373** | 389 | (4.1) |
| Other | **911** | 939 | (3.0) | **1,850** | 1,888 | (2.0) |
| **Other operating income** | **1,796** | 1,723 | 4.2 | **3,519** | 3,554 | (1.0) |

**Other operating income – contribution to net increase[(1)]**




* *Central Functions include Other (incl. Asia) and eliminations.*
(1) *At constant exchange rates.*

### September 2007 v March 2007

Other operating income increased by $73 million or 4.2% on the March 2007 half. This was driven by:

- Contribution from nabCapital largely as a result of growth in higher yielding businesses in Corporate Finance and Structuring and Investments, growth in securitisation fees, and an improved performance in Markets, as the business benefited from favourable positioning undertaken off client flows in its risk management areas following the recent credit market disruption;
- Positive treasury results of $61 million, $37 million in the Australia Region and $24 million in Group Funding, as a result of favourable movements on derivatives relating to Group Funding activities; and
- Impact of income from one-offs including Property sales in the UK;

Offset by:

- The sale within nabCapital of a large Project Finance exposure impacting the March 2007 half.

### September 2007 v September 2006

Other operating income decreased by $35 million or 1.0% on the September 2006 year. Key drivers of the result include:

- Adverse effects of hedging impacts in Group Funding/Treasury;
- The impact of an insurance recovery relating to AUSMAQ litigation costs and the provision of transitional services to Danske A/S in September 2006 year (with offsetting expenses recorded in operating expenses);

Offset by:

- Lending and account fees up $80 million due to increased volumes which have been partially offset by migration to lower fee products;
- nabCapital revenue mainly driven by strong performance in the Markets division; and
- Impact of income from one-offs occurring during the first half of the 2007, including the sale of a large Project Finance exposure.

### Wealth Management net operating income

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 07 v Mar 07 % | Sep 07 $m | Sep 06 $m | Sep 07 v Sep 06 % |
| **Wealth Management net operating income** | **677** | 609 | 11.2 | **1,286** | 1,123 | 14.5 |

### September 2007 v March 2007

Wealth Management performed strongly in a favourable economic environment for investments and within a competitive insurance market. Investments net income increased by $48 million or 11.6% for the September 2007 half driven by increased sales in MLC's advice based distribution business. Insurance net income increased $20 million or 10.2% through strong sales, particularly in the bank channel, and satisfactory claims experience.

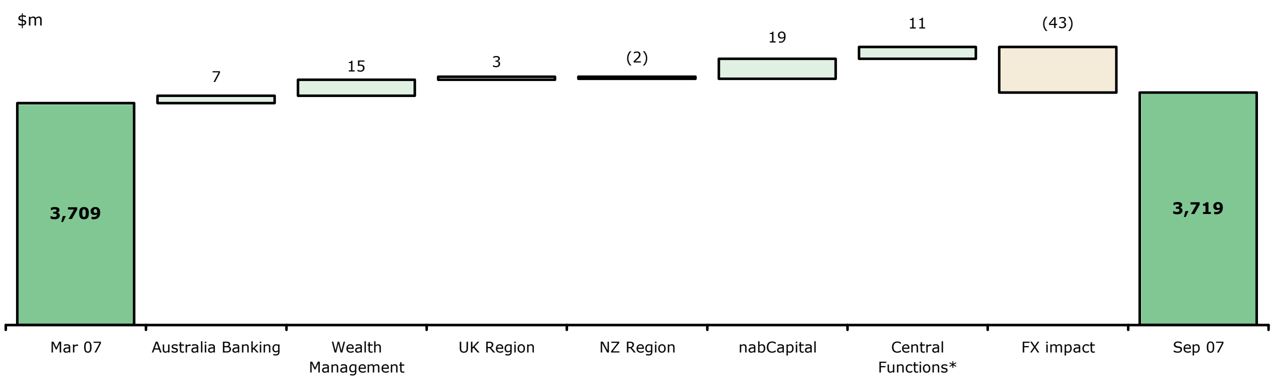
### September 2007 v September 2006

Wealth Management performed strongly over September 2006 in a favourable economic environment. Investments net income increased by $142 million or 19.4% for the September 2007 year and Insurance net income increased $21 million or 5.4%.

### Operating Expenses

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 07 v Mar 07 % | Sep 07 $m | Sep 06 $m | Sep 07 v Sep 06 % |
| Personnel expenses | **1,987** | 1,986 | (0.1) | **3,973** | 3,591 | (10.6) |
| Occupancy related expenses | **244** | 230 | (6.1) | **474** | 477 | 0.6 |
| General expenses | **1,116** | 1,136 | 1.8 | **2,252** | 2,572 | 12.4 |
| Wealth Management operating expenses | **372** | 357 | (4.2) | **729** | 720 | (1.3) |
| **Total operating expenses** | **3,719** | 3,709 | (0.3) | **7,428** | 7,360 | (0.9) |

**Operating expenses – contribution to net increase[(1)]**




* *Central Functions include Other (incl. Asia) and eliminations.*

(1) *At constant exchange rates.*

### September 2007 v March 2007

The Group's banking cost to income ratio decreased 190 basis points reflecting disciplined and sustainable cost management, notwithstanding continued investment in line with the Group's strategic priorities.

Operating expenses increased $10 million or 0.3% on the March 2007 half.

This is driven by:

- Personnel expense costs, which have been maintained at a similar level to the previous half;
- Increased investment spend, mainly in technology, relating to transformation and efficiency initiatives across the Group. As a consequence of this increased investment spend, the amortisation of capitalised software is up $10 million to $111 million for the half;
- Increased spend in business development as the Group progresses its strategic development capability;
- Higher occupancy costs mainly as a result of rent reviews during the half; and
- Higher brokerage commission due to an increase in commission sales;

Offset by:

- Reduced communication expenses due to favourable negotiation of agreements and resolution of disputes; and
- A reduction in non lending losses due to improved processes and procedures and the release of an $11 million provision relating to overcharging issues.

### September 2007 v September 2006

The Group's banking cost to income ratio decreased 370 basis points reflecting the success of the Group's transformation and efficiency initiatives.

Operating expenses increased by $68 million or 0.9% on the September 2006 year. This was driven by:

- Higher personnel expenses of $382 million due to salary rate increases and increases in performance based remuneration, offset by a reduction in pension expense as a result of the 2006 UK pension reforms. An increase in full time equivalent roles in customer facing parts of the Group have been offset by a decrease in administrative roles as part of successful efficiency initiatives; and
- Increases in investment spend as regions continue to invest in their strategic priorities. Amortisation of capitalised software is up $29 million on the September 2006 year;

Offset by:

- Reduced operating lease rental expense as the benefits from restructuring and efficiency programmes are realised;
- A reduction in outside service expense, mainly legal and consultancy, as some major compliance projects and litigation matters are finalised;
- A reduction in the charge to provide for operational risk event losses due to improved processes and procedures along with non-recurring costs of $53 million incurred during 2006 relating to an overcharging issue;
- Reduced equipment expense as a result of upgrade costs incurred in 2006.

## Taxation

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 07 v Mar 07 % | Sep 07 $m | Sep 06 $m | Sep 07 v Sep 06 % |
| **Income tax expense** | **877** | 845 | (3.8) | **1,722** | 1,563 | (10.2) |

### September 2007 v March 2007

Income tax expense is $32 million or 3.8% higher than the March 2007 half.

The higher income tax expense for the September 2007 half is due to an increase in cash earnings before tax in all regions.

The effective income tax rate (cash basis – ongoing operations) for the September 2007 half of 26.4% compares to 27.9% for the March 2007 half. This is largely due to the release of prior year over provisions following the lodgement of the Group's 2006 tax returns.

### September 2007 v September 2006

Income tax expense is $159 million or 10.2% higher than the September 2006 year.

The higher income tax expense for the September 2007 year is due to an increase in cash earnings before tax in all regions.

The effective income tax rate (cash basis – ongoing operations) for the September 2007 year of 27.1% has decreased from 28.5% for the September 2006 year. This is mainly due to the release of prior year over provisions following the lodgement of the Group's 2006 tax returns.

For details of the Group's contingent tax liabilities refer to note 14 of the Financial Report.

## Summary Balance Sheet

| | As at | | | | |
|---|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 06 $m | Sep 07 v Mar 07 % | Sep 07 v Sep 06 % |
| **Assets** | | | | | |
| Cash and liquid assets | **12,796** | 13,761 | 12,768 | (7.0) | 0.2 |
| Trading securities | **21,272** | 12,826 | 13,740 | 65.9 | 54.8 |
| Investments - available for sale | **1,345** | 2,134 | 1,493 | (37.0) | (9.9) |
| Investments - held to maturity | **5,016** | 1,910 | 1,388 | large | large |
| Investments relating to life insurance business | **62,630** | 59,056 | 54,784 | 6.1 | 14.3 |
| Loans and advances at fair value | **19,564** | 17,832 | 16,774 | 9.7 | 16.6 |
| Other assets at fair value | **5,625** | 5,271 | 5,349 | 6.7 | 5.2 |
| Other financial assets at fair value | **25,189** | 23,103 | 22,123 | 9.0 | 13.9 |
| Loans and advances including acceptances | **370,192** | 344,178 | 325,503 | 7.6 | 13.7 |
| Goodwill and other intangible assets | **5,368** | 5,268 | 5,203 | 1.9 | 3.2 |
| Other assets | **60,826** | 46,599 | 47,783 | 30.5 | 27.3 |
| **Total assets** | **564,634** | 508,835 | 484,785 | 11.0 | 16.5 |
| **Liabilities** | | | | | |
| Due to other banks | **42,566** | 38,262 | 37,489 | 11.2 | 13.5 |
| Deposits at fair value | **14,133** | 12,987 | 10,622 | 8.8 | 33.1 |
| Other liabilities at fair value | **7,717** | 8,579 | 7,058 | (10.0) | 9.3 |
| Other financial liabilities at fair value | **21,850** | 21,566 | 17,680 | 1.3 | 23.6 |
| Deposits and other borrowings | **254,225** | 222,456 | 222,277 | 14.3 | 14.4 |
| Liability on acceptances | **30,443** | 35,678 | 32,114 | (14.7) | (5.2) |
| Life policy liabilities | **53,097** | 50,380 | 46,475 | 5.4 | 14.2 |
| Provisions | **1,359** | 1,291 | 1,618 | 5.3 | (16.0) |
| Bonds, notes and subordinated debt | **80,983** | 70,738 | 65,006 | 14.5 | 24.6 |
| Other liabilities | **50,226** | 38,897 | 34,154 | 29.1 | 47.1 |
| **Total liabilities** | **534,749** | 479,268 | 456,813 | 11.6 | 17.1 |
| **Net assets** | **29,885** | 29,567 | 27,972 | 1.1 | 6.8 |
| **Equity** | | | | | |
| Equity (parent entity interest) | **29,571** | 29,236 | 27,804 | 1.1 | 6.4 |
| Minority interest in controlled entities | **314** | 331 | 168 | (5.1) | 86.9 |
| **Total equity** | **29,885** | 29,567 | 27,972 | 1.1 | 6.8 |

**Total assets** at 30 September 2007 increased by $55,799 million from 31 March 2007, and $79,849 million from 30 September 2006. Excluding the impact of exchange rate movements, total assets grew 13.0% during the September 2007 half. The increase in total assets during the half and full year was mainly driven by the good growth in loans and advances (including acceptances and loans at fair value) across regions. Trading securities increased, in response to the market disruption in the latter part of the September half, in order to hold liquidity to fund any potential short term requirements.

Also included within other assets are $348 million (31 March 2007 $350 million; 30 September 2006 $328 million) of assets relating to the Commercial Fleet business that has been excluded from Cash earnings – ongoing operations. A sale agreement has been entered into to dispose of this business that will complete post year end.

**Total liabilities** at 30 September 2007 increased by $55,481 million from 31 March 2007 and $77,936 million from 30 September 2006. Excluding the impact of exchange rate movements, total liabilities grew 13.3% during the September 2007 half and 19.7% for the year. The increase in total liabilities during the half and full year was mainly driven by the growth in deposits and other borrowings (including deposits accounted for at fair value), life policy liabilities and bonds, notes and subordinated debt. This growth reflects strong retail deposit growth and increased funding required to meet the additional lending activity including strong growth in retail deposits in all regions.

**Total equity** at 30 September 2007 increased to $29,885 million from $29,567 million at 31 March 2007 and $27,972 million at 30 September 2006. While equity was relatively stable in the September 2007 half, the increase in total equity during the year was primarily driven by the conversion of exchangeable capital units to ordinary shares amounting to $1,335 million. These increases were largely offset by the share buy back of $1,200 million, and an increase in retained profits. Minority interest in controlled entities represents third party interests in structured finance entities consolidated by the Group.

## Lending

| | As at | | | | |
|---|---|---|---|---|---|
| | **Sep 07 $m** | **Mar 07 $m** | **Sep 06 $m** | **Sep 07 v Mar 07 %** | **Sep 07 v Sep 06 %** |
| **Housing** | | | | | |
| Australia Region | **141,086** | 134,902 | 129,968 | 4.6 | 8.6 |
| UK Region | **25,109** | 24,785 | 23,976 | 1.3 | 4.7 |
| New Zealand Region | **19,582** | 19,241 | 17,787 | 1.8 | 10.1 |
| nabCapital | **32** | 32 | 31 | - | 3.2 |
| Total housing | **185,809** | 178,960 | 171,762 | 3.8 | 8.2 |
| **Non-housing** | | | | | |
| Australia Region | **54,898** | 50,412 | 46,049 | 8.9 | 19.2 |
| UK Region | **37,338** | 35,247 | 33,771 | 5.9 | 10.6 |
| New Zealand Region | **15,734** | 15,035 | 14,396 | 4.6 | 9.3 |
| nabCapital | **51,544** | 40,888 | 38,981 | 26.1 | 32.2 |
| Central Functions | **5** | 8 | 4 | (37.5) | 25.0 |
| Total non-housing | **159,520** | 141,590 | 133,201 | 12.7 | 19.8 |
| Bill acceptances | **49,322** | 45,952 | 41,726 | 7.3 | 18.2 |
| **Gross loans and advances(1)** | **394,651** | 366,502 | 346,689 | 7.7 | 13.8 |

(1) *Including acceptances and loans at fair value.*

Lending growth for the September 2007 half year and 2007 full year remained strong compared with prior periods.

Non-housing lending growth has been driven by:

- In Australia, volume growth in non-housing of 8.9% for the September 2007 half and 19.2% for the full year was a result of the strength of relationship banking within the business bank.
- In the UK, non-housing lending grew by 5.9% for the September 2007 half and 10.6% for the full year reflecting the maturing of and growth provided by the iFS network and strategy.
- nabCapital lending increased by 26.1% from March 2007 and 32.2% from September 2006. This is primarily attributable to strong ongoing origination activity within Institutional Banking and Corporate Finance. At 30 September 2007 nabCapital had $5.1 billion of liquidity lines drawn down from nabCapital sponsored securitisation conduits.

Housing lending growth has been driven by:

- Australian housing lending grew by 4.6% during the September 2007 half and by 8.6% for the full year. The increase reflects sound systems growth in housing and solid growth in variable rate products and fixed rate mortgages.
- In the UK, an increase in housing lending of 1.3% for the September 2007 half and by 4.7% from September 2006, as a result of the implementation of its strategy of increasing targeted volume growth expansion through secured lending at the expense of unsecured.
- In New Zealand, housing lending increased by 1.8% from March 2007 and by 10.1% from the September 2006 year as the BNZ continues to focus on profitable volume growth.

Bill acceptances increased by 7.3% from March 2007 and by 18.2% from September 2006. Bill acceptances continue to be a product favoured by business customers primarily within Australia due to flexibility and dynamic market pricing.

### Marketable debt securities

Marketable debt securities increased by $10,763 million or 63.8% during the September 2007 half to $27,633 million from $16,870 million at 31 March 2007 and by $11,012 million or 66.3% from $16,621 million at 30 September 2006.

Trading securities increased by $8,446 million or 65.9% during the September 2007 half to $21,272 million from $12,826 million at 31 March 2007 and by $7,532 million or 54.8% from $13,740 million at 30 September 2006. Trading securities increased as a consequence of the general liquidity tightening in August / September as a result of the recent credit market disruption. The Group increased short–term trading securities to ensure sufficient liquidity to meet potential obligations. This was achieved by acquiring a mix of certificates of deposit, promissory notes and bank bills.

Investments held to maturity increased by $3,106 million or 162.6% during the September 2007 half to $5,016 million from $1,910 million at 31 March 2007 and by $3,628 million or 261.4% from $1,388 million at 30 September 2006. The main driver for this was securities purchased with funds generated from a securitisation transaction undertaken in the UK Region during the September 2007 half.

### Investments relating to life insurance business and life insurance liabilities

Investments relating to life insurance business increased by $3,574 million or 6.1% during the September 2007 half to $62,630 million from $59,056 million at 31 March 2007 and by $7,846 million or 14.3% from $54,784 million at 30 September 2006. The continued increase during the September 2007 half in life insurance business investments primarily reflects continued strong equity market conditions in relevant markets, particularly Australian equity markets, as well as growth in funds under management.

The increase in investments relating to life insurance business was largely offset by an increase in life insurance liabilities as the movement in investment assets primarily reflects returns made on policyholder contributions to the investment linked businesses. As a result, life insurance liabilities have increased by $2,717 million or 5.4% to $53,097 million from $50,380 million at 31 March 2007 and by $6,622 million or 14.2% from $46,475 million at 30 September 2006.

### Goodwill and other intangible assets

Goodwill and other intangible assets have increased by $100 million or 1.9% on March 2007 and $165 million or 3.2% on September 2006. The main source of the increase is the Group's continued investment in software to support its strategic objectives. The Group's principal software development initiatives during the year include:

- Infrastructure projects in the Australia Region to provide a stabilised, consistent platform for enhanced efficiency, increased employee mobility, and superior customer service;
- Improved front and back office technology platforms in the UK; and
- nabCapital's Strategic Investment Program (SIP) which is focused on delivering key technology initiatives, mainly in the Markets business, to improve product capability, simplicity, flexibility and cost effectiveness.

The full movement in capitalised software is as follows:

| | Half year to | | Year to | |
|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 07 $m | Sep 06 $m |
| Balance at beginning of period | **766** | 697 | **697** | 614 |
| Additions | **237** | 179 | **416** | 309 |
| Disposals and write-offs | **(5)** | - | **(5)** | (23) |
| Amortisation | **(111)** | (101) | **(212)** | (183) |
| Impairment losses recognised | **(3)** | (1) | **(4)** | (1) |
| Foreign currency translation adjustments | **(16)** | (8) | **(24)** | (19) |
| **Capitalised application software** | **868** | 766 | **868** | 697 |

### Deposits and other borrowings

| | As at | | | | |
|---|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 06 $m | Sep 07 v Mar 07 % | Sep 07 v Sep 06 % |
| Australia Region | **124,354** | 110,919 | 113,644 | 12.1 | 9.4 |
| UK Region | **36,968** | 34,759 | 33,555 | 6.4 | 10.2 |
| New Zealand Region | **18,332** | 18,723 | 17,522 | (2.1) | 4.6 |
| nabCapital | **83,145** | 66,395 | 63,788 | 25.2 | 30.3 |
| Central Functions | **5,559** | 4,647 | 4,390 | 19.6 | 26.6 |
| **Deposits and other borrowings (1)** | **268,358** | 235,443 | 232,899 | 14.0 | 15.2 |
| *Represented by:* | | | | | |
| Deposits at fair value | **14,133** | 12,987 | 10,622 | 8.8 | 33.1 |
| Deposits and other borrowings | **254,225** | 222,456 | 222,277 | 14.3 | 14.4 |
| **Deposits and other borrowings (1)** | **268,358** | 235,443 | 232,899 | 14.0 | 15.2 |

(1) *Including deposits and other borrowings at fair value*

Total deposits and other borrowings (including deposits and other borrowings at fair value) increased by $32,915 million or 14.0% during the September 2007 half to $268,358 million from $235,443 million at 31 March 2007 and by $35,439 million or 15.2% from $232,899 million at 30 September 2006.

Certificates of deposit have increased by $15 billion in Australia during the half as a consequence of the general liquidity tightening in August/September as a result of the credit market disruption. The decision was made to hold liquidity throughout this period to fund any potential short-term need and to fund acceptances originated from the Australia Region. There are corresponding increases in both investment securities and due from acceptances.

Additionally there is strong growth in retail deposit volumes (i.e. on-demand and short-term deposits) in most business segments, as well as term deposit growth in Australia, UK and New Zealand. In Australia, growth has resulted from the continued success of the

Business Cash Maximiser and iSaver products. Growth in the UK region was primarily in retail and term deposits and in particular the base rate tracker product. This resulted from the continued expansion and maturity of the iFS Centres across South East England, and improved sales focus and pricing initiatives.

### Provisions

Provisions have increased by $68 million or 5.3% on March 2007, however have decreased by $259 million or 16.0% from September 2006.

The balance remaining of the provision relating to the 2005 restructuring programme is $72 million at 30 September 2007. A breakdown of the movement in this provision is shown below.

While essentially complete, the Group intends to fully utilise the remaining restructuring provision balance with the restructuring benefits exceeding our original estimates.

| | Redun-dancies $m | Occu-pancy $m | Other $m | Total $m |
|---|---|---|---|---|
| **Balance at 30 Sep 2006** | 140 | 85 | 21 | **246** |
| Utilisation in Mar 07 half year | (49) | (6) | (9) | **(64)** |
| Foreign exchange translation adjustments | (2) | (1) | (1) | **(4)** |
| **Balance at 31 Mar 2007** | 89 | 78 | 11 | **178** |
| Utilisation in Sep 07 half year | (70) | (23) | (6) | **(99)** |
| Foreign exchange translation adjustments | (3) | (3) | (1) | **(7)** |
| **Balance at 30 Sep 2007** | 16 | 52 | 4 | **72** |

### Bonds, notes and subordinated debt

Bonds, notes and subordinated debt increased by $10,245 million or 14.5% during the September 2007 half to $80,983 million from $70,738 million at 31 March 2007 and by $15,977 million or 24.6% from $65,006 million at 30 September 2006. The continued increase during the year substantially reflects the issuance undertaken to fund asset growth and strengthen the balance sheet structure. This is achieved through utilising various debt issuance programs available to the Group.

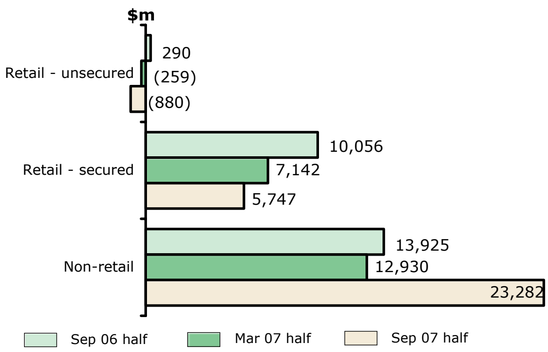
Further detail and discussion on the Group's funding mix and management of funding base, particularly during the volatile capital markets in the latter months of the September 2007 half, are included within the Capital and Funding discussions on pages 26-27.

## Asset Quality

### Asset composition

The Group has recorded good lending growth in each of its regions during the September 2007 half and full year in a competitive environment.

**Group Asset Composition - Growth by Product Segment**




From a mix perspective, non-retail growth of 12.7% for the September 2007 half and 19.8% for the full year has outpaced that of housing across all regions of 3.8% and 8.2% for the corresponding periods. In the UK Region and Australia Banking, growth in credit card and personal lending has been restrained as the portfolio tilts towards business and housing.

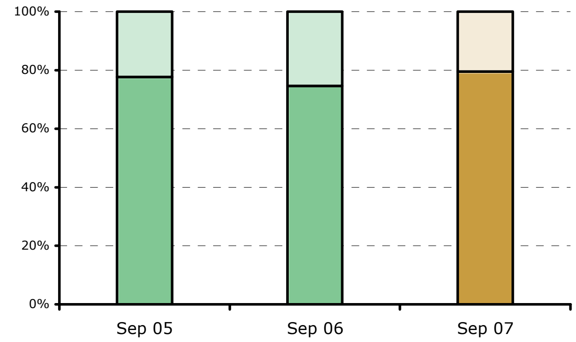
### Trends in the ratings of non-retail exposures

As advised in the March 2007 half-year Results Announcement, the Group implemented new non-retail models for probability of default (customer risk score), and loss given default (security) in Australia Banking. Furthermore, the Group advised that it would commence measuring its loan portfolio based upon an Expected Loss methodology [(1)]. During the half-year to September 2007, new models were also implemented in the UK, New Zealand, and nabCapital Regions.

Based upon Expected Loss methodology, the volume of non-retail investment grade equivalent (AAA to BBB-) exposures for the Group as at September 2007 remained strong and in line with management expectations and risk appetite levels at 79.5%.

[(1)] *Expected Loss is the product of Probability of Default x Exposure at Default x Loss Given Default. This Expected Loss methodology is adjusted for accounting purposes to reflect the incurred loss methodology required under accounting standards.*

**Non-Retail Lending Customer Risk Distribution (Group)**




### Non Impaired Assets 90+ days past due

As advised in the March 2007 half-year Results Announcement, the Group has reviewed the basis of its impairment definition. This has resulted in the Group reclassifying defaulted loans where there is no loss expected, from impaired assets to non-impaired assets 90+ days past due (90+ DPD) in order to better reflect industry standards. Prior year comparisons have been amended to reflect this change.

The proportion of 90+ DPD to gross loans and acceptances increased by 5 basis points for the year (or $314 million to $1,207 million), primarily due to increases in Australia Banking and UK region. The increase was evenly distributed between housing and business lending. This reflects some softening in asset quality in certain segments following successive interest rate increases. Two thirds of the Group's total 90+ DPD loans are secured by residential mortgages which typically have very low loss rates.

In the Australia Region 90+ DPD loans increased by $172 million during the first half of the year. This reflects the soft economic and credit environment in NSW, particularly in the mortgage belt of South West Sydney. During the second half of the year, active management of arrears with additional resources to support enhanced collections processes, and the tightening of retail scorecards has seen 90+ DPD loans fall by $5 million.

In the UK Region 90+ DPD loans increased by $61 million during the first half of the year and $66 million during the half year to September 2007. These increases are primarily due to the impact of five successive interest rate rises in the UK.

The New Zealand Region recorded growth of $20 million in 90+ DPD. However, the volume of loans remains low in both absolute and relative terms as a proportion of the total lending portfolio.

nabCapital continues to have no 90+ DPD.

### Impaired Assets

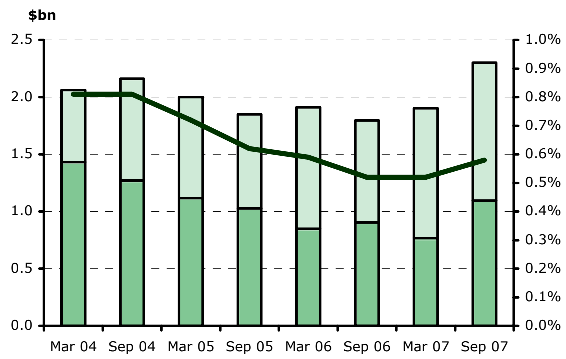
The ratio of gross impaired assets to gross loans and acceptances has increased 2 basis points over the year to 0.28%. This was after a fall in the first half to 0.21%, which reflected the exit of a single large impaired exposure.

The year on year increase in gross impaired assets of $190 million is primarily in secured retail loans which amount to $133 million. The increase is predominately in Australia Banking and, as discussed above, is due to the conditions in NSW.

Small increases in both the UK and NZ Regions have occurred, in credit environments that have been impacted by rising interest rates, albeit from low levels relative to their respective gross loans and acceptances.

The second half increase also reflects a small number of larger corporate exposures within Australia Banking and nabCapital.

**Total 90 days Past Due and Gross Impaired Assets as % of Gross Loans and Acceptances**




As can be noted from the chart, despite the rise in 90+ DPD and gross impaired assets as a percentage of gross loans and acceptances, the ratio of 0.58% is 73% of the 2004 level of 0.80% and below the long run average

### Specific Provisions to Gross Impaired Assets

| As at | | | | | | | |
|---|---|---|---|---|---|---|---|
| Mar 04 % | Sep 04 % | Mar 05 % | Sep 05 % | Mar 06 % | Sep 06 % | Mar 07 % | Sep 07 % |
| 33.5 | 32.3 | 34.9 | 34.9 | 29.9 | 20.4 | 25.4 | **28.1** |

### Provisioning Coverage

The Group's total provisions of $2,309 million have increased by $52 million during the half year to September 2007 and $153 million when compared to September 2006.

A small improvement in the total provisions to net write offs from 391% to 396% occurred during the full year to September 2007.

Specific provisions increased by $112 million during the half year to September 2007 and $123 million when compared to September 2006. This increase was driven by a small number of larger corporate exposures in nabCapital and Australia Banking, together with volume increases in the non retail portfolio.

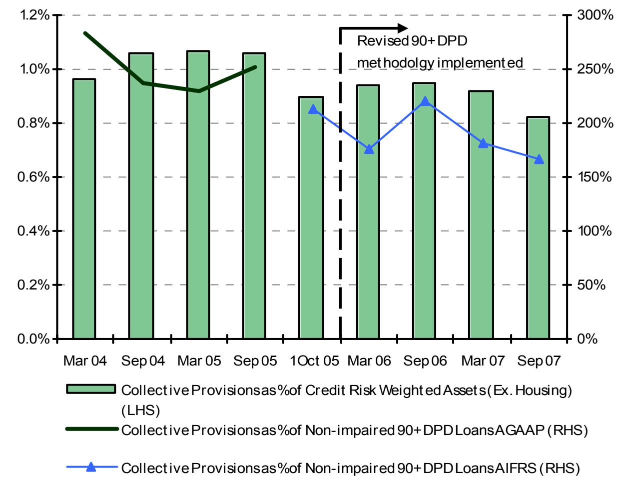
The ratio of specific provisions to gross impaired assets has increased by 270 basis points to 28.1% during the half to September 2007 (20.4% at September 2006).

Total collective provisions (including the credit risk adjustment on assets at fair value) fell by $60 million during the half year to September 2007 and increased by $30 million when compared to September 2006. This included a reduction due to foreign currency translation of $102 million primarily relating to the UK Region. As a result, over the half year to September 2007, the Group's ratio of collective provisions to credit risk weighted assets (ex housing) declined by 10 basis points to 0.82%. It has fallen 13 basis points when compared to September 2006.

As mentioned previously, the Group has implemented a suite of new non retail models that have provided enhanced modelling capability, both in terms of granularity and predictability. This has seen a general level of underlying improvement in customer ratings. In addition, there have been a number of nabCapital watch loans, with attaching high levels of collective provision, which have been favourably reviewed and re-rated during the second half of the year. There has also been a general improvement in the delinquency profile and loss rates for unsecured consumer products.

The ratio of total provisions to gross loans and acceptances has fallen by 3 basis points to 0.59% during the second half of the year, having remained stable at 0.62% during the first half. Australian Banking and the New Zealand Region have shown improvement whilst the UK Region has remained stable when compared to September 2006. nabCapital has declined reflecting the underlying movement in collective provisions, discussed above.

**Collective Provisions to Credit Risk Weighted Assets (excl. Housing)**

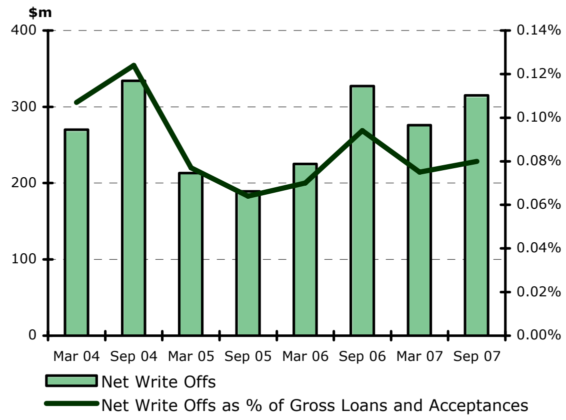



A General Reserve for Credit Losses is required by APRA to be created by transfers from Retained Earnings equivalent to the amount required to bring collective provisions up to 0.5% of credit risk weighted assets on a post tax basis. This reserve has increased by $133 million for the half year to September 2007 ($190 million for the full year). The calculation of this Reserve does not take into account actual experience of credit quality in terms of write offs or the nature of delinquencies, nor the output of the Group's credit models.

### Net Write Offs

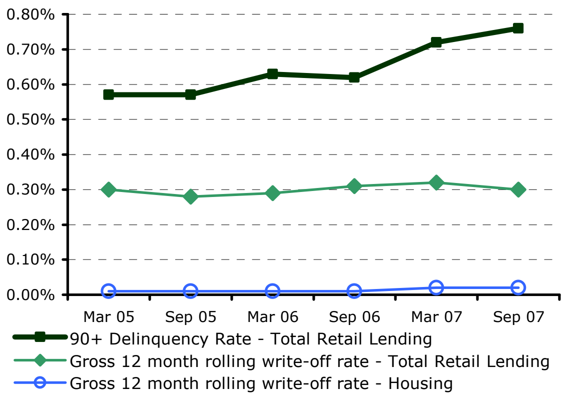
The proportion of net write offs to gross loans and acceptances remained steady during the half year to September 2007 at 0.08% and down 1 basis point to 0.15% for the full year. The levels of net write offs continue to be sustained at low levels. The majority of net write offs continue to be experienced within the unsecured personal credit portfolios of Australia Banking and the UK Region together with a large single write off in nabCapital.

**Group Half Yearly Net Write Offs**




Despite the rise in retail credit 90+ delinquencies during the second half of the year, the gross 12-month rolling write off rate declined by 2 basis points to 0.30% at September 2007, reflective of a broad range of initiatives undertaken by all regions to improve the management of retail delinquencies. The write off rate for housing remains at negligible levels.

**90+ Delinquency and Gross 12 Month Rolling Write Off Rates for Total Retail Lending**




*90+ Delinquencies are the sum of retail non-impaired 90+ DPD and impaired assets.*

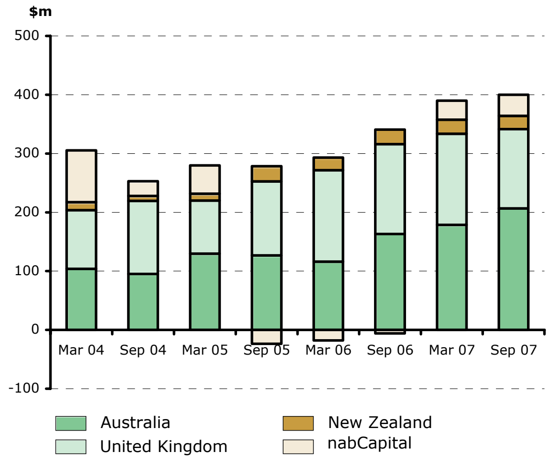
## Bad & Doubtful Debt Charge

The total charge for bad and doubtful debts increased by 3% to $400 million during the half year to September 2007.

Full year growth of 30.6% to $790 million (September 2006 full year $605 million) is within management expectations and primarily the result of softening credit conditions and a reduction in the level of specific write backs when compared to the September 2006 full year.

The ratio of B&DD charge to credit risk weighted assets fell 2 basis points to 0.22% during the half year to September 2007 and increased by 2 basis points when compared to September 2006.

**Total Bad and Doubtful Debt Charge**




## Earnings per Share

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | **Sep 07 cents** | **Mar 07 cents** | **Sep 07 v Mar 07 %** | **Sep 07 cents** | **Sep 06 cents** | **Sep 07 v Sep 06 %** |
| Earnings per Share | | | | | | |
| Basic | **143.7** | 125.2 | 14.8 | **269.0** | 262.6 | 2.4 |
| Diluted | **143.4** | 124.6 | 15.1 | **268.4** | 261.8 | 2.5 |
| Cash Earnings per Share | | | | | | |
| Basic | **142.5** | 127.6 | 11.7 | **270.1** | 233.0 | 15.9 |
| Diluted | **142.1** | 126.2 | 12.6 | **268.5** | 230.6 | 16.4 |

### September 2007 v March 2007

Basic cash earnings per share increased 14.9 cents or 11.7% on the March 2007 half. Diluted cash earnings per share has increased 15.9 cents or 12.6% on the March 2007 half driven by cash earnings growth and the dilutive impact of ExCaps during the first half.

### September 2007 v September 2006

Basic cash earnings per share increased 37.1 cents or 15.9% on September 2006 and diluted cash earnings per share has increased 37.9 cents or 16.4%. This was due to cash earnings growth and the dilutive impact of exchangeable capital units during the 2006 year along with the share buyback that has been undertaken by the Group throughout the 2007 year.

For details of Earnings per share, Cash Earnings per share and movement in number of ordinary shares refer to notes 5 and 6 in Section 6.

## Capital Management

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

| | Target Ratio [1] % | As at Sep 07 % | Mar 07 % | Sep 06 % |
|---|---|---|---|---|
| ACE ratio [2] | 4.25 – 5.00 | **4.90** | 5.46 | 5.35 |
| Tier 1 ratio | 6.00 – 6.75 | **6.67** | 7.33 | 7.35 |
| Total capital ratio | | **9.99** | 10.51 | 10.81 |

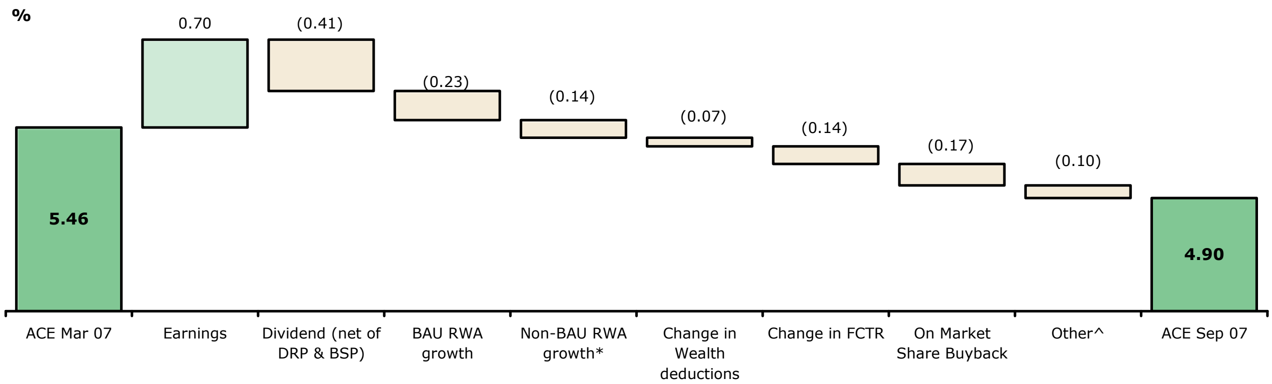
| | As at Sep 07 $m | Mar 07 $m | Sep 06 $m |
|---|---|---|---|
| Risk-weighted assets – credit risk | **351,410** | 327,027 | 304,771 |
| Risk-weighted assets – market risk [3] | **3,856** | 3,430 | 13,552 |
| Total risk-weighted assets | **355,266** | 330,457 | 318,323 |

(1) *The Tier 1 range has been revised to 6.00%-6.75%, the previous range was 6.25%-7.00%. In the second half of 2006, the Tier 1 range was revised from 7.00%-7.50% to 6.25%-7.00% and the ACE range was revised from 4.75%-5.25% to 4.25%-5.00%.*

(2) *Refer to note 4 in Section 6 for definition.*

(3) *APRA re-accredited the Group's internal method to calculate the market risk component of risk-weighted assets during the first half of 2007.*

**Movement in ACE ratio**




* *Defined as the draw downs of liquidity facilities, increased holdings of liquid assets as part of the Group's balance sheet management and increased drawings by clients due to the disruption in credit markets.*

^ *Primarily changes in deductions including the general reserve for credit losses (-4 basis points), capitalised software (-3 basis points) and other deductions (-3 basis points).*

### Capital movements during the period

The Group has revised its Tier 1 target range from 6.25%-7.00% to 6.00%-6.75%. This reflects the Group's focus on an efficient capital structure and is consistent with the Group's credit rating and peers. There is no change to the ACE target range.

The Group's ACE and Tier 1 ratios are within their respective target ranges. The decrease in the capital ratios reflected the continuing strong growth in credit risk-weighted assets, including the effect of recent events in the global credit markets, and the impact of the on-market share buyback.

During the September 2007 half, the Group successfully completed the announced capital management programme. This included the purchase of $106 million shares on-market to neutralise the capital impact of shares issued under the dividend reinvestment plan and $546 million shares bought back on-market to complete the announced buyback. This was in addition to $0.7 billion of the capital management programme completed in the March 2007 half. Overall, the Group's capital management programme during the year amounted to $1.5 billion.

As noted previously, over the September 2007 half the Group experienced continued strong growth in risk-weighted assets, particularly in business lending. In the latter part of the half, the disruption in credit markets led to draw downs of liquidity facilities, increased holdings of liquid assets as part of the Group's balance sheet management and increased drawings by clients. As at 30 September 2007, the aggregate effect of these impacts was to increase nabCapital's risk-weighted assets by approximately $10 billion (or 14 basis points of ACE).

### Additional Tier 1 impacts from 1 January 2008

As part of APRA's adoption of Basel II, from 1 January 2008 the Prudential Standards will require banks' regulatory deductions previously taken from Total Capital to be taken 50% from Tier 1 and 50% from Total Capital. For the Group, this will impact Tier 1 by approximately $0.7 billion, relating primarily to Wealth Management. It will have no impact on ACE.

As previously highlighted, the Group currently includes $0.5 billion in its Tier 1 which relates to the profit, arising in the banking group, from the sale of the life insurance businesses of Bank of New Zealand and National Australia Group Europe to Wealth Management subsidiaries. As expected, the regulatory treatment will change with effect from 1 January 2008 and the profit on sale will no longer be included in Tier 1.

Together these impacts amount to approximately 31 basis points of Tier 1, effective 1 January 2008.

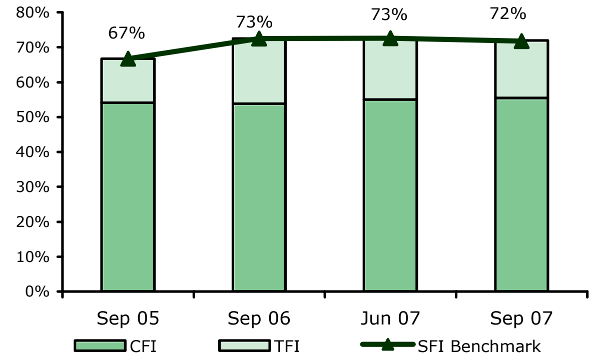
The Group expects to achieve advanced accreditation under Basel II in 2008, except fro the UK Region (refer to page 28). The Group will be in discussion with APRA to agree the extent of capital relief, and is not relying on transitional relief to support regulatory capital following AIFRS implementation.

## Funding

The Group employs a set of internal measures to gauge the strength of its balance sheet funding. The focus of these measures is the Stable Funding Index (SFI) which comprises a Term Funding Index (TFI) plus Customer Funding Index (CFI). TFI is defined as Term Wholesale Funding with a remaining maturity greater than 12 months divided by Core Assets (further definition provided in the Glossary). CFI is a measure of customer deposits divided by Core Assets. The securitisation of balance sheet assets impacts these funding indices by reducing Core Assets. The Group targets an SFI of around 70%.

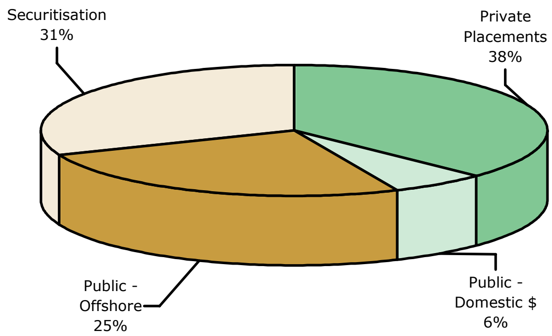
Over the past 2 years the Group has undertaken a number of steps to improve its SFI. Initiatives have included broadening the investor base for term wholesale funding, improving securitisation capability and targeting increased customer deposits. In the 12 months to September 2007 the Group's SFI fell from 72.5% to 71.8%. The decline was due to reduced term wholesale funding issuance following the period of market volatility induced by the collapse of the US sub-prime mortgage market. The Group was still able to demonstrate good access to term wholesale funding during this period. The strong Group SFI leading into the period meant that normal wholesale funding activity could be reduced in the face of limited market liquidity. TFI decreased from 18.7% in September 2006 to 16.4% in September 2007. The reduction in SFI was offset by strong growth in customer deposits with the CFI increasing from 53.8% to 55.5%.

**Group Funding Indices (CFI, TFI and SFI)**

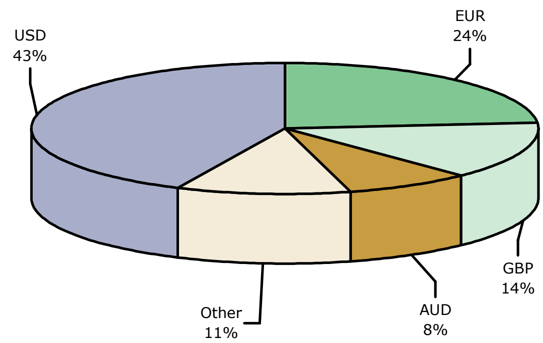



The mix of term wholesale funding raised during the 2007 financial year (including securitisation) is displayed below. In total the Group raised $32.7billion of term wholesale funding (including securitisation) during the year, which is on top of $35billion raised the previous year. The weighted average maturity of term wholesale funds raised in 2006/7 is approximately 3.5 years.

**2006/2007 Wholesale Funding by Deal Type (1)**




**2006/2007 Wholesale Funding Currency (1)**




The Group's long term debt ratings are: NAB Limited AA/Aa1; BNZ Limited AA/Aa2; Clydesdale Bank PLC AA-/Aa3; and National Wealth Management Holding Ltd AA-.

(1) *2007 full year average*

## Full-time equivalent employees

| | As at | | | | |
|---|---|---|---|---|---|
| | **Sep 07** | **Mar 07** | **Sep 06** | **Sep 07 v Mar 07 %** | **Sep 07 v Sep 06 %** |
| Australia Banking | **18,621** | 18,628 | 18,272 | - | 1.9 |
| Wealth Management Australia | **3,820** | 3,900 | 3,952 | (2.1) | (3.3) |
| Other (incl. Asia) | **159** | 146 | 173 | 8.9 | (8.1) |
| Australia Region | **22,600** | 22,674 | 22,397 | (0.3) | 0.9 |
| UK Region | **8,850** | 9,046 | 8,822 | (2.2) | 0.3 |
| New Zealand Region | **4,444** | 4,465 | 4,505 | (0.5) | (1.4) |
| nabCapital | **2,239** | 2,188 | 2,075 | 2.3 | 7.9 |
| Central Functions | **689** | 660 | 620 | 4.4 | 11.1 |
| **Total full time equivalent employees (FTEs)** | **38,822** | 39,033 | 38,419 | (0.5) | 1.0 |
| | | | | | |
| **Average half year FTEs** | **39,093** | 38,855 | 38,470 | 0.6 | 1.6 |

FTEs have decreased 211 from March 2007. This is mainly due to decreases in the Australia Region, UK Region and New Zealand Region from restructuring and the implementation of cost saving programmes.

These decreases have been partly offset by increases in nabCapital and Central Functions. Increases in nabCapital are attributable to additional FTE's in revenue generating business units required to support business growth and increases in project resources.

Increases in Central Functions is due to additional project resources along with new business development.

## Other Matters

### Basel II

On 26 June 2004, the Basel Committee on Banking Supervision endorsed the publication of the 'International Convergence of Capital Measurement and Capital Standards: a Revised Framework', commonly referred to as Basel II. The implementation process of Basel II into Australian regulation has been defined by the Australian Prudential Regulatory Authority (APRA) through the release of its prudential standards.

At the heart of Basel II is a series of best practice risk management and capital management methods that are integral to the Group's approach to running its business. Risk appetite is an integral part of the operational and strategic planning process for the Group. The setting and monitoring of the Group's risk appetite is supported by the Group's implementation of credit, operational and market risk tools defined by the Basel II framework as well as its Internal Capital Adequacy Assessment Process (ICAAP) and Economic Capital framework and model.

Basel II allows for several increasingly sophisticated approaches for Credit and Operational Risk. The Group is targeting accreditation in a phased manner due to the nature of its operations, which are located in three regulatory jurisdictions.

The Group already has advanced accreditation for Traded Market Risk. The Group is targeting advanced accreditation for Operational Risk (AMA) and Credit Risk (IRB) for the Australian, nabCapital and New Zealand operations during 2008, as per the requirements of APRA and the Reserve Bank of New Zealand (RBNZ). All submissions for AMA have been made to these regulators. IRB models for our material portfolios are developed and in use, and are part of the Group's agreed implementation timetable with APRA and RBNZ.

The Group's UK operations, regulated by the Financial Services Authority (FSA) as the local regulator, are expected to commence standardised operational risk and credit risk accreditation on 1 January 2008 in accordance with the FSA's requirements. The UK operations will move to advanced accreditation for operational risk and credit risk at a timing agreed with APRA and the FSA.

The Group will submit its Interest Rate Risk in the Banking Book (IRRBB) accreditation application in December 2007 in accordance with the timetable set out by APRA for advanced banks, and anticipates achieving IRRBB accreditation in June 2008.

### Basel II Accreditation and Capital Relief

Under Basel II, the Group will continue to target an appropriate level of capital commensurate with its risk profile. APRA has stated that any capital relief will be limited to 10% of Basel I levels during 2008 and 2009. The Group will be in discussions with APRA to agree the extent of capital relief with the implementation of Basel II.

## US Securities and Exchange Commission ("SEC") Deregistration

On 21 June 2007, the Group announced to the Australian Securities Exchange that it had applied to terminate the registration of its ordinary shares and registered US debt offerings under the United States Securities Exchange Act of 1934. The SEC deregistration became effective on 20 September 2007.

The SEC deregistration, and the delisting from the New York Stock Exchange ("NYSE"), is another step in the Group's ongoing simplification programme and follows the delisting from the London Stock Exchange and Tokyo Stock Exchange during the 2006 calendar year. The SEC deregistration is expected to reduce the administrative burdens and costs associated with complying with detailed and complex reporting and other obligations under US securities laws. Although the Group has delisted its ordinary shares from the NYSE (which are traded in the US in the form of American Depositary Shares ("ADS") evidenced by American Depository Receipts), the Group will continue to maintain an over-the-counter ADS program in the US.

## Non-operating Holding Company

The Group is evaluating a non-operating holding company structure (NOHC), among other corporate structures, in order to support the bank's operations in the longer term.

National is in dialogue with key regulators including APRA, ATO, IASB and the Government to clarify the specific impact on the Group of implementing a NOHC structure. We are also closely monitoring industry and regulatory developments.

The process is complex with extensive analysis required and many regulatory, tax, legal, accounting and other issues to address. Once all implementation issues are resolved the Board will make a decision as to whether to put the matter to National shareholders for a vote.

Under a NOHC the Group would continue to be regulated by APRA. National also remains committed to retaining the existing level of credit ratings.

We expect to be in a position to provide a further update at the AGM in February 2008.

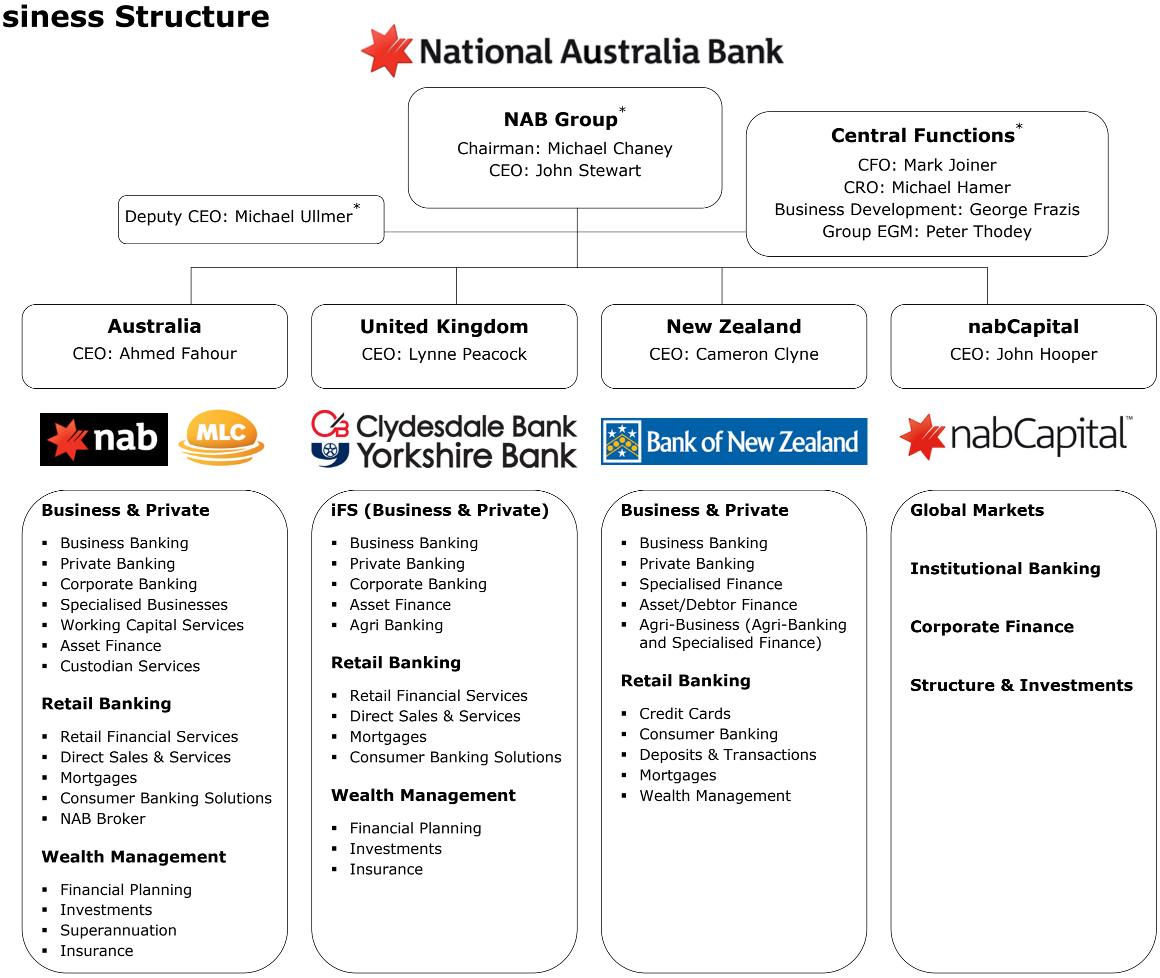
**This page has been left intentionally blank**

## Section 4 - Review of Regional Operations


33. Business Structure
34. Divisional Performance Summary
38. Australia Region
43. Australia Banking (nab)
47. Wealth Management (MLC)
54. UK Region
62. New Zealand Region
68. nabCapital
73. Central Functions

**This page has been left intentionally blank**

## Business Structure




* *Reflects organisational changes effective 10 December 2007 as announced on 4 October 2007.*

The Group operates under a regional accountability model, the main objective of which is to maximise local decision-making.

The regional businesses are responsible for value creation within a framework established by the Group of return on equity and cash earnings targets, a funding envelope and risk appetite, as well as customer satisfaction and employee engagement scores to ensure value is created in a sustainable way. The Group sets high level targets for the Regional CEO's, giving them the accountability and authority to run their businesses. They are close to their markets, their customer needs and the competitive landscape they operate in.

Corporate Centre focuses on:

- Value creation and target setting;
- Performance monitoring and capital management;
- Human Capital; and
- Mergers and acquisitions.

The Corporate Centre is responsible for the allocation of capital and taking a portfolio perspective to optimising shareholder returns.

The Corporate Centre undertakes rigorous value based analysis of the Group's existing business portfolio in the same way as it assesses new opportunities.

Finance and Risk Management, and funding are the joint accountability of the Corporate Centre and the Regions.

The Corporate Centre is accountable for high level policy framework, oversight and supporting Board governance. The Regions are accountable for implementation of the detailed policies, and business specific finance and risk management functions.

Internal Audit is an independent function, accountable directly to the relevant Board Audit Committee.

This section provides a review of each of our regional businesses from an internal management perspective. Financial information is provided on an operational basis (rather than a statutory basis) to reflect a management view of businesses and regional structures.

Content is prepared using external market data and internal management information useful for investors. The implications for the following analyses include:

- all performance data and analysis is based upon cash earnings from ongoing operations.
- our Wealth Management business reflects 100% shareholder attributable cash earnings results. Our financial report (Section 5) reflects both policyholder and shareholder interests. Refer to Section 6 for a reconciliation between cash earnings and statutory profit after tax.

## Divisional Performance Summary

| **Year ended 30 September 2007** | **Australia Region** Banking $m | **Australia Region** WM $m | **Australia Region** Other $m | **UK Region** $m | **NZ Region** $m | **nabCapital** $m | **Central Functions**[1] $m | **Elimina- tions** $m | **Cash Earnings - Ongoing** $m | **Disposed Operations** $m | **Group Cash Earnings** $m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 5,520 | - | 27 | 1,982 | 864 | 1,134 | 238 | - | 9,765 | (21) | 9,744 |
| Other operating income | 1,695 | - | 3 | 898 | 348 | 616 | 70 | (111) | 3,519 | 98 | 3,617 |
| Wealth Management net operating income | - | 1,286 | - | - | - | - | - | - | 1,286 | - | 1,286 |
| Net operating income | 7,215 | 1,286 | 30 | 2,880 | 1,212 | 1,750 | 308 | (111) | 14,570 | 77 | 14,647 |
| Operating expenses | (3,321) | (729) | (28) | (1,751) | (608) | (790) | (312) | 111 | (7,428) | (66) | (7,494) |
| Underlying profit | 3,894 | 557 | 2 | 1,129 | 604 | 960 | (4) | - | 7,142 | 11 | 7,153 |
| Charge to provide for doubtful debts | (389) | - | - | (290) | (46) | (69) | 4 | - | (790) | - | (790) |
| Cash earnings before tax | 3,505 | 557 | 2 | 839 | 558 | 891 | - | - | 6,352 | 11 | 6,363 |
| Income tax expense | (1,034) | (155) | (1) | (247) | (179) | (176) | 70 | - | (1,722) | (3) | (1,725) |
| **Cash earnings before distributions and IoRE** | 2,471 | 402 | 1 | 592 | 379 | 715 | 70 | - | 4,630 | 8 | 4,638 |
| IoRE | - | 39 | - | - | - | - | - | - | 39 | - | 39 |
| Distributions | | | | | | | | (283) | (283) | - | (283) |
| **Cash earnings** | 2,471 | 441 | 1 | 592 | 379 | 715 | 70 | (283) | 4,386 | 8 | 4,394 |

[1] *Central Functions includes Group Funding, Corporate Centre and elimination entries within Australia Region.*

## Divisional Performance Summary

| Year ended 30 September 2006 | Australia Region Banking $m | Australia Region WM $m | Australia Region Other $m | UK Region $m | NZ Region $m | nabCapital $m | Central Functions[(1)] $m | Elimina- tions $m | Cash Earnings - Ongoing $m | Disposed Operations $m | Group Cash Earnings $m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 4,870 | - | 26 | 1,852 | 797 | 937 | 295 | - | 8,777 | (99) | 8,678 |
| Other operating income | 1,638 | - | 7 | 971 | 333 | 572 | 205 | (172) | 3,554 | 739 | 4,293 |
| Wealth Management net operating income | - | 1,123 | - | - | - | - | - | - | 1,123 | - | 1,123 |
| Net operating income | 6,508 | 1,123 | 33 | 2,823 | 1,130 | 1,509 | 500 | (172) | 13,454 | 640 | 14,094 |
| Operating expenses | (3,328) | (720) | (41) | (1,782) | (603) | (765) | (293) | 172 | (7,360) | (413) | (7,773) |
| Underlying profit | 3,180 | 403 | (8) | 1,041 | 527 | 744 | 207 | - | 6,094 | 227 | 6,321 |
| Charge to provide for doubtful debts | (279) | - | 1 | (307) | (46) | 24 | 2 | - | (605) | (1) | (606) |
| Cash earnings before distributions, tax and IoRE | 2,901 | 403 | (7) | 734 | 481 | 768 | 209 | - | 5,489 | 226 | 5,715 |
| Income tax expense | (863) | (95) | 2 | (216) | (160) | (155) | (76) | - | (1,563) | (64) | (1,627) |
| **Cash earnings before distributions and IoRE** | 2,038 | 308 | (5) | 518 | 321 | 613 | 133 | - | 3,926 | 162 | 4,088 |
| IoRE | - | 56 | - | - | - | - | - | - | 56 | 13 | 69 |
| Distributions | | | | | | | | (254) | (254) | - | (254) |
| **Cash earnings** | 2,038 | 364 | (5) | 518 | 321 | 613 | 133 | (254) | 3,728 | 175 | 3,903 |

(1) *Central Functions includes Group Funding, Corporate Centre and elimination entries within Australia Region.*

## Divisional Performance Summary

| Half year ended 30 September 2007 | Australia Region Banking $m | Australia Region WM $m | Australia Region Other $m | UK Region $m | NZ Region $m | nabCapital $m | Central Functions[1] $m | Eliminations $m | Cash Earnings - Ongoing $m | Disposed Operations $m | Group Cash Earnings $m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 2,829 | - | 14 | 986 | 439 | 601 | 97 | - | 4,966 | (11) | 4,955 |
| Other operating income | 889 | - | 1 | 434 | 173 | 301 | 51 | (53) | 1,796 | 51 | 1,847 |
| Wealth Management net operating income | - | 677 | - | - | - | - | - | - | 677 | - | 677 |
| Net operating income | 3,718 | 677 | 15 | 1,420 | 612 | 902 | 148 | (53) | 7,439 | 40 | 7,479 |
| Operating expenses | (1,664) | (372) | (13) | (859) | (304) | (400) | (160) | 53 | (3,719) | (64) | (3,783) |
| Underlying profit | 2,054 | 305 | 2 | 561 | 308 | 502 | (12) | - | 3,720 | (24) | 3,696 |
| Charge to provide for doubtful debts | (208) | - | - | (135) | (22) | (36) | 1 | - | (400) | - | (400) |
| Cash earnings before tax | 1,846 | 305 | 2 | 426 | 286 | 466 | (11) | - | 3,320 | (24) | 3,296 |
| Income tax expense | (545) | (86) | (1) | (128) | (90) | (89) | 62 | - | (877) | 8 | (869) |
| **Cash earnings before IoRE and distributions** | 1,301 | 219 | 1 | 298 | 196 | 377 | 51 | - | 2,443 | (16) | 2,427 |
| IoRE | - | 18 | - | - | - | - | - | - | 18 | - | 18 |
| Distributions | | | | | | | | (146) | (146) | | (146) |
| **Cash earnings** | 1,301 | 237 | 1 | 298 | 196 | 377 | 51 | (146) | 2,315 | (16) | 2,299 |

[1] *Central Functions includes Group Funding, Corporate Centre and elimination entries within Australia Region.*

## Divisional Performance Summary

| Half year ended 31 March 2007 | Australia Region Banking $m | Australia Region WM $m | Australia Region Other $m | UK Region $m | NZ Region $m | nabCapital $m | Central Functions[1] $m | Elimina-tions $m | Cash Earnings - Ongoing $m | Disposed Operations $m | Group Cash Earnings $m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 2,691 | - | 13 | 996 | 425 | 533 | 141 | - | 4,799 | (10) | 4,789 |
| Other operating income | 806 | - | 2 | 464 | 175 | 315 | 19 | (58) | 1,723 | 47 | 1,770 |
| Wealth Management net operating income | - | 609 | - | - | - | - | - | - | 609 | - | 609 |
| Net operating income | 3,497 | 609 | 15 | 1,460 | 600 | 848 | 160 | (58) | 7,131 | 37 | 7,168 |
| Operating expenses | (1,657) | (357) | (15) | (892) | (304) | (390) | (152) | 58 | (3,709) | (2) | (3,711) |
| Underlying profit | 1,840 | 252 | - | 568 | 296 | 458 | 8 | - | 3,422 | 35 | 3,457 |
| Charge to provide for doubtful debts | (181) | - | - | (155) | (24) | (33) | 3 | - | (390) | - | (390) |
| Cash earnings before tax | 1,659 | 252 | - | 413 | 272 | 425 | 11 | - | 3,032 | 35 | 3,067 |
| Income tax expense | (489) | (69) | - | (119) | (89) | (87) | 8 | - | (845) | (11) | (856) |
| **Cash earnings before distributions and IoRE** | 1,170 | 183 | - | 294 | 183 | 338 | 19 | - | 2,187 | 24 | 2,211 |
| IoRE | - | 21 | - | - | - | - | - | - | 21 | - | 21 |
| Distributions | | | | | | | | (137) | (137) | - | (137) |
| **Cash earnings** | 1,170 | 204 | - | 294 | 183 | 338 | 19 | (137) | 2,071 | 24 | 2,095 |

(1) *Central Functions includes Group Funding, Corporate Centre and elimination entries within Australia Region.*

## Australia Region

Ahmed Fahour

The Australia Region consists of our Australia Banking (incorporating Retail Banking and Business & Private Banking) and Wealth Management businesses in Australia ("MLC") as well as our Asian consumer banking operations.

### Strategic Highlights & Business Developments

The Australia Region has created a platform to extend beyond the 'Truly Competitive' phase of the Region's strategy. Management's strategic focus is now on executing on opportunities to leverage our capabilities, and deliver sustainable growth in the performance of the business. This is driven by a strong focus on the success levers of financial, staff, customer and community related outcomes.

The Australia Region delivered cash earnings growth before IoRE of 12.4% for the September 2007 half and 22.8% for the year. Our result includes strong contributions from both Banking and MLC businesses, and reflects the revitalisation of the distribution strategy, continued execution of our efficiency initiatives and favourable economic conditions.

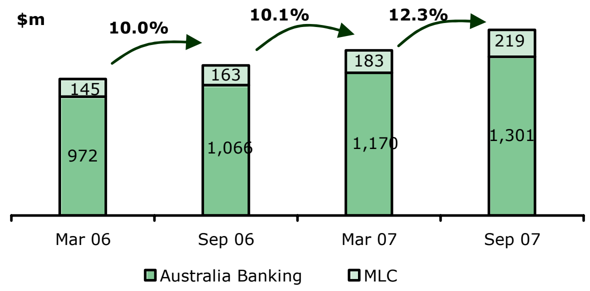
The efficiency initiatives and a focus on productivity underpin the performance with the banking cost to income ratio declining to 44.8% for the September 2007 half. The focus on continuous improvement processes has enabled additional investment in recruitment of front line staff whilst expenses have increased only marginally. Whilst actively managing our expenses, we are continuing to refresh the technology infrastructure and the distribution network as part of our focus on delivering sustainable growth.

Business & Private Banking is a 'Truly Competitive' enterprise, with an experienced sales force that continues to maintain and extend its leadership position in business lending. This is supported by a strategy that focuses on maintaining and deepening customer relationships.

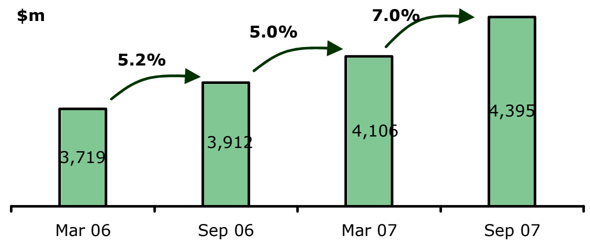
Retail Banking is still rebuilding with a growing momentum and an emphasis on improving productivity and efficiency whilst continuing to invest in distribution to maximise the quality, depth and longevity of customer relationships.

MLC has shown strong momentum by capitalising on its diversified distribution model and leading position in the high growth superannuation system. At the same time MLC is leading the transformation of the industry to a more customer centric approach to advice and adviser remuneration. MLC plans to further capitalise on fundamental trends such as the aging population, the convergence in financial services distribution and investment product diversification.

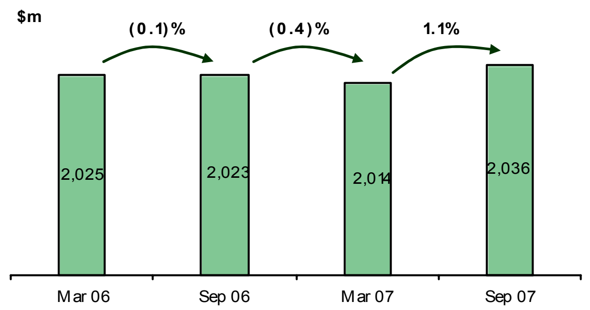
**Australia Region[1] Cash Earnings before IoRE**



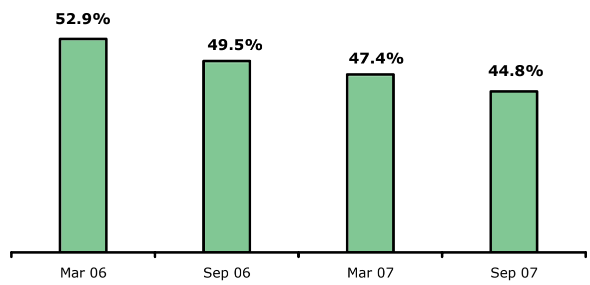

**Australia Region Net Operating Revenue Growth**



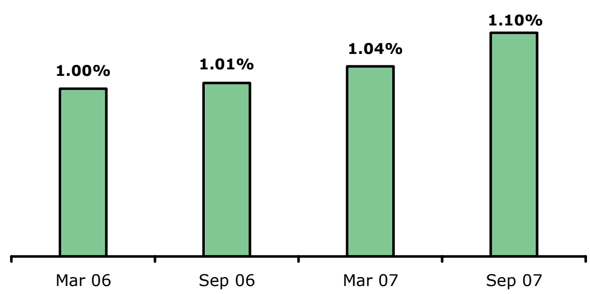

**Australia Region Operating Expense Growth**




**Australia Banking Cost to Income ratio**



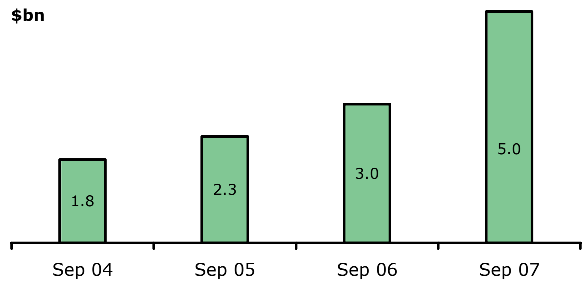

**Australia Banking Cash Earnings on Average Assets**



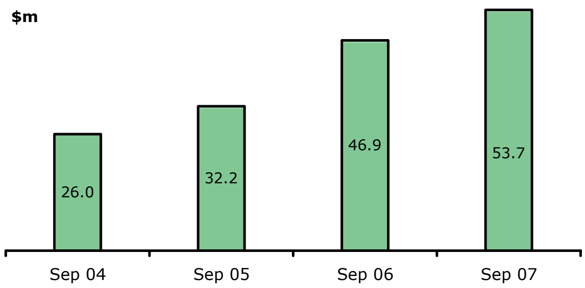

(1) *Excluding Other (incl. Asia)*

The Regional cross sell agenda is now well established with focus in four key areas; Insurance sales through Bank channels, Investments and Superannuation sales through Bank channels, banking products and services through MLC Financial Advisers, and generation of nabCapital revenue through Business & Private Banking customers. Cross sell through Bank channels continues to provide a strong source of revenue growth for the Region.

**Investment Sales through Bank Channels**




**Insurance Sales through Bank Channels**




## Operating Environment

The Australian financial services industry has experienced a strong period of growth over recent years with a relatively favourable interest rate environment, strong employment levels and higher wages, and a solid housing market. This has created a growing appetite for debt, good deposit growth, strong growth in funds under management, partly due to the superannuation environment under the Simpler Super legislative changes, favourable equity markets and a benign asset quality environment.

Whilst we expect that continued favourable economic conditions will generate solid credit growth in the medium term, as we move through a normal credit cycle, asset quality is expected to return to historic norms. In addition, an intensification of competitive pressures continues to put pressure on revenue growth and profit margins.

Consumer campaigns around fee levels result in continued pressure on exception fees and is expected to reduce this type of fee level generation in future years. Furthermore RBA changes to both credit and debit payment markets are expected to result in further pressure on fee levels on ATMs and credit cards.

Wholesale funding constraints in the short term have increased the cost of funds and reduced net interest income revenue and profitability.

## Customer, Employee and Community

The Region continues to demonstrate significant development in the non financial pillars of our strategy.

The nab brand has been relaunched with a new theme for Retail Banking customers (nab: a little word for a big life). The MLC brand was also relaunched emphasising the nest egg as being symbolic of our customers' insurance and investments needs.

Significant progress has been made to re-engineer end-to-end processes for our customers in line with our strategic direction to exceed their expectations through simplified interactions. This has resulted in improved customer satisfaction ratings across all three businesses.

In line with nab's commitment to being carbon neutral by September 2010, we have executed a contract to purchase a percentage of our electricity as accredited GreenPower. This will reduce our annual greenhouse gas emissions by approximately 5,500 tonnes in 2008, or the equivalent to taking more than 1,375 cars off the road. Over the next three years we will increase this so that in 2010, 10% of our energy will be sourced from renewable energy sources.

nab has continued to play a significant role in sponsoring a number of charity groups and events such as The Alannah and Madeline Foundation, the Australian Ballet, West Australian Opera, AFL, Sydney Royal Easter Show, Art Gallery of NSW and National Gallery of Australia. nab employees have been actively encouraged to contribute to the community through Volunteer Awards and an employee charity scheme.

Our Community Trust index rating has increased 5.5% on September 2006 demonstrating our commitment to become an active member of the community.

Investment in our staff has continued to be a priority with a number of employee empowerment initiatives implemented aimed at better identifying and retaining talent, and an employee share scheme designed to reward staff that invest in nab and our customers' future. As a result our Employee Engagement scores increased from 40% in 2006 to 51%, while Employee Satisfaction jumped from 72% in 2006 to 81%.

These and other developments have been recognised through a number of awards attained in 2007. nab was again awarded 'Business Bank of the Year' by CFO Magazine, reflecting our market leading position and our commitment to making genuine contact with customers. nab was also named Best National Financial Institution by the Australian Banking & Finance Magazine, Blue Ribbon Bank of the Year by Smart Investor Magazine, as well as Best Banking Website of the year by Money Magazine. Our Direct Sales and Service Team took out the Best Contact Centre title in the Asia Pacific region World Contact Centre Awards.

MLC won three awards at the 2007 Asset Magazine Innovation Awards for 'Best Income Protection Product' (MLC Income Protection Plus), 'Margin Lender of the Year' (nab Margin Lending) and 'Best Platform for Administrating Self-Managed Superannuation' (MLC MasterKey Custom). MLC also won the Rainmaker award for Best New Investment Product of the Year with its JANA Australian Long Short trust.

## Australia Region

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | **Sep 07 $m** | **Mar 07 $m** | **Sep 07 v Mar 07 %** | **Sep 07 $m** | **Sep 06 $m** | **Sep 07 v Sep 06 %** |
| Banking revenue | **3,718** | 3,497 | 6.3 | **7,215** | 6,508 | 10.9 |
| Wealth Management net revenue | **677** | 609 | 11.2 | **1,286** | 1,123 | 14.5 |
| **Net operating revenue** | **4,395** | 4,106 | 7.0 | **8,501** | 7,631 | 11.4 |
| Operating expenses | **(2,036)** | (2,014) | (1.1) | **(4,050)** | (4,048) | - |
| **Underlying profit** | **2,359** | 2,092 | 12.8 | **4,451** | 3,583 | 24.2 |
| Charge to provide for bad and doubtful debts | **(208)** | (181) | (14.9) | **(389)** | (279) | (39.4) |
| Other (incl. Asia) | **1** | - | - | **1** | (5) | large |
| **Cash earnings before tax and IoRE** | **2,152** | 1,911 | 12.6 | **4,063** | 3,299 | 23.2 |
| Income tax expense | **(631)** | (558) | (13.1) | **(1,189)** | (958) | (24.1) |
| **Cash earnings before IoRE** | **1,521** | 1,353 | 12.4 | **2,874** | 2,341 | 22.8 |
| IoRE | **18** | 21 | (14.3) | **39** | 56 | (30.4) |
| **Cash earnings** | **1,539** | 1,374 | 12.0 | **2,913** | 2,397 | 21.5 |
| *Represented by:* | | | | | | |
| Australia Banking | **1,301** | 1,170 | 11.2 | **2,471** | 2,038 | 21.2 |
| Wealth Management | **219** | 183 | 19.7 | **402** | 308 | 30.5 |
| Other (incl. Asia) | **1** | - | - | **1** | (5) | large |
| **Cash earnings before IoRE** | **1,521** | 1,353 | 12.4 | **2,874** | 2,341 | 22.8 |

| **Performance measures** | | | | | | |
|---|---|---|---|---|---|---|
| Cash earnings before IoRE per average FTE ($'000s) | **133** | 121 | | **127** | 105 | |
| FTEs (spot) | **22,600** | 22,674 | | **22,600** | 22,397 | |

## Australia Region

Financial Highlights

### September 2007 v March 2007

The Australia Region delivered cash earnings growth (before IoRE) of 12.4% for the September 2007 half. This result reflects strong income trends, the continuing execution of our efficiency initiatives and sustained favourable economic conditions.

Performance highlights include maintaining our leadership position in business lending, continuing to achieve good deposit growth across all our banking businesses and strong sales momentum within our MLC business. This has been achieved through successful execution of revitalised distribution strategy initiatives and industry specialisation strategies.

The strong volume growth in the half was underpinned by sound margin management for the half in an increasingly competitive environment, the continued emergence of cross-sell of MLC products through banking channels and a significant improvement in net funds flow.

The Australia Region has achieved the fourth consecutive half of near flat expenses with growth contained to 1.1%. This has been achieved through continued focus on efficiency and productivity programmes. These have allowed increased FTE in key front line areas to support the customer focussed strategies and continued re-investment in our core infrastructure to support sustainable future business growth.

### September 2007 v September 2006

The Australia Region delivered cash earnings growth (before IoRE) of 22.8% for the September 2007 year. Our strong result reflects the continuing execution of our efficiency initiatives and favourable economic conditions in all markets.

Revenue growth of 11.4% reflected continued strong volume momentum in both banking and MLC products, together with good margin management.

The regional expense base for the year has remained flat as the region continued to focus on working the cost base down to an efficient but sustainable level.

### Other items

#### Restructuring Activity

Restructuring activity during the September 2007 half included expenditure on distribution strategy, product rationalisation and streamlining back office processes.

Gross expense benefits from the restructuring program were $139 million in the second half of 2007, an incremental $41 million over the March 2007 half. This brings total expense benefits for the September 2007 year to $237 million, an incremental $96 million over the 2006 year.

FTE redundancies under the program to date are 2,079 including an additional 387 redundancies during the second half of 2007.

Our remaining provision balance at September 2007 is $53 million largely reflecting costs associated with the commercial property network and the retail banking distribution strategy.

#### Investment Spend

Investment cash spend during the September 2007 half was $255 million, $496 million for the year. Our investment portfolio comprised three broad categories; efficiency and sustainable revenue, infrastructure and compliance. Since October 2005 total investment spent in the Region has been $1.0 billion. The mix of this spend is moving from compliance to efficiency and sustainable revenue initiatives.

Investment cash spend during the half on efficiency and sustainable revenue projects was $92 million and represented 36% of the portfolio. This reflected the continued focus on efficiency programmes, productivity initiatives and cross sell projects.

Our objective of revitalising the distribution network and creating a platform to extend beyond Truly Competitive was highlighted by continued investment in infrastructure projects of $103 million or 40% of the portfolio. Activity during the period included the roll-out of a single IT network across the banking and MLC business, providing a stabilised, consistent platform for enhanced efficiency, increased employee mobility, and superior customer service.

Investment cash spend on compliance projects was $60 million and represented 24% of the portfolio. Activity during the period has included various initiatives to enhance on-line security measures as part of our ongoing innovation and security commitment to our customers, Basel II and other operational risk readiness projects.

**This page has been left blank intentionally**

## Australia Banking (nab)

The Australia Banking business consists of an extensive distribution network organised around customer segments, providing tailored solutions to consumers, businesses and high net worth individuals. The Australia Banking business includes our Business & Private Banking and Retail Banking businesses together with a Treasury operation and back office support functions.

### Business & Private Banking

As Australia's market leading business bank, Business & Private Banking provides lending, deposit, transaction, custody, merchant and other customised services to corporate, business and private banking clients. Small to medium sized enterprises are serviced through our Business Banking unit, Top 500 companies through Corporate Banking and the Specialised Businesses unit focuses on the Agribusiness, Food, Fibre & Beverage, Healthcare, Education and Government industries.

Business & Private Banking is a 'Truly Competitive' enterprise, with a broad geographic footprint and an experienced sales force that continues to maintain and extend its leadership position in business lending. This is supported by a strategy that focuses on maintaining and deepening customer relationships. This is achieved by extending reach and capability through industry segment specialisation, decentralised decision making, and an efficiency program that results in maximum banker time being spent serving customers.

Business lending and deposit volumes grew strongly during the period driven by the robust economy and a strong relationship focus. The focus on industry segment specialisation has also continued to provide enhanced services to specific industries. nabHealth, nabGovernment and nabSuccession brands were all launched during the half.

During the year we transferred our smaller business clients to the Retail Banking business. This has enabled the business bank to focus more fully on its chosen market and continue to build on the deep customer relationship focus that we are known for. In addition we have recently launched an iFS (integrated Financial Solutions) model to some of our key bankers. This draws heavily off the model successfully operated within our UK business that has delivered significant growth in business lending volumes. This model provides greater autonomy to our bankers together with clear incentives to manage their business outcomes locally and increase their tenure of relationship with customers.

### Retail Banking

Retail Banking provides lending, deposit, investment, insurance and transaction services to meet the needs of personal and small business customers. These needs are met through a comprehensive state-based distribution network of retail stores, direct channels and third party partners. The Retail Banking business also includes consumer product management teams, banking operations functions and the NAB Broker business.

To support our strategy of delivering a great customer experience, Retail Banking has continued to invest in developing sales and service capability, extending incentive programs to front line staff, refreshing all key customer channels and improving processes. In addition, we have undertaken a brand re-launch and introduced a new tag line (nab. a little word for a big life), to build on the brand's central theme of helping customers fulfil their aspirations. This has been combined with a new advertising campaign aimed at assisting brand recall and establishing a strong identity for the nab brand.

Retail Banking has now completed the roll-out of its new retail network operating model which provides a strong platform for the future. Revenue growth opportunities have been enhanced with mortgage sales capability now available in 80% of stores, small business lending capability in 36% of stores and wealth management capability in 15% of stores. This model includes a strong focus on operating localised businesses that are close to our customers, enabling responsive decision making and a customer centric approach.

Our infrastructure has been upgraded and extended through the refurbishment of a further 55 stores during the half and we have also completed the extension of nab's ATM network by nearly 25% (327 new machines) through our alliance with Coles. 40% of the new machines are located in suburbs where there was previously no nab presence.

nab recently launched a new range of smart everyday transaction accounts, with the option of Visa debit functionality and fee structures which provide better customer choice. We have also reinforced our commitment to simplify fee structures and lower the cost of banking for our customers by introducing a Concession Card account free of exception and account service fees. We have also removed monthly account service fees on our Retirement and Student accounts and will be introducing a new Clear Banking account with no exception fees. Our new transaction accounts feature an innovative deposit waiver meaning that customers will not pay an account service fee if they deposit the nominated minimum amount per month into the account.

The half also saw the re-launch and re-branding of nab Broker based on a strategy of developing sustainable and profitable relationships. This includes a broader service offering and revised commission for brokers and was rolled out through an extensive series of briefings around Australia. This has generated new momentum in mortgage sales and outstandings in this channel arresting the decline of previous quarters.

During the half Retail Banking has progressively delivered on key initiatives under its strategy, the franchise has gained good momentum and financial results have correspondingly improved. Whilst Retail Banking is progressing well, it will take more time to achieve strategic objectives and complete the turnaround.

Progress in both of our banking businesses has been augmented by new sales and business acumen training for all frontline staff and the development and introduction of new banker incentive programs encouraging greater focus on local customer relationships.

## Australia Banking

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 07 v Mar 07 % | Sep 07 $m | Sep 06 $m | Sep 07 v Sep 06 % |
| Net interest income | **2,829** | 2,691 | 5.1 | **5,520** | 4,870 | 13.3 |
| Other operating income | **889** | 806 | 10.3 | **1,695** | 1,638 | 3.5 |
| **Net operating income** | **3,718** | 3,497 | 6.3 | **7,215** | 6,508 | 10.9 |
| Operating expenses | **(1,664)** | (1,657) | (0.4) | **(3,321)** | (3,328) | 0.2 |
| **Underlying profit** | **2,054** | 1,840 | 11.6 | **3,894** | 3,180 | 22.5 |
| Charge to provide for bad and doubtful debts | **(208)** | (181) | (14.9) | **(389)** | (279) | (39.4) |
| **Cash earnings before tax** | **1,846** | 1,659 | 11.3 | **3,505** | 2,901 | 20.8 |
| Income tax expense | **(545)** | (489) | (11.5) | **(1,034)** | (863) | (19.8) |
| **Cash earnings(1)** | **1,301** | 1,170 | 11.2 | **2,471** | 2,038 | 21.2 |

| **Average volumes ($bn)** | | | | | | |
|---|---|---|---|---|---|---|
| Gross loans and acceptances | **236.0** | 221.8 | 6.4 | **228.8** | 201.4 | 13.6 |
| Interest earning assets | **235.1** | 222.8 | 5.5 | **229.0** | 201.7 | 13.5 |
| Total assets | **236.6** | 224.8 | 5.2 | **230.7** | 203.2 | 13.5 |
| Retail deposits | **98.4** | 92.7 | 6.1 | **95.6** | 84.0 | 13.8 |

| **Performance measures** | | | | | | |
|---|---|---|---|---|---|---|
| Cash earnings on average assets | **1.10%** | 1.04% | 6bps | **1.07%** | 1.00% | 7bps |
| Net interest margin | **2.40%** | 2.42% | (2bps) | **2.41%** | 2.41% | - |
| Cost to income ratio | **44.8%** | 47.4% | 260bps | **46.0%** | 51.1% | 510bps |
| Cash earnings per average FTE ($'000s) | **139** | 127 | | **133** | 113 | |
| FTEs (spot) | **18,621** | 18,628 | | **18,621** | 18,272 | |

### Distribution

| | As at | | |
|---|---|---|---|
| | Sep 07 | Mar 07 | Sep 06 |
| Number of retail stores | **786** | 787 | 787 |
| Number of ATM's | **1,604** | 1,285 | 1,294 |
| Number of internet banking customers | **1.296m** | 1.228m | 1.159m |
| Number of business banking centres | **181** | 186 | 186 |

### Market Share

| | As at | | |
|---|---|---|---|
| | Sep 07 | Mar 07 | Sep 06 |
| Business credit | **19.3** | 19.0 | 19.0 |
| Retail deposits | **14.6** | 14.3 | 14.0 |
| Housing | **13.3** | 13.5 | 13.8 |
| Other personal | **14.5** | 14.8 | 14.8 |

*Source: RBA Financial Aggregates/ NAB including nabCapital data as at September 2007*

(1) *The definition of cash earnings has been amended from March 2007. For a reconciliation to the previous definition refer to page 46.*

## Australia Banking

Financial Analysis

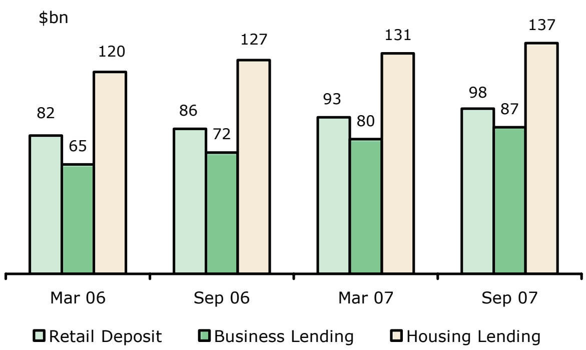
### September 2007 v March 2007

**Cash earnings** increased $131 million or 11.2% and **return on assets** improved 6 basis points. This solid momentum was underpinned by revenue growth from sustained business lending volumes, reinforced by active management of expenses through efficiency improvements.

**Net interest income** increased $138 million or 5.1%. Solid volume related growth was maintained, particularly in the business banking and deposit books ($177 million). This was partially offset by lending product margin compression, whilst deposit product margins remained flat. Additional net funding costs of $11m were incurred as a result of recent market conditions.

**Average interest earning assets** grew $12.3 billion or 5.5% largely driven by business lending and seasonally stronger business activity. Consumer segment loan growth was sound. Mortgage growth in the retail business continued at below system levels as the business focused on strengthening of the distribution network and the launch of NAB Broker.

**Australia Banking Average Volumes**




**Average retail deposits** grew $5.7 billion or 6.1% due to continual growth in online and ancillary transaction products. Term deposits experienced strong inflows in the lead up to superannuation reform, whilst cash management accounts continued to taper off due to the popularity of online alternatives.

**Net interest margin** declined 2 basis points. Underlying lending margins declined 3 basis points due to competitive pressures, particularly in the mortgage broker business. This was partially offset by the impact of deposit mix and capital allocation.

**Other operating income** increased $83 million or 10.3%. Lending and account fees increased $33 million. This was driven by volume related increases in account and lending fees, increased interchange and merchant fees from service improvements to transaction banking and repricing initiatives. Positive treasury results contributed an additional $37 million, largely due to an improvement in the revaluation of economic hedge transactions. Seasonality related to fee income also contributed to the growth over the half.

**Operating expenses** increased $7 million or 0.4%. This was underpinned by incremental benefits from efficiency initiatives and restructuring ($44 million), as well as continued active management of expenses.

These benefits offset underlying expense growth and the impact of volume related expenses. Continued investment in frontline staff was more than offset by 387 redundancies. The combination of these factors decreased the **cost to income ratio** by 260 basis points to 44.8%.

The **charge to provide for bad and doubtful debts** increased $27 million or 14.9%. This was driven by increased lending growth and higher specific provisions across Business Banking and Mortgages, particularly in New South Wales.

### September 2007 v September 2006

**Cash earnings** increased $433 million or 21.2% and **return on assets** improved 7 basis points. This was driven by ongoing strong volume growth mainly in business loans and deposits, and disciplined cost control.

**Net interest income** increased $650 million or 13.3% driven mainly by strong lending and deposit volume growth ($611 million), higher deposit margins ($136 million) and increased capital allocation benefit and treasury income. This was partially offset by tightening of lending margins and unfavourable deposit mix resulting from the continued move by customers to lower margin online deposit products.

**Average interest earning assets** grew $27.3 billion or 13.5%, predominantly driven by above system business lending and sustained consumer lending growth driven by a focus on product innovation. Mortgage growth was modest as we continued to invest in strengthening the distribution network.

**Average retail deposits** rose $11.6 billion or 13.8% primarily driven by ongoing momentum in online savings accounts and term deposits.

**Net interest margin** was unchanged. Reductions due to lending margins (9 basis points) and adverse deposit mix (2 basis points) were offset by increases due to effective deposit margin management (6 basis points) and higher capital allocation benefit (5 basis points).

**Other operating income** increased $57 million or 3.5%. This was driven by volume related increases in account and lending fees.

**Operating expenses** decreased $7 million or 0.2%, underpinned by incremental benefits from efficiency initiatives ($94 million) and restructuring ($87 million). These offset higher personnel costs due to focus on variable performance based remuneration. Non-recurrence of prior period reimbursements for customer over-charging issues ($53 million) further reduced expenses. The **cost to income ratio** decreased by 510 basis points.

The **charge to provide for doubtful debts** increased $110 million or 39.4%. This reflected lending volume growth, and higher charges associated with delinquencies in the consumer segment.

## Other items

### Asset Quality

The credit quality of the portfolio remains sound, and is well positioned with the Australian economy's return to a more neutral credit environment. Improvements in delinquency management processes implemented in the half helped contain the growth in impaired and defaulted (90dpd) assets, with 90dpd rates and volumes falling over the half, despite the underlying volume increase in the loan portfolio of gross loans and acceptances.

| | As at | | |
|---|---|---|---|
| | **Sep 07** | **Mar 07** | **Sep 06** |
| Gross impaired assets ($m) | **697** | 527 | 447 |
| Gross impaired assets to gross loans and acceptances | **0.29%** | 0.23% | 0.21% |
| 90 days past due assets ($m) | **876** | 881 | 708 |
| 90 days past due to gross loans and acceptances | **0.36%** | 0.40% | 0.33% |
| Total provision to gross loans and acceptances | **0.45%** | 0.45% | 0.43% |
| Net write offs to gross loans and acceptances | **0.11%** | 0.12% | 0.09% |
| Bad and doubtful debts charge to credit risk weighted assets | **0.20%** | 0.20% | 0.16% |

### Balance Sheet Management

The funding indices for the Australian Region and nabCapital are considered on a combined basis. The strategy to improve the balance sheet strength over the past two years by targeting customer deposits, improving securitisation capability and increasing term wholesale funding has seen SFI increase from 63.4% in September 2005 to 67.9% in September 2007. In the 12 months to September 2007 SFI decreased from 68.6% to 67.9% primarily due to the disruption in wholesale funding markets that commenced in July 2007. NAB Limited was still able to maintain good access to term wholesale markets during this period, raising approximately $2.6 million between 26 Jul 2007 and 30 September 2007. The strong funding position leading into that period enabled a reduced level of activity until the markets showed sign of improved liquidity. This reduced level of term debt issuance was partly offset by strong growth in customer deposits, with the CFI increasing from 48.1% to 50.1% during the 12 months to September 2007.

### March 2007 Cash Earnings Definition

| | Half year to | | Year to | |
|---|---|---|---|---|
| | **Sep 07 $m** | **Mar 07 $m** | **Sep 07 $m** | **Sep 06 $m** |
| Cash earnings | **1,301** | 1,170 | **2,471** | 2,038 |
| Fair value and hedge ineffectiveness | **13** | - | **13** | 1 |
| | **1,314** | 1,170 | **2,484** | 2,039 |
| Disposed operation - Commercial Fleet | **(16)** | 24 | **8** | 6 |
| | **1,298** | 1,194 | **2,492** | 2,045 |

## MLC

MLC delivered a $36 million or 19.7% increase in cash earnings before IoRE for the half year. This was achieved with the Investments business delivering a $25 million or 23.4% increase and the Insurance business an increase of $11 million or 14.5%. This strong result reflects the successful execution of the strategy MLC has pursued over the past three years including:

- Developing a highly **diversified, quality advice based distribution model**, including: nab's salaried advice business, nab Financial Planning; self employed aligned advice businesses of Apogee Financial Planning, Garvan Financial Planning, Godfrey Pembroke and MLC Financial Planning; and strong relationships with a large number of external financial advisers. Through this network MLC delivered a significant improvement in its sales performance and net flows during the year.
- Maintaining a **leading position in all sectors of the rapidly growing superannuation system** including corporate super through Plum and MLC MasterKey Business Super, personal super through the MLC MasterKey and MLC MasterKey Custom platforms and self managed super through MLC MasterKey Custom. The Simpler Super legislative changes have made superannuation more attractive than ever before. More than 70% of MLC's customers' funds are invested in superannuation and this, combined with MLC's position as the second largest provider of superannuation in Australia, means that MLC is well placed to capitalise on the expected continuing strong flows.
- Taking an industry **leading position on the critical issue of conflicts of interest** and improving transparency for customers. MLC is leading the industry's move away from investment product commissions to fee for advice and does not participate in lower margin and complex, revenue sharing or shelf space fee arrangements that are often not understood by customers. The commercial outcomes of this strategy are evident in MLC's strong sales, higher margins and better than industry average retention rates. During the past 12 months, MLC has returned more than $6.4 million in fund manager rebates to its customers, leveraging its scale to deliver reduced costs to investors.
- MLC is continuing to build on its **leading position in the personal insurance market** with a focus on writing quality, sustainable new business. The ongoing strength and success of MLC's insurance business is underpinned by strong retention rates, market leading product innovation and favourable claims experience.
- **Leveraging nab's Australian business**, by providing nab customers with access to quality investment and insurance advice through the nab Financial Planning business. Investment sales through the bank channel increased 67% year on year and insurance sales increased by 15%.
- **Improving efficiencies** in the business through the customer experience and effectiveness program has delivered an improvement in all key efficiency ratios over the last year with investment cost to average FUM reducing from 58 bps to 54 bps and insurance cost to average annual inforce premium down from 30% to 24%.
- **Maintaining a strong focus on reducing shareholder capital** by raising $450m of third party debt, which enabled surplus capital to be repatriated to the Group. As a result, the return on shareholder capital has improved significantly. In addition, MLC improved its return on regulatory capital (RoRC) during 2007, despite the cost of additional debt having a negative impact on IoRE and RoRC.

## MLC

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 07 v Mar 07 % | Sep 07 $m | Sep 06 $m | Sep 07 v Sep 06 % |
| Gross income | **1,145** | 1,040 | 10.1 | **2,185** | 1,911 | 14.3 |
| Volume related expenses | **(468)** | (431) | (8.6) | **(899)** | (788) | (14.1) |
| **Net income** | **677** | 609 | 11.2 | **1,286** | 1,123 | 14.5 |
| Operating expenses | **(372)** | (357) | (4.2) | **(729)** | (720) | (1.3) |
| **Profit before tax** | **305** | 252 | 21.0 | **557** | 403 | 38.2 |
| Income tax expense | **(86)** | (69) | (24.6) | **(155)** | (95) | (63.2) |
| **Cash earnings before IoRE** | **219** | 183 | 19.7 | **402** | 308 | 30.5 |
| IoRE [(1)] | **18** | 21 | (14.3) | **39** | 56 | (30.4) |
| **Cash earnings** | **237** | 204 | 16.2 | **441** | 364 | 21.2 |
| *Represented by:* | | | | | | |
| Investments cash earnings before IoRE | **132** | 107 | 23.4 | **239** | 168 | 42.3 |
| Insurance cash earnings before IoRE | **87** | 76 | 14.5 | **163** | 140 | 16.4 |
| **Cash earnings before IoRE** | **219** | 183 | 19.7 | **402** | 308 | 30.5 |

| **Performance measures** | | | | | | |
|---|---|---|---|---|---|---|
| Funds under management (spot) ($m) | **110,165** | 102,403 | 7.6 | **110,165** | 94,053 | 17.1 |
| Funds under management (average) ($m) | **106,284** | 98,228 | 8.2 | **102,109** | 89,104 | 14.6 |
| Net funds flow ($m) | **4,178** | 2,222 | 88.0 | **6,400** | 2,047 | 212.7 |
| Annual inforce premiums (spot) ($m) | **795.6** | 742.5 | 7.2 | **795.6** | 707.6 | 12.4 |
| Annual inforce premiums (average) ($m) | **769.0** | 725.1 | 6.1 | **751.6** | 670.5 | 12.1 |
| New business premiums ($m) | **89.3** | 70.9 | 26.0 | **160.2** | 143.7 | 11.5 |
| Operating expenses to gross income (%) | **32** | 34 | | **33** | 38 | |
| Investment cost to average FUM (bps) | **53** | 54 | | **54** | 58 | |
| Insurance cost to average inforce premium (%) | **23** | 25 | | **24** | 30 | |
| Cash earnings before IoRE per average FTE ($'000s) | **112** | 95 | | **103** | 77 | |
| FTEs (spot) | **3,820** | 3,900 | | **3,820** | 3,952 | |
| Financial advisers – bank channels | **494** | 465 | | **494** | 484 | |
| Financial advisers – aligned channels | **810** | 831 | | **810** | 822 | |

*(1) The impact of changes in the discount rate on policyholder liabilities has been excluded from cash earnings, as noted in Section 7 – Glossary of Terms.*

## MLC

Financial Highlights

### September 2007 v March 2007

Cash earnings before IoRE increased $36m or 19.7%. This outstanding result was driven by:

- strong sales momentum across all channels demonstrating the strength of MLC's customer base;
- improved adviser productivity and quality whilst maintaining overall adviser numbers;
- an 88% increase in net funds flow to $4.2 billion, which along with favourable investment markets underpinned a 7.6% growth in FUM;
- a 7.2% growth in annual inforce premiums as a result of higher sales and ongoing favourable lapse experience;
- a 10.1% increase in revenue for the half as a result of the increase in FUM and annual inforce premium;
- operating expenses growth consistent with the seasonal nature of the business; and
- improving efficiency that enabled significant reinvestment in the business.

### September 2007 v September 2006

Combined with first half momentum, MLC's cash earnings before IoRE increased by $94m or 30.5%. Allowing for the impact of tax benefits in the prior period from the finalisation of tax returns, cash earnings before IoRE grew by 36.7%. Contributing to this significant result were:

- bank channel sales continuing to show strong, above system growth with investments up 67% and insurance up 15%.
- a 212.7% increase in net funds flow to $6.4 billion, which together with favourable investment earnings resulted in a 17.1% growth in FUM;
- a 12.4% growth in annual inforce premiums as a result of sales at 1.2 times system;
- a 14.3% increase in revenue as a result of the increase in FUM and annual inforce premium;
- efficiency gains which saw a marginal increase in operating expenses of 1.3%, driving the operating expenses to gross income ratio down from 38% to 33%; and
- an improvement in capital efficiency.

## MLC – Investments

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 07 v Mar 07 % | Sep 07 $m | Sep 06 $m | Sep 07 v Sep 06 % |
| Gross income | **694** | 621 | 11.8 | **1,315** | 1,121 | 17.3 |
| Volume related expenses | **(233)** | (208) | (12.0) | **(441)** | (389) | (13.4) |
| **Net income** | **461** | 413 | 11.6 | **874** | 732 | 19.4 |
| Operating expenses | **(282)** | (265) | (6.4) | **(547)** | (520) | (5.2) |
| **Profit before tax** | **179** | 148 | 20.9 | **327** | 212 | 54.2 |
| Income tax expense | **(47)** | (41) | (14.6) | **(88)** | (44) | large |
| **Cash earnings before IoRE** | **132** | 107 | 23.4 | **239** | 168 | 42.3 |

| **Movement in Funds under Management and Administration ($m)** | As at Mar 07 | Inflows | Outflows | Investment earnings | Other[1] | As at Sep 07 |
|---|---|---|---|---|---|---|
| Master Funds (Platforms) | 63,898 | 10,308 | (7,516) | 3,562 | (1,480) | **68,772** |
| Other Retail | 5,538 | 79 | (432) | 210 | 229 | **5,624** |
| **Total Retails (Excl. Cash)** | 69,436 | 10,387 | (7,948) | 3,772 | (1,251) | **74,396** |
| Wholesale | 24,037 | 2,493 | (2,756) | 981 | - | **24,755** |
| Cash Management | 3,933 | 11,218 | (10,452) | 124 | (43) | **4,780** |
| Trustee | 4,997 | 1,354 | (117) | - | - | **6,234** |
| **Total** | 102,403 | 25,452 | (21,273) | 4,877 | (1,294) | **110,165** |

(1) *Other includes trust distributions and flow due to the sale/purchase of businesses.*

| | Market share | | | | Share of New Business (2) | | | |
|---|---|---|---|---|---|---|---|---|
| | Rank | Jun 07 | Dec 06 | Jun 06 | Rank | Jun 07 | Dec 06 | Jun 06 |
| Retail (Excl. Cash) | 2 | **12.1%** | 12.3% | 12.3% | 2 | **9.7%** | 9.2% | 8.9% |
| Total Masterfunds | 1 | **14.5%** | 14.9% | 15.1% | 2 | **10.6%** | 10.2% | 10.0% |
| Total Wholesale | 3 | **6.2%** | 6.3% | 6.0% | 15 | **2.5%** | 2.1% | 2.1% |

*Source: Plan for Life Australian Retail & Wholesale Investments Market share & Dynamics Report - June 2007*

(2) *Share of new business is based on annual gross inflows.*

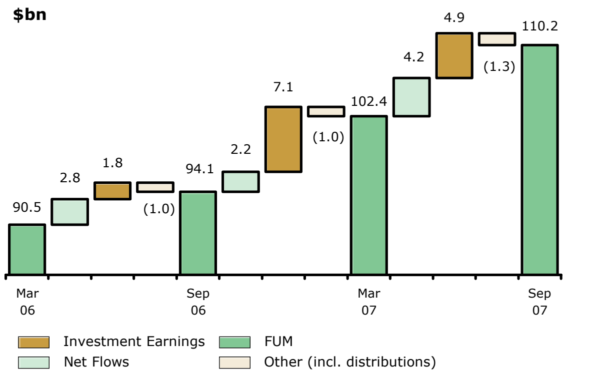
## MLC – Investments

Financial Analysis

### September 2007 v March 2007

**Cash earnings before IoRE** grew by $25 million or 23.4%.

**Funds under Management**




**Gross income** increased $73 million or 11.8%, well ahead of the 8.2% growth in average FUM. A strong sales performance from MLC's advice based distribution businesses, including ongoing cross-sell momentum through the Bank channel and continuing low attrition rates drove net funds flow past $4 billion. The strong net flows together with positive investment earnings pushed MLC's FUM above $110 billion delivering favourable revenue growth.

MLC's Retail (excluding cash) attrition rate continues to track below market average.

Margins were maintained, reflecting MLC's focus on participating in the more profitable segments of the market. Competitive pressures and the industry's move towards lower margin platform offerings resulted in a slight reduction in Retail Funds (Ex Cash) market share.

**Volume related expenses** include commission payments, investment costs and other FUM related costs. These increased $25 million or 12.0%, in line with revenue growth.

**Net income** increased $48 million or 11.6%, well ahead of the 8.2% growth in average FUM.

**Operating expenses** increased by $17 million or 6.4%, well under the growth in business activity, which is seasonally higher in the second half. In addition to the cost of implementing the changes required to manage the unprecedented Simpler Super inflows, the business invested heavily to refresh the MasterKey and MasterKey Custom product platforms, including:

- the MLC Global Property Fund and MLC Hedged Global Share Fund (launched in May 2007); and
- MLC MasterKey Pension Fundamentals, the final product in MLC's fee for advice range.

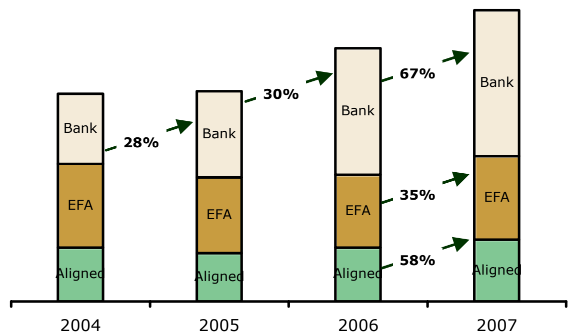
These costs were offset by efficiency gains delivered by MLC's customer experience and effectiveness program.

### September 2007 v September 2006

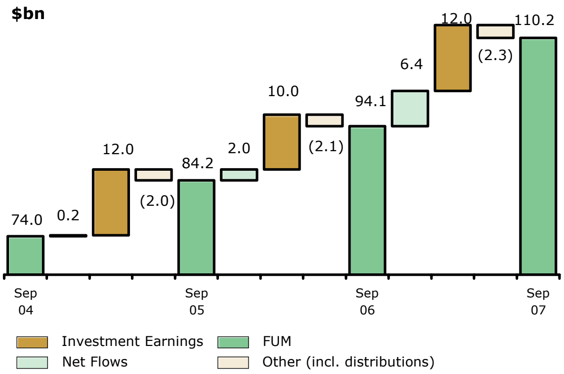
**Cash earnings before IoRE** grew $71 million or 42.3%.

All channels contributed to the strong sales performance and, along with continued low attrition, resulted in a $4.4 billion or 212.7% increase in net funds flow.

**Growth in Investment Sales by Channel**




**Funds under Management**




**Gross Income** increased $194 million or 17.3%, driven by the 14.6% increase in average FUM and revenue from increased sales in MLC's advice based distribution businesses.

**Volume related expenses** increased $52 million or 13.4%, broadly in line with the growth in gross income and average FUM.

**Net income** increased $142 million or 19.4%, well ahead of the 14.6% increase in average FUM, reflecting MLC's strategy of focusing on higher margin segments.

**Operating expenses** increased by $27 million or 5.2% due to higher variable remuneration, the changes required to implement Simpler Super and to refresh the MasterKey and MasterKey Custom product platforms.

**Income tax expense** grew by $44 million due to an increase in profit before tax and the positive impact of the finalisation of prior years' tax returns in the September 2006 half ($14 million).

## MLC - Insurance

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 07 v Mar 07 % | Sep 07 $m | Sep 06 $m | Sep 07 v Sep 06 % |
| Gross income | **451** | 419 | 7.6 | **870** | 790 | 10.1 |
| Volume related expenses | **(235)** | (223) | (5.4) | **(458)** | (399) | (14.8) |
| **Net income** | **216** | 196 | 10.2 | **412** | 391 | 5.4 |
| Operating expenses | **(90)** | (92) | 2.2 | **(182)** | (200) | 9.0 |
| **Profit before tax** | **126** | 104 | 21.2 | **230** | 191 | 20.4 |
| Income tax expense | **(39)** | (28) | (39.3) | **(67)** | (51) | (31.4) |
| **Cash earnings before IoRE** | **87** | 76 | 14.5 | **163** | 140 | 16.4 |

| **Annual Inforce Premiums ($m)** | As at Mar 07 | Sales | Lapses | As at Sep 07 |
|---|---|---|---|---|
| Retail | 600.7 | 55.9 | (23.2) | **633.4** |
| Group Risk | 141.8 | 33.4 | (13.0) | **162.2** |
| **Total** | 742.5 | 89.3 | (36.2) | **795.6** |

| | Market share | | | | Share of New Business [1] | | | |
|---|---|---|---|---|---|---|---|---|
| | Rank | Jun 07 | Dec 06 | Jun 06 | Rank | Jun 07 | Dec 06 | Jun 06 |
| Retail risk premiums | 1 | **15.0%** | 15.0% | 14.9% | 3 | **12.5%** | 12.4% | 12.2% |
| Group Risk | 6 | **8.6%** | 8.7% | 9.0% | 3 | **10.3%** | 12.2% | 9.6% |

*Source: DEXX&R Life Analysis - June 2007*

(1) *Share of new business is based on new premiums.*

## MLC - Insurance
Financial Analysis

### September 2007 v March 2007

**Cash earnings before IoRE** grew by $11 million or 14.5%.

**Gross income** growth of $32 million or 7.6% was driven by strong sales, particularly in the bank channel and continued below market average lapses. Group risk insurance annual inforce premium grew by over $20 million in the half due to a number of successful tenders.

**Volume related expenses**, which include commission payments, claims and adjustments from the stocktake valuation of life policy liabilities (based on actuarial reviews of actual data and experience assumptions), increased by $12 million or 5.4%, slightly below revenue growth. Claims experience was favourable overall. Disability claims experience, which had deteriorated in the prior period, improved. This was partly offset by lump sum claims experience which, while being better than long term expectations, was less favourable than in the prior period.

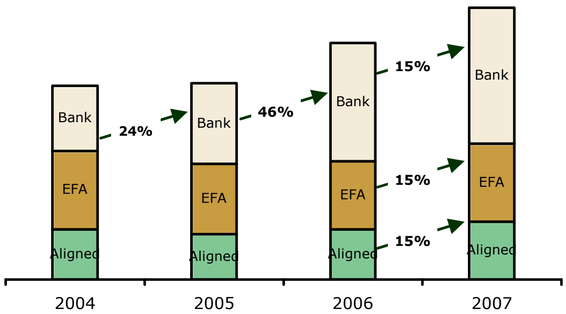
**Operating expenses** reduced $2 million or 2.2%, largely due to productivity and efficiency improvements, offsetting expenditure on product development which included:

- the refresh of the Personal Protection Portfolio product (PPP);
- the extension of EasyCover, a loan based risk product, into the Bank channel as well as to mortgage brokers; and
- the release of Simple Life, a life insurance product available through nab credit cards.

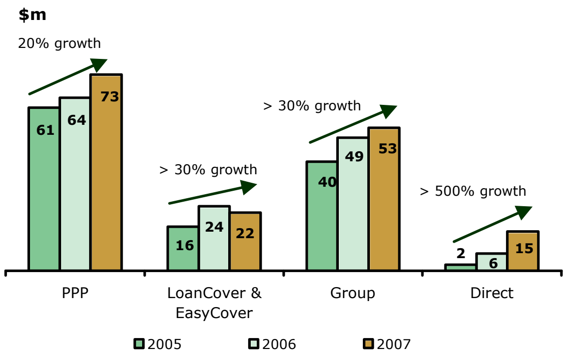
### September 2007 v September 2006

**Cash earnings before IoRE** grew by $23 million or 16.4%.

**Growth in Insurance Sales by Channel**




**Insurance Sales Growth**




Sales in MLC's market leading PPP product grew at 14% over 2007 on top of 5% growth in the previous year, following a substantial upgrade. MLC's sales of Individual (Retail) Risk grew at 1.2 times system, increasing MLC's market share from 12.2% to 12.5% over the year to June 2007.

**Gross income** growth of $80 million or 10.1% was in line with average annual inforce premium growth. The 12.1% growth in average annual inforce premiums was the result of strong sales (15% growth in channels overall) and MLC's longheld practice of providing the most recent product enhancements to existing customers contributing to favourable lapse experience.

Above system growth in its core market of Individual (Retail) Risk allowed MLC to maintain the No. 1 position with 15.0% market share (as at June 07) of inforce premium.

**Volume related** expenses increased $59 million or 14.8%. This higher than gross income growth was the result of satisfactory claims experience overall, though slightly worse than the prior period, and the stocktake valuation of policy liabilities which was unfavourable by $10 million.

**Operating expenses** declined $18 million or 9% after expenditure on product development (PPP refresh, EasyCover and Simple Life). Cost containment through productivity and efficiency initiatives drove a reduction in the cost to premium ratio from 30% to 24%.

# UK Region

Lynne Peacock

The UK Region, through its Clydesdale and Yorkshire Bank brands, provides products and services to business and retail customers. It has delivered another year of strong and sustainable growth while retaining a conservative approach to risk. This growth has been supported by a diversified and cautious approach to liquidity and funding.

## Strategic Highlights & Business Developments

Excellent progress has been demonstrated through a 13.6% year-on-year (5.9% in the second half) increase in cash earnings (excluding fair value and hedging). Cash earnings including fair value and hedging increased 16.2% over the previous year.

iFS revenues continue to grow strongly (up 23% on the year), offset by slower growth in retail (up 1%) and reductions of 8% in cards and 11% in wealth management as a result of continued restraint in unsecured lending and market pressure on payment protection insurance revenues.

The net interest margin declined 48 basis points over the year, with the decline slowing in the second half (as margin approaches market median) driven mainly by mix and basis risk.

The exceptional global market conditions arising from the effects of the US sub-prime mortgage crisis impacted in the last quarter with 35% of the 2007 basis risk impact of £23 million (£12 million in prior year) occurring in the last two months.

The 2006 comparative results contain £37 million in respect of Danske Bank A/S transitional services income and expenses. Excluding this effect, income grew 4% while expenses grew within inflation demonstrating firm cost control as significant investment in our business continues to be made.

Average UK Region lending volumes were up 19.4% year-on-year (10.3% half-on-half). Business lending was particularly strong with a full year growth of 26% (£2.5 billion). Growth in higher risk personal loans and credit cards has again been restrained.

Average UK Region deposit volumes grew 20.9% year-on-year (8.7% half-on-half) with the iFS network driving the majority of this growth.

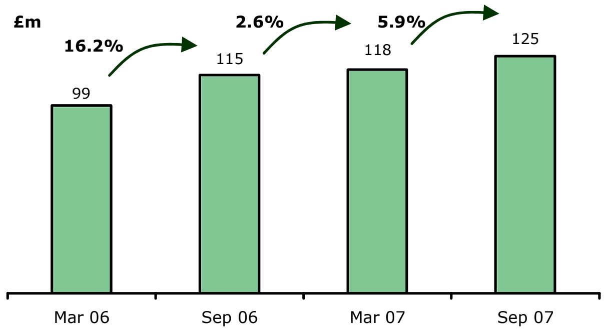
To further diversify the funding capability, £3 billion of mortgages were securitised under a master trust structure in August 2007.

Investment in iFS continues with a net increase of 229 full-time equivalents (FTEs) during the year (101 net FTE increase in the second half). iFS is generating above-system balance sheet performance in key product segments driving strong volume growth.

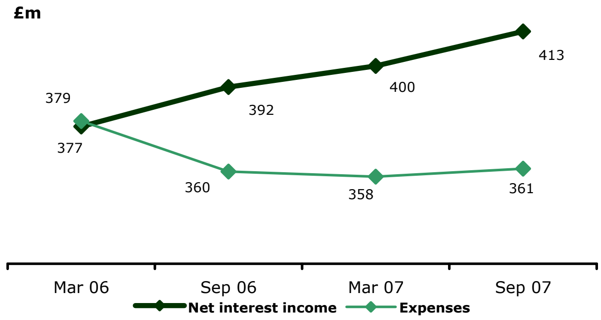
Investment in the Retail network continued through the convergence of the Yorkshire and Clydesdale back-office systems, the roll out of the new teller system, and the introduction of a new contemporary branch design.

In summary, the UK Region continues to deliver on its promises providing an improved and differentiated banking proposition to its customers.

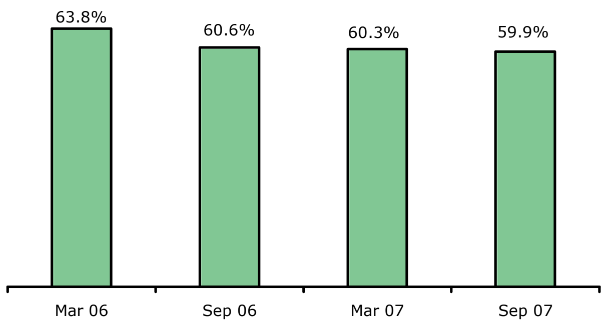
**UK Region Cash Earnings before IoRE**



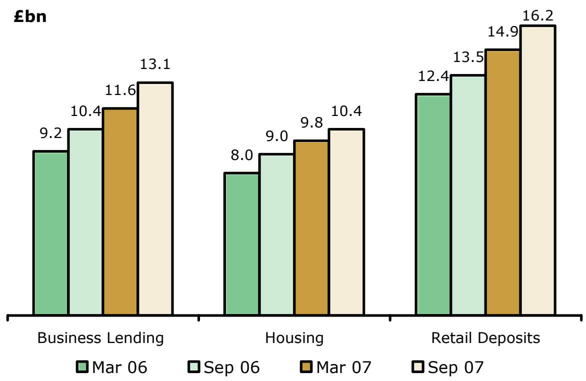

**UK Region Net Interest and Expense Trends**




**UK Region Cost to Income ratio**




**UK Volumes – Half Year Averages**



## Operating Environment

Economic forecasts for the UK economy suggest growth is likely to slow in 2008 to 2.1% from the above-trend growth rate seen in the first nine months of 2007, as consumer spending slows. That would be the lowest growth rate since 2005, but forecast rate cuts from the first half of next year should provide some stimulus to demand growth towards the end of 2008 and into 2009.

While there are tentative signs that the UK housing market is beginning to slow, most projections suggest that any downturn in the housing market is expected to remain fairly mild, with a soft landing the most likely outcome.

The result of the ongoing Office of Fair Trading investigation and the test case which is seeking to clarify the legal position of bank charges continue to cause uncertainty. There is a charge of £11 million in the 2007 full year results in respect of settlement of claims, costs incurred to date and provision for future quantifiable administrative costs. This has been offset in the results by a one-off provision release and an insurance recovery on bank note reissue costs relating to the Irish banks, providing £12 million benefit in the 2007 year.

In April 2007, a significant milestone was reached in the ongoing re-engineering of the UK Region. The Convergence programme completed the migration of Clydesdale Bank retail customer accounts onto a unified platform. The migration involved the transfer of the 1.2 million Clydesdale retail customers, being 48% of UK Region's retail customer base, onto new systems and the retraining of 6,000 staff in new streamlined processes. Additionally, the product offerings have been rationalised to provide customers with simpler and more beneficial products.

Introductions of iFS business banking clients to nabCapital UK generated income of £29 million (up 35%) during the year. As a result of Clydesdale Bank's total presence in the UK, £64 million of income (inclusive of the amount above) was generated by nabCapital UK during the year, up 33%.

## Customer, Employee and Community

| | As at | | |
|---|---|---|---|
| | **Sep 07** | **Mar 07** | **Sep 06** |
| Number of retail customers (no. millions) | **2.5** | 2.5 | 2.4 |
| Number of business customers (no. millions) | **0.2** | 0.2 | 0.2 |

*Customers*

The number of new customers acquired in the 2007 year is 7.4% higher than in 2006.

The programme to embed the Financial Services Authority's 'Treating Customers Fairly' principles continues to make good progress.

*Employees*

The commitment to being an employer of choice continues and from 1 October 2007 new flatter structures, flexible working arrangements and remuneration being paid on the basis of the role being undertaken and performance rather than employees' grades were introduced. Other activities over the past 12 months included the introduction of new leadership programmes, expanded talent initiatives and a mentoring programme for emerging female leaders. In addition, the Times newspaper recognised National Australia Group Europe as one of the 'top 50 places women want to work'.

A new development programme for middle-managers was launched during the year.

During the 2007 year, 436 employees completed Lean awareness training helping them to identify efficiency improvements in processes. 48 employees graduated as Lean Sigma Green Belts having undertaken training, passed an exam and delivered a business improvement project.

*Community*

UK Region continues to invest in the communities in which it operates. The launch of two high profile sponsorships - Scottish Premier League football and the National Trust – continues to help promote the brands while engaging employees and customers.

The charity partnership with the British Heart Foundation continues to be a success, raising over £450,000. A payroll giving programme, launched in May 2006, now has 11% of staff participation. As a result, a Quality Mark Silver Award was awarded in March 2007.

In support of the Carbon Neutral commitment, all energy is now purchased from Climate Levy Exempt sources. Smart Boxes are also being rolled out across the property network to identify opportunities to reduce energy consumption.

*Awards*

In November, Yorkshire Bank was named 'best business bank in the UK' by the Forum of Private Business. Clydesdale Bank was 'best business bank in Scotland'.

In April, People & Culture were awarded the ASA Human Resources Excellence Award 2007 by the Chartered Institute of Personnel & Development, recognising the business' employee development programme.

## UK Region

*Results present in local currency. See page 60 for results in $AUDm*

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | **Sep 07 £m** | **Mar 07 £m** | **Sep 07 v Mar 07 %** | **Sep 07 £m** | **Sep 06 £m** | **Sep 07 v Sep 06 %** |
| Net interest income | **413** | 400 | 3.3 | **813** | 769 | 5.7 |
| Other operating income | **183** | 186 | (1.6) | **369** | 403 | (8.4) |
| **Net operating income** | **596** | 586 | 1.7 | **1,182** | 1,172 | 0.9 |
| Operating expenses | **(361)** | (358) | (0.8) | **(719)** | (739) | 2.7 |
| **Underlying profit** | **235** | 228 | 3.1 | **463** | 433 | 6.9 |
| Charge to provide for bad and doubtful debts | **(57)** | (62) | 8.1 | **(119)** | (128) | 7.0 |
| **Cash earnings before tax** | **178** | 166 | 7.2 | **344** | 305 | 12.8 |
| Income tax expense | **(53)** | (48) | (10.4) | **(101)** | (91) | (11.0) |
| **Cash earnings** (1) | **125** | 118 | 5.9 | **243** | 214 | 13.6 |
| Cash earnings including fair value and hedge ineffectiveness (2) | **136** | 130 | 4.6 | **266** | 229 | 16.2 |

| **Average volumes (£bn)** | | | | | | |
|---|---|---|---|---|---|---|
| Gross loans and acceptances | **25.8** | 23.4 | 10.3 | **24.6** | 20.6 | 19.4 |
| Interest earning assets | **27.8** | 25.4 | 9.4 | **26.6** | 21.7 | 22.6 |
| Total assets | **31.4** | 28.1 | 11.7 | **29.7** | 24.4 | 21.7 |
| Retail deposits | **16.2** | 14.9 | 8.7 | **15.6** | 12.9 | 20.9 |

| **Performance measures**(3) | | | | | | |
|---|---|---|---|---|---|---|
| Cash earnings on average assets | **0.79%** | 0.84% | (5bps) | **0.82%** | 0.88% | (6bps) |
| Net interest margin | **2.96%** | 3.16% | (20bps) | **3.06%** | 3.54% | (48bps) |
| Cost to income ratio | **59.9%** | 60.3% | 40bps | **60.1%** | 62.2% | 210bps |
| Cash earnings per average FTE (£'000s) | **28** | 26 | | **27** | 24 | |
| FTEs (spot) | **8,850** | 9,046 | | **8,850** | 8,822 | |

(1) *The definition of cash earnings has been amended from March 2007. For a reconciliation to the previous definition refer to page 59.*

(2) *Cash earnings as defined at 31 March 2007 to include fair value volatility and hedge ineffectiveness.*

(3) *All performance measures are based on cash earnings excluding fair value and hedge ineffectiveness*

## UK Region
Financial Analysis[1]

### September 2007 v March 2007

**Cash earnings** increased 5.9% (£7 million) on the prior half reflecting higher income, broadly flat expenses and lower charges to provide for doubtful debts.

**Average gross loans and acceptances** increased 10.3% on the prior period. Business lending volumes grew by 12%. Growth is largely driven by the continued success of the integrated Financial Solutions proposition and its increasing customer base. The managed approach to mortgage lending (balancing the volume and margin trade off) has resulted in 6% mortgage volumes growth. Exposure to credit card and personal loan lending has again been restrained, with average balances stable over the two halves.

**Average retail deposit volumes** grew 8.7%. This was driven by the continued momentum in the Financial Solutions Centres, where iFS average deposit growth in the half was 13%. Retail network volumes grew 5% in the half.

**Net interest income** increased 3.3% reflecting the strong balance sheet growth partially compensated by margin contraction.

The **net interest margin** decreased 20 basis points from 3.16% to 2.96%. Basis risk movements have depressed the margin in the half by 4bps. The market rate impacts have been augmented by the funding gap between customer lending and deposits.

The margin contraction was largely driven by continued change in product mix from the disproportionate growth between business lending and unsecured consumer products and partly from the growth in lower margin Offset mortgages.

**Other operating income** has decreased 1.6% driven by lower profit share income from creditor insurance (£8 million) as this income is received annually in the first half of the year and a one-off in the previous half for the sale of MasterCard shares (£6 million). Partially offsetting is the increased income from property disposals (£12 million). Customer fee income remained flat on the first half and underlying performance, after adjusting for material one-off items, is broadly in line with the prior half's result.

**Operating expenses** have increased 0.8%. UK Growth Programme costs have increased by £8 million reflecting the recruitment and ongoing costs of staff in the Financial Solutions Centres (101 net increase in iFS FTE in the half). Investment spend, to deliver projects such as Convergence, has increased £6 million on the prior half. These increases have been offset by £11 million of incremental and related savings from the last tranche of restructuring initiatives provided for in the March 2005 half which have driven increased efficiencies and process simplification.

The **cost to income ratio** at 59.9% improved by 40 basis points over the half year, reflecting the continued improvements in revenue and cost performance.

The **charge for doubtful debts** has reduced by 8.1% in the second half. The increase from growing lending volumes has been mitigated by the portfolio shift to secured lending, stable asset quality, improved arrears management and the tightening of lending criteria during 2006 and early 2007.

### September 2007 v September 2006

Both income and expenses contained £37 million as a result of transitional service agreement income and costs in support of Danske Bank A/S in the September 2006 year. The transitional arrangements have now ceased, driving large variances in the year-on-year comparatives.

**Cash earnings** increased 13.6% (£29 million) on the September 2006 year reflecting continued progress in delivering strong and sustainable results.

**Average gross loans and acceptances** increased 19.4% on the September 2006 year. Business lending volumes grew by 26% with the maturing Financial Solutions Centres generating strong organic growth, while mortgage lending has experienced volume growth of 19%. The Retail network has increased its overall lending by 2% through growth in secured lending at the expense of unsecured.

**Average retail deposit volumes** grew 20.9%. This was primarily driven by the continued momentum in the Financial Solutions Centres and a robust performance in the Retail network. The base rate tracker product continued to generate significant volumes in iFS with growth of £1 billion in average balances over the year. Retail cover ratio has improved to 63.4% during the September 2007 year (70 basis points above prior year).

**Net interest income** increased 5.7% mainly driven by the significant portfolio growth, offset by margin, mix and rates impacts as noted below.

The **net interest margin** decreased 48 basis points from 3.54% to 3.06%. Basis risk movements on the lending and deposit portfolios have depressed the margin in the year by 4bps. In addition, recent market turbulence has increased the cost of wholesale funding. Product mix changes toward secured lending and the disproportionate growth in Offset mortgages have further depressed net interest margin.

**Other operating income** has decreased 8.4%. After adjusting for the impact of Danske Bank A/S transitional service income in the prior year (£37 million, offset by decreased operating expenses), other operating income increased 0.8%.

Income from derivatives generated through management of interest rate risk positions on the balance sheet has increased by £8 million; fee income has increased by £7 million as a result of increasing volumes and changing fee structures; and the ongoing Ireland ATM/POS support contract has driven an additional £5 million. These increases have been partially offset by a £6 million reduction from the sale

[1] *Financial analysis is on cash earnings excluding fair value and hedge ineffectiveness*

proceeds of the Private Client Solutions business received in the 2006 year and a £10 million reduction in profit share income from Wealth Management activities.

**Operating expenses** have decreased 2.7%. After adjusting for Danske Bank A/S transitional service expense in the prior year (£37 million, offset by decreased other operating income) operating expenses have increased 2.4%.

UK Growth Programme costs have increased by £40 million reflecting the recruitment and ongoing costs of staffing the Financial Solutions Centres (net increase of 229 iFS FTE over the year to support the programme), the full year effect of property associated costs and an additional £9 million of depreciation as a result of investment spend in the prior year. Incremental savings from the restructuring initiatives provided for in March 2005 were £42 million and included FTE savings, occupancy cost savings and contract and service renegotiation savings.

The **cost to income ratio** of the business improved by 210 basis points over the year to 60.1% (58.4% including fair value and hedge ineffectiveness).

The **charge for doubtful debts** has reduced by 7.0% over the September 2006 year. The increase from growing lending volumes has been mitigated by the portfolio shift to secured lending, stable asset quality, improved arrears management and the tightening of lending criteria during 2006 and early stages of the 2007 year.

## Other items

### Asset Quality

| | As at | | |
|---|---|---|---|
| | **Sep 07** | Mar 07 | Sep 06 |
| Gross impaired assets (£m) | **63** | 51 | 52 |
| Gross impaired assets to gross loans and acceptances | **0.23%** | 0.21% | 0.23% |
| 90 days past due assets (£m) | **125** | 90 | 62 |
| 90 days past due assets to gross loans and acceptances | **0.47%** | 0.36% | 0.27% |
| Total provisions to gross loans and acceptances | **1.07%** | 1.12% | 1.15% |
| Net write offs to gross loans and acceptances | **0.43%** | 0.45% | 0.48% |
| Bad and doubtful debts charge to credit risk weighted assets | **0.52%** | 0.54% | 0.58% |

The UK Region asset quality remains strong with a well-secured and diversified portfolio. The retail banking proposition does not include any direct sub-prime or low doc (self-certified) lending.

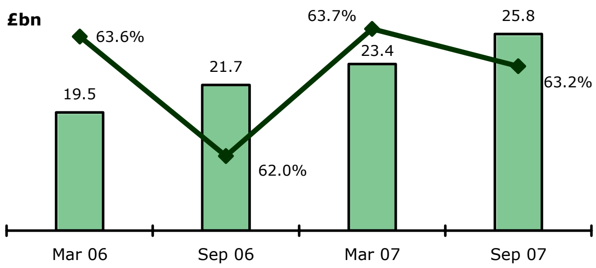
The increase of £35 million in the 90 days past due (DPD) balances in the half year to September 2007 is evenly spread across the housing and business portfolios with the unsecured consumer lending portfolio remaining largely flat. The increase in part is due to the impact of five successive interest rate rises in the UK on a proportion of the customer base and comes from a very low historical base and in the context of a significantly growing asset base. The housing portfolio remains strong with the ratio of 90 DPD to housing balances of 0.44% being under half that of the industry (1.06%). There is no evidence of any geographical or industry concentration issues in the business portfolio.

The recent inaugural £3 billion mortgage securitisation issue demonstrates the strong credit quality of the portfolio, securing a price of only 1-2bps wider at the triple-A level when compared to a similar 100% prime residential transaction benchmark within a similar issuance window.

## Capital & Funding Position

The retail cover ratio has improved to over 63% while at the same time the diversity of wholesale funding in terms of source and duration has further improved. Reliance on short term funding is down to 15% of wholesale funding.

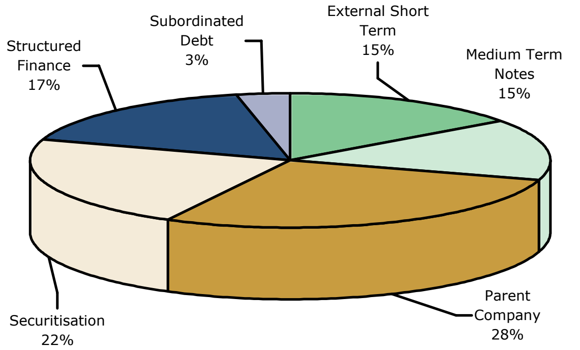
**Gross Loans and Acceptances and Retail Cover Ratio**




Clydesdale Bank PLC's (CB) long term credit rating was upgraded during the year to AA- by Standard & Poors and to Aa3 by Moodys.

CB's strong liquidity position was maintained despite volatile market conditions due in part to a diverse funding base which includes a mix of short, medium, and long-term wholesale funding, parent company funding, and securitisation.

**Clydesdale Bank PLC Diversification of W'sale Funding[(1)]**




Medium Term Note issuances have been in both senior and subordinated debt, in both sterling and euro, and have increased investor diversity having recently specifically targeted smaller scale investors.

The CB Money Market Desk has continued to demonstrate a strong capability to raise funds in the commercial paper, inter-bank and certificates of deposit markets.

(1) *As at 30 September 2007*

The UK Region's Stable Funding Index (SFI) has improved significantly in the 12 months to September 2007, increasing from 85.2% to 90.5%. This change was driven by growth in customer deposits and the effects of securitisation which saw the Customer Funding Index (CFI) increase from 66.3% in September 2006 to 73.2% in September 2007. The Term Funding Index (TFI) reduced from 18.9% to 17.3% during the same period due to the strong growth in CFI. In August 2007 Clydesdale Bank completed its inaugural issue of Residential Mortgage Backed Securities to raise £3 billion.

## Investment Spend

Investment continued in systems and processes with total cash spend of £103 million in the year, compared to £98 million in the previous year (prior year investment has driven an additional £9 million of depreciation costs in the 2007 year).

The convergence of product–processing back-office systems was successfully completed in April.

The new Teller system, already operational in Yorkshire branches, commenced roll-out into Clydesdale branches and good progress has been maintained in delivering this system. Roll-out will complete by the end of 2007 as scheduled.

The Faster Payments project is in the advanced stage of build and currently in testing with the industry go-live date of May 2008. Additionally, construction of the new data centre site is well underway and on track to complete in 2008.

The Securitisation project was successfully completed in August. Investment continues in regulatory programmes and customer applications, such as business internet banking and business lending origination.

### Distribution

The network of Financial Solutions Centres (FSCs) and Retail branches has remained stable over the six months to September 2007, with 74 principal FSCs and 343 branches.

The iFS proposition continues to mature and displayed good organic growth and stable financial returns despite recent market turbulence. 13 sites were reconfigured during the 2007 year while the number of local chairmen has now reached 39. During the year iFS launched an internal connectivity register for partner specialist skills and a members database designed to provide nationwide connections between members' interests.

A modern and contemporary retail branch design is being introduced over the next three years with the first tranche of branches having been refurbished in recent months.

The Retail network provided strong performance in the competitive UK marketplace. There was increased focus on process improvement and further training for the branch manager population. Retail sales performance in mortgages (volumes up 6% year-on-year), wealth management (life & critical illness penetration of 67% against mortgage drawdowns), and home insurance (sales increasing over 200% year-on-year) remains strong.

The direct channels share of retail product sales improved significantly throughout the 2007 year with around 30% of personal loan sales now generated through the telephone centre and internet banking.

In support of the distribution network, work to create two centres of excellence in back-office processing in Leeds and Clydebank is now complete. The consolidation into two scalable centres has improved productivity, resource utilisation and working environments.

## Restructuring Activity

The programme expenditure for the period included the further simplification and streamlining of back office functions and processes. The provision taken in March 2005 has now been fully utilised.

FTE reductions under the programme were 2,060 (exceeding the 1,700 target), including an additional 245 reduction during the second half of 2007.

The gross benefits delivered during the half as a result of the programme were £69 million, with an incremental benefit in the half of £7 million.

## March 2007 Cash Earnings Definition

| | Half year to | | Year to | |
|---|---|---|---|---|
| | **Sep 07 £m** | **Mar 07 £m** | **Sep 07 £m** | **Sep 06 £m** |
| Cash earnings | **125** | 118 | **243** | 214 |
| Fair value and hedge ineffectiveness | **11** | 12 | **23** | 15 |
| | **136** | 130 | **266** | 229 |

## UK Region

*Results present in Australian dollars. See page 56 for results in local currency*

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | **Sep 07 $m** | **Mar 07 $m** | **Sep 07 v Mar 07 %** | **Sep 07 $m** | **Sep 06 $m** | **Sep 07 v Sep 06 %** |
| Net interest income | **986** | 996 | (1.0) | **1,982** | 1,852 | 7.0 |
| Other operating income | **434** | 464 | (6.5) | **898** | 971 | (7.5) |
| **Net operating income** | **1,420** | 1,460 | (2.7) | **2,880** | 2,823 | 2.0 |
| Operating expenses | **(859)** | (892) | 3.7 | **(1,751)** | (1,782) | 1.7 |
| **Underlying profit** | **561** | 568 | (1.2) | **1,129** | 1,041 | 8.5 |
| Charge to provide for bad and doubtful debts | **(135)** | (155) | 12.9 | **(290)** | (307) | 5.5 |
| **Cash earnings before tax** | **426** | 413 | 3.1 | **839** | 734 | 14.3 |
| Income tax expense | **(128)** | (119) | (7.6) | **(247)** | (216) | (14.4) |
| **Cash earnings(1)** | **298** | 294 | 1.4 | **592** | 518 | 14.3 |
| Cash earnings including fair value and hedge ineffectiveness (2) | **326** | 324 | 0.6 | **650** | 553 | 17.5 |

### Impact of exchange rate movements

| Favourable/ (unfavourable) September 2007 | Half year since Mar 07 $m | Sep 07 v Mar 07 Ex FX % | Year since Sep 06 $m | Sep 07 v Sep 06 Ex FX % |
|---|---|---|---|---|
| Net interest income | **(42)** | 3.3 | **22** | 5.7 |
| Other operating income | **(20)** | (1.6) | **9** | (8.4) |
| Operating expenses | **36** | (0.8) | **(19)** | 2.7 |
| Charge to provide for bad and doubtful debts | **6** | 8.1 | **(3)** | 7.0 |
| Income tax expense | **5** | (10.4) | **(3)** | (11.0) |
| **Cash earnings** | **(15)** | 5.9 | **6** | 13.6 |

### March 2007 Cash Earnings Definition

| | Half year to | | Year to | |
|---|---|---|---|---|
| | **Sep 07 $m** | **Mar 07 $m** | **Sep 07 $m** | **Sep 06 $m** |
| Cash earnings | **298** | 294 | **592** | 518 |
| Fair value and hedge ineffectiveness | **28** | 30 | **58** | 35 |
| | **326** | 324 | **650** | 553 |

(1) *The definition of cash earnings has been amended from March 2007. For a reconciliation to the previous definition refer above.*

(2) *Cash earnings as defined at 31 March 2007 to include fair value volatility and hedge ineffectiveness.*

**This page has been left blank intentionally**

## New Zealand Region

Cameron Clyne

The New Zealand Region consists of our Retail, Business, Agri banking and Insurance business in New Zealand operating under the Bank of New Zealand brand (these exclude nabCapital – NZ operations).

### Strategic Highlights & Business Developments

The financial highlight for 2007 has been strong year-on-year income growth coupled with a focus on disciplined cost management and sound asset quality. This focus has delivered very strong underlying cash earnings growth of 18.1% over the prior year.

The executive management team was re-aligned during March 2007 after the appointment of Cameron Clyne as the Managing Director / CEO with a clear focus on three strategic themes of Simplification, Culture and new Revenue streams. The new executive team provides a strong balance and mix of experience, with people from both within BNZ and from the broader Group.

### Operating Environment

The New Zealand banking market continues to be very competitive with five major banking brands and a number of niche players competing to provide financial services.

During the year, economic growth, although slowing from historical highs, was underpinned by high employment levels, commodity prices and a continuation of a strong housing market.

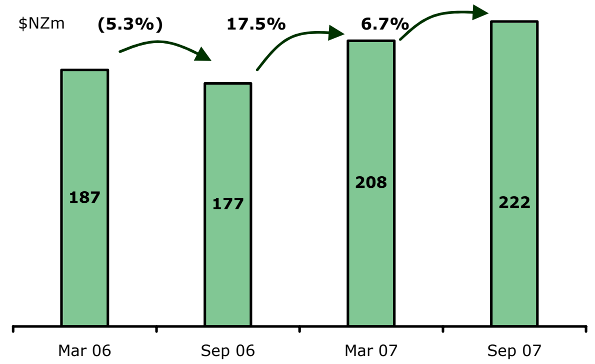
Interest rates remain the highest in the OECD with the Official Cash Rate increasing 100 basis points over the year to 8.25% in response to ongoing inflationary concerns.

This environment contributed to increased demand for fixed rate consumer and business loans. Competition in the deposit market continued to increase from both traditional and niche financial institutions.

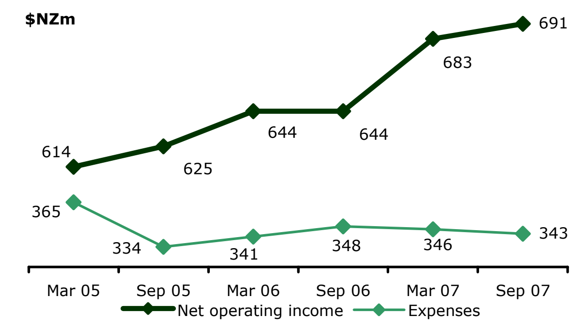
Whilst competition remains intense and the increasing interest rate environment has started to impact on economic activity, the New Zealand Region has maintained a very clear focus on profitable volume growth, as opposed to market share, whilst maintaining sound asset quality.

The recent global credit environment has had a limited flow on impact to the NZ Region, with the primary effect being a rise in offshore wholesale funding costs inline with other market participants.

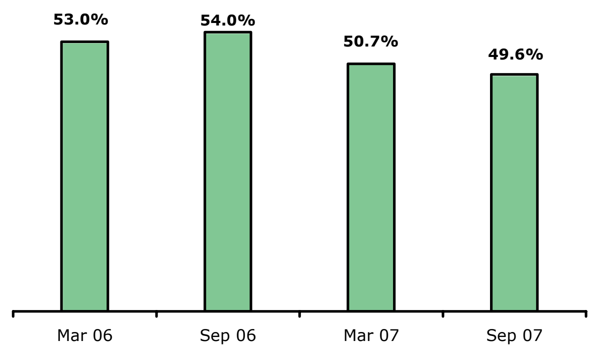
**NZ Region Cash Earnings**



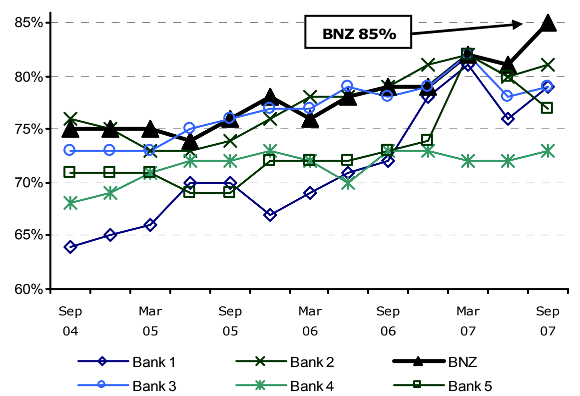

**NZ Region Revenue and Expense Trends**




**NZ Region Cost to Income ratio**




**NZ Region Branch Satisfaction Score[1]**




[1] *Based on main bank customer who have visited a branch (Margin of error for BNZ = +/- 3%)*



Bank of New Zealand

## Customer, Employee and Community

The focus on Simplification, Culture and new Revenue streams is showing very encouraging results for our customers, employees and community.

Simplification efforts have been targeted at reducing the complexity in processes, systems and structures using the well engrained disciplines of continuous improvement and Kaizen making it easier and better for customers and staff alike.

Our culture programme has supported the empowerment of employees at all levels of the organisation through an ongoing focus on people development, leadership and talent identification. This has resulted in a significant positive shift in our internal employee engagement and culture survey results.

Revenue focus is aimed at identifying and growing new revenue streams in a number of product areas across Retail, Agribusiness, Insurance and Business banking. New and innovative products developed during the year include Total Money, BNZ AgriCapital and involvement in Fundit.

The focus on clear strategic themes has had a large positive impact on branch satisfaction rating, reaching 85%, an all time high for the Bank and a market leader position in New Zealand. The Bank continued to excel in interactions with customers through the Contact Centre (which has won numerous awards) and overall customer satisfaction levels, continuing the positive momentum.

The NZ Region has a strong community focus through providing volunteer leave and sponsorship activities, including amongst others, Prevention of Violence in the Home (one of the Bank's key community initiatives) and the Save the Kiwi Trust.

## New Zealand Region

*Results presented in local currency. See page 67 for results in AUDm*

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | Sep 07 NZ$m | Mar 07 NZ$m | Sep 07 v Mar 07 % | Sep 07 NZ$m | Sep 06 NZ$m | Sep 07 v Sep 06 % |
| Net interest income | **497** | 483 | 2.9 | **980** | 911 | 7.6 |
| Other operating income | **194** | 200 | (3.0) | **394** | 377 | 4.5 |
| **Net operating income** | **691** | 683 | 1.2 | **1,374** | 1,288 | 6.7 |
| Operating expenses | **(343)** | (346) | 0.9 | **(689)** | (689) | - |
| **Underlying profit** | **348** | 337 | 3.3 | **685** | 599 | 14.4 |
| Charge to provide for bad and doubtful debts | **(25)** | (27) | 7.4 | **(52)** | (53) | 1.9 |
| **Cash earnings before tax** | **323** | 310 | 4.2 | **633** | 546 | 15.9 |
| Income tax expense | **(101)** | (102) | 1.0 | **(203)** | (182) | (11.5) |
| **Cash earnings** (1) | **222** | 208 | 6.7 | **430** | 364 | 18.1 |
| | | | | | | |
| **Average volumes (NZ$bn)** | | | | | | |
| Gross loans and acceptances | **40.3** | 37.9 | 6.3 | **39.1** | 34.8 | 12.4 |
| Interest earning assets | **41.2** | 38.7 | 6.5 | **40.0** | 35.4 | 13.0 |
| Total assets | **42.2** | 39.5 | 6.8 | **40.8** | 36.2 | 12.7 |
| Retail deposits | **21.4** | 20.5 | 4.4 | **21.0** | 19.2 | 9.4 |
| | | | | | | |
| **Performance measures** | | | | | | |
| Cash earnings on average assets | **1.05%** | 1.06% | (1bp) | **1.05%** | 1.01% | 4bps |
| Net interest margin | **2.40%** | 2.51% | (11bps) | **2.45%** | 2.57% | (12bps) |
| Cost to income ratio | **49.6%** | 50.7% | 110bps | **50.1%** | 53.5% | 340bps |
| Cash earnings per Ave FTE (NZ$'000s) | **99** | 93 | | **96** | 81 | |
| FTEs (spot) | **4,444** | 4,465 | | **4,444** | 4,505 | |

(1) *The definition of cash earnings has been amended from March 2007. For a reconciliation to the previous definition refer to page 66.*

## New Zealand Region

Financial Analysis (in local currency)

### September 2007 v March 2007

**Cash earnings** increased 6.7% to $222m over the March 2007 half, reflecting continued profitable volume growth in a competitive market. An ongoing focus on cost disciplines and the excellent credit quality of the total loan portfolio has also contributed to this result.

**Net interest income** grew 2.9% reflecting solid volume growth offset by downward market pressure on the overall net interest margin. Whilst competition remains intense, the economic environment has remained relatively buoyant which has helped drive growth in average lending volumes by 6.3% and retail deposits 4.4% over the March 2007 half.

**Net interest margin** declined 11 basis points to 2.40%. Lower margins on the lending book and an increased mix of wholesale funding have been partially offset by slightly stronger retail deposit margins, which have benefited from a 75 basis point increase in the Official Cash Rate during the current half.

**Other operating income** decreased 3.0% on the March 2007 half. Underlying customer fee growth remains flat as the NZ Region continues to focus on simplifying fee structures to ensure an attractive customer value proposition in a highly competitive market. The March 2007 half included one-off proceeds from the sale of "Mastercard" shares ($10m).

**Operating expenses** decreased 0.9% on the March 2007 half through a strong cost management focus.

The **charge to provide for doubtful debts** declined $2m. Overall credit conditions remain benign and asset quality sound. The ratio of gross impaired assets to gross loans and acceptances has increased 5 basis points to 0.13%, however remains at historically low levels.

### September 2007 v September 2006

**Cash earnings** for the year increased 18.1% to $430m over the prior year reflecting strong income performance, excellent cost management disciplines and sound asset quality management.

**Net interest income** grew 7.6% reflecting solid volume growth and disciplined margin management.

**Average lending volumes** increased 12.4% over the prior year, with housing volumes up 13.1% and business lending volumes up 13.0% while retail deposits were up 9.4%. As the Bank of New Zealand continues to focus on profitable volume growth in a competitive environment, some key product market share levels have declined slightly when compared to the prior year.

**Net interest margin** declined 12 basis points to 2.45% due to competitive pressures on lending margins combined with product mix changes and an increased proportion of wholesale funding. This has been partially offset by Retail Deposit margins which have benefited from a 100 basis point increase in the Official Cash Rate over the year.

**Other operating income** increased 4.5% over the prior year. Underlying customer fee growth remains flat due to the focus on ensuring the customer value proposition remains attractive by actively promoting simplified fee structures. NZ Banking has benefited from a strong relationship with nabCapital (NZ), with increasing cross-sell opportunities as we move closer towards fulfilling total customer financial needs.

**Operating expenses** remained flat with the prior year as sustainable cost management efficiency gains stemming from engrained continuous improvement disciplines helped offset annual salary increases and re-investment in people, processes and systems.

The **charge to provide for doubtful debts** decreased $1m over the prior year, with overall asset quality remaining sound with the ratio of gross impaired assets to gross loans and acceptances increasing 1 basis point to 0.13%.

## Other items

### Asset Quality

The New Zealand Region's overall asset quality remains sound demonstrating the strength of the Bank's front line business credit analysis and independent credit risk management function.

| | As at | | |
|---|---|---|---|
| | **Sep 07** | **Mar 07** | **Sep 06** |
| Gross impaired assets (NZ$m) | **54** | 30 | 45 |
| Gross impaired assets to gross loans and acceptances | **0.13%** | 0.08% | 0.12% |
| 90 days past due assets (NZ$m) | **52** | 35 | 26 |
| 90 days past due assets to gross loans and acceptances | **0.13%** | 0.09% | 0.07% |
| Total provisions to gross loans and acceptances | **0.50%** | 0.47% | 0.45% |
| Net write offs to gross loans and acceptances | **0.07%** | 0.09% | 0.11% |
| Bad and doubtful debts charge to credit risk weighted assets | **0.15%** | 0.17% | 0.18% |

### Balance Sheet Management

The New Zealand Region's Stable Funding Index (SFI) as at September 2007 was 70.4%, a decrease from 76.0% at September 2006. The Customer Funding Index (CFI) reduced from 58.0% to 55.4% during the past 12 months. The Term Funding Index (TFI) moved from 18.0% to 15.0% as the strong overall SFI allowed for term funding issuance to be delayed due to the adverse market conditions.

### Market Share

| | As at | | |
|---|---|---|---|
| | **Sep 07** | **Mar 07** | **Sep 06** |
| Housing(1) | **16.0** | 16.2 | 16.3 |
| Cards(1) | **28.7** | 29.2 | 30.0 |
| Small Business(2) | **18.0** | 20.0 | 20.0 |
| Agribusiness(1) | **18.3** | 18.3 | 18.4 |
| Retail deposits(1) | **17.7** | 18.2 | 17.9 |

(1) *Source RBNZ – September 2007.*

(2) *Source TNS (June 2007) – margin of error +/- 2%.*

### Distribution

The Bank continues to maintain a strong branch network across New Zealand.

| | As at | | |
|---|---|---|---|
| | **Sep 07** | **Mar 07** | **Sep 06** |
| Number of retail branches | **179** | 180 | 180 |
| Number of ATM's | **419** | 410 | 402 |
| Number of internet banking customers (no. '000s) | **371** | 332 | 310 |

### March 2007 Cash Earnings Definition

| | Half year to | | Year to | |
|---|---|---|---|---|
| | **Sep 07 NZ$m** | **Mar 07 NZ$m** | **Sep 07 NZ$m** | **Sep 06 NZ$m** |
| Cash earnings | **222** | 208 | **430** | 364 |
| Fair value and hedge ineffectiveness | **29** | 42 | **71** | 36 |
| | **251** | 250 | **501** | 400 |

## New Zealand Region

*Results presented in Australian dollars. See page 64 for results in local currency*

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 07 v Mar 07 % | Sep 07 $m | Sep 06 $m | Sep 07 v Sep 06 % |
| Net interest income | **439** | 425 | 3.3 | **864** | 797 | 8.4 |
| Other operating income | **173** | 175 | (1.1) | **348** | 333 | 4.5 |
| **Net operating income** | **612** | 600 | 2.0 | **1,212** | 1,130 | 7.3 |
| Operating expenses | **(304)** | (304) | - | **(608)** | (603) | (0.8) |
| **Underlying profit** | **308** | 296 | 4.1 | **604** | 527 | 14.6 |
| Charge to provide for bad and doubtful debts | **(22)** | (24) | 8.3 | **(46)** | (46) | - |
| **Cash earnings before tax** | **286** | 272 | 5.1 | **558** | 481 | 16.0 |
| Income tax expense | **(90)** | (89) | (1.1) | **(179)** | (160) | (11.9) |
| **Cash earnings** | **196** | 183 | 7.1 | **379** | 321 | 18.1 |

### Impact of exchange rate movements

| Favourable/ (unfavourable) September 2007 | Half year since Mar 07 $m | Sep 07 v Mar 07 Ex FX % | Year since Sep 06 $m | Sep 07 v Sep 06 Ex FX % |
|---|---|---|---|---|
| Net interest income | **3** | 2.9 | **7** | 7.6 |
| Other operating income | **1** | (3.0) | **3** | 4.5 |
| Operating expenses | **(2)** | 0.9 | **(5)** | - |
| Charge to provide for bad and doubtful debts | **-** | 7.4 | **-** | 1.9 |
| Income tax expense | **(1)** | 1.0 | **(2)** | (11.5) |
| **Cash earnings** | **1** | 6.7 | **3** | 18.1 |

### March 2007 Cash Earnings Definition

| | Half year to | | Year to | |
|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 07 $m | Sep 06 $m |
| Cash earnings | **196** | 183 | **379** | 321 |
| Fair value and hedge ineffectiveness | **25** | 37 | **62** | 29 |
| | **221** | 220 | **441** | 350 |

# nabCapital

John Hooper

nabCapital is the Group's global division, with key lines of business comprising Institutional Banking, Corporate Finance, Markets, and Structuring and Investments. It operates in three core regions of Australia (which incorporates the smaller businesses in Americas and Asia), New Zealand and the United Kingdom.

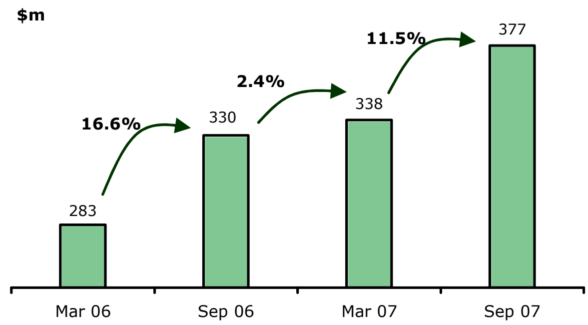
## Strategic Highlights & Business Developments

nabCapital continued its first half earnings momentum into the second half to deliver a strong full year result. This was nabCapital's fourth consecutive half year of growth since the commencement of the business turnaround program in 2005. The September 2007 half year provided strong income growth as a result of the momentum from the originate-warehouse-distribute (OWD) strategy, together with increased revenues in our Markets business which benefited from continued investment in both people and systems, resulting in improved earnings from our risk management activities following the recent market disruption. Cash Earnings in the September 2007 half also benefited from ongoing cost containment activities which contributed to continued improvement in our cost to income ratio.

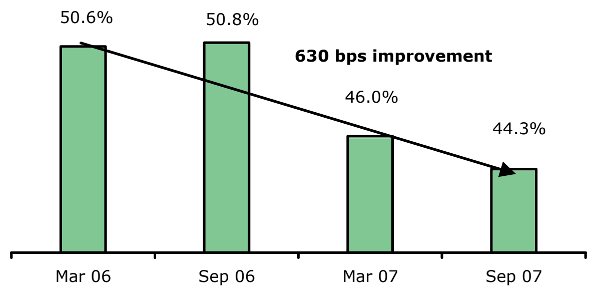
nabCapital's OWD operating model continued to drive sustained improvement in performance. This strategy maximises opportunities for our customers by linking, through a diverse and sophisticated suite of products, the risk reward requirements of both our distribution and origination clients. Building on this strategy during 2007, nabCapital launched its alternative investments business (Antares), established a Project Finance business in Asia and agreed to acquire a 20% stake in China based UT&I. These initiatives continued to build our capability and supported the strong performance through:

- improved momentum across key product lines, including increased originations in Corporate Finance;
- strong deal flow in Syndications;
- acceleration of new business initiatives including Leverage Finance in the UK and Securitisation in the US;
- winning lead manager roles in the US Private Placement market;
- underwriting of large retail property listings;
- significant arranger/underwriting roles from structured property finance deals;
- ongoing development of our global distribution capability; and
- ongoing management and optimisation of capital.

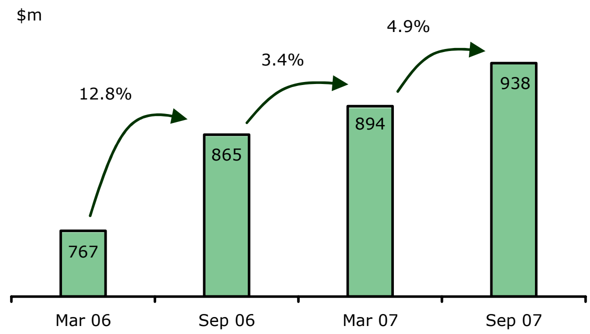
**nabCapital Cash Earnings**



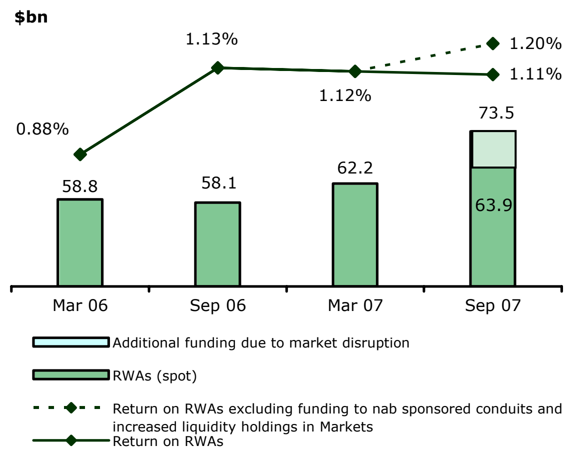

**nabCapital Cost to Income ratio**




**nabCapital Grossed up Revenue[1]**




**nabCapital Return on Risk Weighted Assets**




(1) *Grossed up revenue includes the notional revenue impact of transactions structured on a net of tax basis*

nabCapital

An ongoing commitment to delivering innovative capital markets solutions for our clients saw nabCapital win a number of awards for the preceding 12 months from the industry's leading research houses and journals, including:

- Best Domestic Debt House – Asiamoney, July 2007 (second consecutive year); and
- Best Bond House – Insto, January 2007 (fourth consecutive year).

nabCapital also performed well in various industry league tables:

- Number 1 for A$ bonds (deal value) - Thomson Financial, December 2006; and
- Number 1 for Australasian Project Finance Loans (deal value) – Dealogic, December 2006 (second consecutive year).

nabCapital was involved in a number of notable transactions for the year, including Sole Lead arranger and underwriter to Origin Energy, Sole Agent US Traditional Private Placement – Australian Education Trust (AET) and Lead Equity Arranger, Joint Lead Manager and Underwriter of Multiplex European Property Fund.

## Operating Environment

The financial environment has been more volatile in the second half of 2007, when compared to the March 2007 half, as the uncertainty associated with the US sub-prime market and the flow on impacts in the asset backed commercial paper market took hold in the global economy. nabCapital was able to support clients' demands over this period, including the provision of additional funding arising from disruption in the market.

As a result of the market disruption, the level of risk weighted assets increased reflecting increased client requirements, additional liquidity assets held in Markets and the lack of demand for asset backed commercial paper for a number of our securitisation conduits. This caused both an increase in utilisation of liquidity facilities, which were in place for these vehicles, and an inability to undertake the desired level of distribution activity to manage our capital position. The combination of these factors resulted in an increase in our risk weighted asset position to $73.5 billion at September 2007, from $62.2 billion at March 2007 and a marginal reduction in the RoRWA to 1.11%, from 1.12% at March 2007. Excluding the impact of recent market events, underlying RoRWA would have increased to 1.20% as a result of improved earnings from our higher yielding businesses.

The liquidity issues also resulted in an increase in nabCapital's balance sheet (spot) driven by drawings of standby liquidity facilities to nabCapital sponsored securitisation conduits ($5.1 billion), increases in other liquidity facilities to support client drawings ($2.2 billion) and an uplift in Markets assets to support Group liquidity and funding requirements ($23.5 billion).

## Customer, Employee and Community

nabCapital's ongoing focus on cultural transformation showed a marked increase in employees' commitment to the principles and behavioural attributes required to enable the business to deliver against its strategic agenda for the long term.

nabCapital's development of a dedicated community investment program included the launch of a program with the Earthwatch Institute, providing employees the opportunity to work with scientists in the field on important environmental issues. Our employees were also involved in a host of team-based and individual employee volunteering activities. In addition, nabCapital sponsored CERES Community Environment Park and the Renewable Energy and Energy Efficiency Partnership.

nabCapital's Carbon Solutions Group is a centre of excellence for the Group, working closely with clients to facilitate an understanding of risks and opportunities arising from both the physical impacts of climate change, and evolving regulatory carbon frameworks.

## nabCapital

*Results presented at actual exchange rates*

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | **Sep 07 $m** | **Mar 07 $m** | **Sep 07 v Mar 07 %** | **Sep 07 $m** | **Sep 06 $m** | **Sep 07 v Sep 06 %** |
| Net operating income | **902** | 848 | 6.4 | **1,750** | 1,509 | 16.0 |
| Operating expenses | **(400)** | (390) | (2.6) | **(790)** | (765) | (3.3) |
| **Underlying profit** | **502** | 458 | 9.6 | **960** | 744 | 29.0 |
| Charge to provide for bad and doubtful debts | **(36)** | (33) | (9.1) | **(69)** | 24 | large |
| **Cash earnings before tax** | **466** | 425 | 9.6 | **891** | 768 | 16.0 |
| Income tax expense | **(89)** | (87) | (2.3) | **(176)** | (155) | (13.5) |
| **Cash earnings[1]** | **377** | 338 | 11.5 | **715** | 613 | 16.6 |
| **Average volumes ($bn)** | | | | | | |
| Gross loans and acceptances | **49.8** | 42.8 | 16.4 | **46.2** | 41.6 | 11.1 |
| Interest earning assets - external | **118.8** | 107.4 | 10.6 | **113.1** | 101.8 | 11.1 |
| Interest earning assets - internal | **36.5** | 37.9 | (3.7) | **37.0** | 36.4 | 1.6 |
| Interest earning assets - total | **155.3** | 145.3 | 6.9 | **150.1** | 138.2 | 8.6 |
| **Capital ($bn)** | | | | | | |
| Risk weighted assets (spot) | **73.5** | 62.2 | 18.2 | **73.5** | 58.1 | 26.5 |
| **Performance measures** | | | | | | |
| Cash earnings on average risk weighted assets | **1.11%** | 1.12% | (1bp) | **1.09%** | 0.96% | 13bps |
| Cost to income ratio | **44.3%** | 46.0% | 170bps | **45.1%** | 50.7% | 560bps |
| FTEs (spot) | **2,239** | 2,188 | | **2,239** | 2,075 | |

(1) *The definition of cash earnings has been amended from March 2007. For a reconciliation to the previous definition refer to page 72.*

## nabCapital

Financial Analysis

### September 2007 v March 2007

**Cash earnings** increased 11.5% on the March 2007 half to $377 million mainly due to strong income growth as nabCapital continued to benefit from the successful embedding of the OWD strategy into the business, while Markets delivered improved earnings from our risk management activities as they benefited from recent market disruptions.

**Net operating income** increased 6.4% or $54m, driven by ongoing growth in higher yielding businesses, mainly within both Corporate Finance and Structuring and Investments, and an improved performance in Markets, as the business benefited from favourable positioning undertaken off client flows in its risk management areas following recent volatility. The growth in income was particularly robust given the March 2007 half included the sale of a large Project Finance exposure that was classified as non-performing in 2004.

**Operating expenses** increased 2.6%, reflecting higher personnel costs driven by additional staffing to support revenue growth together with increased deal related legal costs.

The **charge to provide for bad and doubtful debts** increased $3 million when compared to the prior half year and remains at more typical levels given the current credit environment. The September 2007 half year included a charge for specific provisions for a small number of clients partially offset by a write-back in our collective provision largely as a result of benefits from the re-rating of certain clients.

The **cost to income ratio** improved 170 basis points to 44.3% at September 2007 mainly from increased revenue from the continued expansion of our businesses together with ongoing cost management.

**Average external interest earning assets** increased $11.4 billion (10.6%) partly due to strong origination activity in Institutional Banking and Corporate Finance. Recent market events also contributed to the increase in average external interest earning assets with Markets' assets to support Group liquidity and funding up $7.8 billion (average), drawings of liquidity facilities by nab sponsored securitisation conduits following disruption in the asset backed commercial paper market up $1.7 billion (average) and drawings of client related liquidity facilities up $0.7 billion (average).

The **underlying return on average risk weighted assets** has increased 8 basis points to 1.20% compared to the March 2007 half year from improved earnings in our higher yielding businesses. However, the reported return was marginally down 1 basis point to 1.11% when compared to the March 2007 half due to the growth in risk weighted assets which was driven by drawings of standby liquidity facilities to nab sponsored securitisation conduits, increased liquidity funding to clients and increased Markets assets which maintained higher liquidity holdings as a result of recent market events.

### September 2007 v September 2006

**Cash earnings** increased by 16.6% on the September 2006 year notwithstanding the increase in bad and doubtful debts. Underlying profit increased 29% from strong revenue growth mainly in our higher yielding businesses combined with cost management.

**Net operating income** increased $241 million on the September 2006 year (16.0% higher). This was mainly driven by robust origination activity in Corporate Finance, increased deal flow in both our higher yielding origination and distribution businesses and an improved Markets performance arising from the recent market disruption.

**Operating expenses** increased 3.3% on the September 2006 year. This was largely due to higher personnel costs, including increased incentive payments in line with improved business performance, the impact of EBA increases and higher FTEs required to support business growth. The increase in personnel costs was partially offset by a reduction in recharges from other regions.

The **charge to provide for bad and doubtful debts** for the September 2007 year returned to more typical levels and reflects a specific provision charge for a small number of clients. This compared to a write-back in the September 2006 year mainly due to recoveries on facilities that had been provided for in prior periods and net reductions in exposures as a result of the strategy to improve return on equity.

**Cost to income ratio** has improved 560 basis points to 45.1% at September 2007, mainly due to strong growth in revenue.

**Average external interest-earning assets** increased $11.3 billion (11.1%) on the September 2007 year. The increase was mainly driven by strong origination activity across most businesses. Increased Markets assets which maintained higher liquidity holdings ($3.9 billion) and drawings of standby liquidity facilities for nab sponsored securitisation conduits ($0.8 billion) also contributed to the increase.

The **return on average risk weighted assets** was up 13 basis points to 1.09%, from 0.96% at September 2006 due to robust cash earnings growth.

## Other items

### Asset Quality

Asset quality remains strong with 92.9% of exposures assessed as investment grade equivalent AAA to BBB-, broadly in line with the March 2007 half year and September 2006 year.

The level of gross impaired assets has increased $113 million since March 2007 to $211 million, largely as credit conditions returned to more typical levels. Specific provision to the gross impaired assets ratio decreased from 61.7% at March 2007 to 39.8% at September 2007 largely due to one facility categorised as impaired not requiring any specific provision as management believe the amount outstanding is fully recoverable.

The level of gross impaired assets reduced by $78 million when compared to September 2006 mainly due to the sale of a large Project Finance asset that was classified as non performing in September 2004. This was partially offset by an increase in facilities categorised as impaired in the September 2007 half year as we moved out of a benign credit environment.

| | As at | | |
|---|---|---|---|
| | **Sep 07** | **Mar 07** | **Sep 06** |
| Gross impaired assets ($m) | **211** | 98 | 289 |
| Gross impaired assets to gross loans and acceptances | **0.38%** | 0.22% | 0.69% |
| Specific provision to gross impaired assets | **39.8%** | 61.7% | 20.9% |
| Bad and doubtful debts charge to credit risk weighted assets | **0.10%** | 0.11% | (0.04%) |

### Investment Spend

Investment cash spend during the September 2007 year was $78 million, of which approximately 80% or ($65 million) was spent on revenue generating, efficiency and infrastructure improvement projects, largely related to the Strategic Investment Program (SIP). This program focused on delivering key technology initiatives, mainly in our Markets business, to improve product capability, simplicity, flexibility and cost effectiveness.

The remaining cash spend was on compliance projects, largely related to the implementation of requirements for Basel II.

### Restructuring Activity

The restructuring program remains on track for nabCapital, with total gross benefits of $116 million having been realised over the two year period since 2005. These benefits have been largely redeployed into new business initiatives, continued investment in our technology infrastructure and in an improved control framework. FTE redundancies under the program to date are 341 including an additional 41 in the six months to September 2007. The remaining provision balance at September 2007 was $18 million.

### Impact of exchange rate movements

| Favourable/ (unfavourable) September 2007 | Half year since Mar 07 $m | Sep 07 v Mar 07 Ex FX % | Year since Sep 06 $m | Sep 07 v Sep 06 Ex FX % |
|---|---|---|---|---|
| **Cash earnings** | **(3)** | 12.4 | **(2)** | 17.0 |

### March 2007 Cash Earnings Definition

| | Half year to | | Year to | |
|---|---|---|---|---|
| | **Sep 07 $m** | **Mar 07 $m** | **Sep 07 $m** | **Sep 06 $m** |
| Cash earnings | **377** | 338 | **715** | 613 |
| Fair value and hedge ineffectiveness | **4** | 5 | **9** | 5 |
| | **381** | 343 | **724** | 618 |

## Central Functions

The Group's 'Central Functions' business segment includes streamlined functions that support all the regional businesses and comprises Group Funding and Corporate Centre activities. Group Funding acts as the central vehicle for movements of capital and structural funding to support the Group's operations together with capital and balance sheet management. Corporate Centre activities include strategic development of the portfolio of businesses, financial and risk governance and developing and retaining talent.

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 07 v Mar 07 % | Sep 07 $m | Sep 06 $m | Sep 07 v Sep 06 % |
| Net operating income | **148** | 160 | (7.5) | **308** | 500 | (38.4) |
| Operating expenses | **(160)** | (152) | (5.3) | **(312)** | (293) | (6.5) |
| **Underlying profit** | **(12)** | 8 | large | **(4)** | 207 | large |
| Charge to provide for bad and doubtful debts | **1** | 3 | 66.7 | **4** | 2 | large |
| **Cash earnings before tax** | **(11)** | 11 | large | **-** | 209 | large |
| Income tax (expense)/ write-back | **62** | 8 | large | **70** | (76) | large |
| **Cash earnings**(1) | **51** | 19 | large | **70** | 133 | (47.4) |

### September 2007 v March 2007

**Cash earnings** from Central Functions increased $32 million to $51 million primarily as a result of an adjustment for overprovision of tax in relation to Group's 2006 consolidated Australian income tax return and partly offset by an increase in capital benefit paid by Group Funding to the regions.

**Net operating income** decreased $12 million or 7.5% primarily due to the increase in capital benefit paid by Group Funding to the regions on their allocated capital (neutral at the Group level) and partly offset by favourable movements on derivatives of $24 million relating to Group Funding activities.

**Other operating expenses** increased by $8 million or 5.3% driven by the timing of expenses associated with performance based remuneration and compliance related expenditure.

**Income tax expense** decreased by $54 million primarily driven by an adjustment for overprovision of tax in relation to Group's 2006 consolidated Australian income tax return.

### September 2007 v September 06

**Cash earnings** fell by $63 million due to non-recurring income in Corporate Centre in 2006 and an increase in capital benefit paid by Group Funding to the regions, partly offset by lower tax expense.

**Net operating income** fell by $192 million or 38.4% due to the insurance recovery in 2006 relating to AUSMAQ litigation costs and an increase in the capital benefit paid by Group Funding to the regions of $149 million on their allocated capital (neutral at the Group level).

**Other operating expenses** increased by $19 million. The reduction in operating costs through savings initiatives and finalisation of compliance projects of $54 million was offset by an increase in expenditure on new business development of $10 million and the impact of a revised cost allocation model to better reflect the Group's regional accountability model.

**Income tax expense** decreased by $146 million primarily driven by an adjustment for overprovision of tax in relation to Group's 2006 consolidated Australian income tax return of $45 million and a lower tax charge due to the reduced profit.

### Other items

**March 2007 Cash Earnings Definition**

| | Half year to | | Year to | |
|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 07 $m | Sep 06 $m |
| Cash earnings | **51** | 19 | **70** | 133 |
| Fair value and hedge ineffectiveness | **(17)** | 29 | **12** | (6) |
| | **34** | 48 | **82** | 127 |

(1) *The definition of cash earnings has been amended from March 2007. For a reconciliation to the previous definition refer above.*

**This page has been left blank intentionally**

## Section 5 – Financial Report


76. Consolidated Financial Statements
76. Consolidated Income Statement
77. Consolidated Balance Sheet
78. Consolidated Recognised Income and Expense Statement
79. Consolidated Cash Flow Statement
81. Notes to the Consolidated Financial Statements
81. Note 1 - Principal Accounting Policies
82. Note 2 - Segment Information
84. Note 3 - Income
85. Note 4 - Operating Expenses
86. Note 5 - Income Tax Expense
87. Note 6 - Dividends and Distributions
87. Note 7 - Net Tangible Assets
88. Note 8 - Loans and Advances including Acceptances
91. Note 9 - Doubtful Debts
92. Note 10 - Asset Quality
94. Note 11 - Deposits and Other Borrowings
97. Note 12 - Contributed Equity and Reserves
100. Note 13 - Notes to the Cash Flow Statement
102. Note 14 - Contingent Liabilities and Commitments
104. Compliance Statement

# Consolidated Income Statement

| | Note | Half Year to Sep 07 $m | Half Year to Mar 07 $m | Year to Sep 07 $m | Year to Sep 06 $m |
|---|---|---|---|---|---|
| Interest income | | **16,368** | 14,590 | **30,958** | 25,553 |
| Interest expense | | **(11,405)** | (9,807) | **(21,212)** | (16,867) |
| Net interest income | | **4,963** | 4,783 | **9,746** | 8,686 |
| Premium and related revenue | | **405** | 383 | **788** | 887 |
| Investment revenue | | **3,294** | 4,883 | **8,177** | 6,375 |
| Claims expense | | **(281)** | (234) | **(515)** | (565) |
| Change in policy liabilities | | **(2,314)** | (3,530) | **(5,844)** | (4,456) |
| Policy acquisition and maintenance expense | | **(436)** | (392) | **(828)** | (791) |
| Investment management expense | | **(10)** | (10) | **(20)** | (33) |
| Net life insurance income | | **658** | 1,100 | **1,758** | 1,417 |
| Gains less losses on instruments at fair value | 3 | **343** | 257 | **600** | 471 |
| Other operating income | 3 | **2,000** | 1,925 | **3,925** | 4,419 |
| Net profit from the sale of controlled entities | | **-** | - | **-** | 196 |
| Significant revenue | | | | | |
| Pensions revenue | 3 | **-** | - | **-** | 319 |
| Net profit from the sale of National Europe Holdings (Ireland) Limited | | **-** | - | **-** | 15 |
| Total other income | | **2,343** | 2,182 | **4,525** | 5,420 |
| Personnel expenses | 4 | **(2,114)** | (2,115) | **(4,229)** | (3,869) |
| Occupancy-related expenses | 4 | **(266)** | (253) | **(519)** | (523) |
| General expenses | 4 | **(1,389)** | (1,275) | **(2,664)** | (3,187) |
| Charge to provide for doubtful debts | 9 | **(400)** | (390) | **(790)** | (606) |
| Net loss from the sale of controlled entities | | **-** | - | **-** | (63) |
| Total operating expenses | | **(4,169)** | (4,033) | **(8,202)** | (8,248) |
| Profit before income tax expense | | **3,795** | 4,032 | **7,827** | 7,275 |
| Income tax expense | 5 | **(1,024)** | (1,231) | **(2,255)** | (2,134) |
| **Net profit** | | **2,771** | 2,801 | **5,572** | 5,141 |
| Net profit attributable to minority interest | | **(329)** | (665) | **(994)** | (749) |
| **Net profit attributable to members of the Company** | | **2,442** | 2,136 | **4,578** | 4,392 |

| | cents | cents | cents | cents |
|---|---|---|---|---|
| Basic earnings per share (cents) | **143.7** | 125.2 | **269.0** | 262.6 |
| Diluted earnings per share (cents) | **143.4** | 124.6 | **268.4** | 261.8 |

## Consolidated Balance Sheet

| | Note | As at 30 Sep 07 $m | 31 Mar 07 $m | 30 Sep 06 $m |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and liquid assets | | **12,796** | 13,761 | 12,768 |
| Due from other banks | | **25,144** | 20,608 | 24,372 |
| Trading derivatives | | **23,019** | 15,615 | 13,384 |
| Trading securities | | **21,272** | 12,826 | 13,740 |
| Investments - available for sale | | **1,345** | 2,134 | 1,493 |
| Investments - held to maturity | | **5,016** | 1,910 | 1,388 |
| Investments relating to life insurance business | | **62,630** | 59,056 | 54,784 |
| Other financial assets at fair value | | **25,189** | 23,103 | 22,123 |
| Hedging derivatives | | **1,203** | 728 | 480 |
| Loans and advances | 8 | **320,870** | 298,226 | 283,777 |
| Due from customers on acceptances | 8 | **49,322** | 45,952 | 41,726 |
| Property, plant and equipment | | **1,958** | 1,888 | 1,877 |
| Goodwill and other intangible assets | | **5,368** | 5,268 | 5,203 |
| Deferred tax assets | | **1,266** | 1,433 | 1,631 |
| Other assets | | **8,236** | 6,327 | 6,039 |
| **Total assets** | | **564,634** | 508,835 | 484,785 |
| **Liabilities** | | | | |
| Due to other banks | | **42,566** | 38,262 | 37,489 |
| Trading derivatives | | **23,248** | 15,125 | 12,008 |
| Other financial liabilities at fair value | | **21,850** | 21,566 | 17,680 |
| Hedging derivatives | | **536** | 468 | 333 |
| Deposits and other borrowings | 11 | **254,225** | 222,456 | 222,277 |
| Liability on acceptances | | **30,443** | 35,678 | 32,114 |
| Life policy liabilities | | **53,097** | 50,380 | 46,475 |
| Current tax liabilities | | **254** | 572 | 532 |
| Provisions | | **1,359** | 1,291 | 1,618 |
| Bonds, notes and subordinated debt | | **80,983** | 70,738 | 65,006 |
| Other debt issues | | **926** | 971 | 2,274 |
| Defined benefit pension scheme liabilities | | **-** | 39 | 313 |
| Managed fund units on issue | | **8,116** | 7,875 | 7,249 |
| Deferred tax liabilities | | **1,404** | 1,701 | 1,490 |
| Other liabilities | | **15,742** | 12,146 | 9,955 |
| **Total liabilities** | | **534,749** | 479,268 | 456,813 |
| **Net assets** | | **29,885** | 29,567 | 27,972 |
| **Equity** | | | | |
| Contributed equity | 12 | **12,441** | 12,916 | 12,279 |
| Reserves | 12 | **1,071** | 1,061 | 1,064 |
| Retained profits | 12 | **16,059** | 15,259 | 14,461 |
| **Total equity (parent entity interest)** | | **29,571** | 29,236 | 27,804 |
| Minority interest in controlled entities | | **314** | 331 | 168 |
| **Total equity** | | **29,885** | 29,567 | 27,972 |

## Consolidated Recognised Income and Expense Statement

| | Note | Half Year to Sep 07 $m | Half Year to Mar 07 $m | Year to Sep 07 $m | Year to Sep 06 $m |
|---|---|---|---|---|---|
| Actuarial gains/(losses) from defined benefit pension plans | **12** | **173** | 271 | **444** | 207 |
| Cash flow hedges | | | | | |
| Gains/(losses) taken to equity | **12** | **140** | 62 | **202** | 77 |
| Transferred to income statement | **12** | **2** | 5 | **7** | 2 |
| Exchange differences on translation of foreign operations | **12** | **(467)** | (258) | **(725)** | 357 |
| Income tax on items taken directly to or transferred directly from equity | | **(104)** | (109) | **(213)** | (72) |
| Other | | **10** | - | **10** | 11 |
| **Net income recognised directly in equity** | | **(246)** | (29) | **(275)** | 582 |
| Net profit | | **2,771** | 2,801 | **5,572** | 5,141 |
| **Total net income recognised** | | **2,525** | 2,772 | **5,297** | 5,723 |
| Attributable to: | | | | | |
| Members of the parent | | **2,196** | 2,107 | **4,303** | 4,974 |
| Minority interest | | **329** | 665 | **994** | 749 |
| **Total net income recognised** | | **2,525** | 2,772 | **5,297** | 5,723 |

# Consolidated Cash Flow Statement

| | Note | Half Year to Sep 07 $m | Half Year to Mar 07 $m | Year to Sep 07 $m | Year to Sep 06 $m |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Interest received | | **15,940** | 14,713 | **30,653** | 24,501 |
| Interest paid | | **(10,537)** | (9,752) | **(20,289)** | (15,232) |
| Dividends received | | **5** | 6 | **11** | 16 |
| Life insurance | | | | | |
| Premiums received | | **6,936** | 3,875 | **10,811** | 7,869 |
| Investment and other revenue received [1] | | **1,606** | 891 | **2,497** | 1,848 |
| Policy payments | | **(6,349)** | (3,325) | **(9,674)** | (7,308) |
| Fees and commissions paid | | **(256)** | (216) | **(472)** | (396) |
| Net trading revenue received/(paid) | | **2,179** | (1,020) | **1,159** | 1,745 |
| Other operating income received | | **1,863** | 2,421 | **4,284** | 5,540 |
| Cash payments to employees and suppliers | | | | | |
| Personnel expenses paid | | **(1,928)** | (2,106) | **(4,034)** | (3,816) |
| Other operating expenses paid | | **(1,745)** | (1,865) | **(3,610)** | (4,135) |
| Goods and services tax (paid)/received | | **(73)** | 30 | **(43)** | (101) |
| Cash payments for income taxes | | **(1,861)** | (542) | **(2,403)** | (1,940) |
| **Cash flows from operating activities before changes in operating assets and liabilities [1]** | | **5,780** | 3,110 | **8,890** | 8,591 |
| **Changes in operating assets and liabilities arising from cash flow movements** | | | | | |
| Net placement of deposits with and withdrawal of deposits from supervisory central banks that are not part of cash equivalents | | **(50)** | 33 | **(17)** | (1) |
| Net payments for and receipts from transactions in acceptances | | **(8,615)** | (663) | **(9,278)** | (3,271) |
| Net funds advanced to and receipts from customers for loans and advances | | **(27,815)** | (16,413) | **(44,228)** | (30,137) |
| Net acceptance from and repayment of deposits and other borrowings | | **36,708** | 2,665 | **39,373** | 14,629 |
| Net movement in life insurance business investments [1] | | **(1,894)** | (274) | **(2,168)** | (1,491) |
| Net movement in other life insurance assets and liabilities | | **(152)** | (538) | **(690)** | (406) |
| Net payments for and receipts from transactions in treasury bills and other eligible bills held for trading and not part of cash equivalents | | **(44)** | 161 | **117** | (223) |
| Net payments for and receipts from transactions in trading securities | | **(8,762)** | 1,053 | **(7,709)** | (3,803) |
| Net payments for and receipts from trading derivatives | | **(1,039)** | 2,194 | **1,155** | (1,507) |
| Net funds advanced to and receipts from other financial assets at fair value | | **(3,125)** | (1,411) | **(4,536)** | (2,638) |
| Net funds advanced to and receipts from other financial liabilities at fair value | | **876** | 4,039 | **4,915** | 6,929 |
| Net (increase)/decrease in other assets [1] | | **(3,631)** | (1,950) | **(5,581)** | 447 |
| Net increase in other liabilities | | **3,486** | 2,091 | **5,577** | 2,640 |
| **Net cash used in operating activities** | **13(a)** | **(8,277)** | (5,903) | **(14,180)** | (10,241) |

*[1] The Group has reviewed its classification in respect of cash flows on investments of the life insurance business. This has resulted in reclassifying investment and other revenue received, net movements in life insurance business investments and other life insurance assets and liabilities. 2007 half year comparatives have been amended to reflect this change.*

| | Note | Half Year to Sep 07 $m | Half Year to Mar 07 $m | Year to Sep 07 $m | Year to Sep 06 $m |
|---|---|---|---|---|---|
| **Cash flows from investing activities** | | | | | |
| Movement in investments - available for sale | | | | | |
| Purchases | | **(6,046)** | (9,733) | **(15,779)** | (18,704) |
| Proceeds from disposal | | **-** | 22 | **22** | 1,354 |
| Proceeds on maturity | | **7,816** | 9,323 | **17,139** | 19,877 |
| Movement in investments - held to maturity | | | | | |
| Purchases | | **(9,292)** | (8,651) | **(17,943)** | (16,856) |
| Proceeds on maturity and disposal | | **6,898** | 8,214 | **15,112** | 17,718 |
| Proceeds from sale of controlled entities, net of cash disposed and costs to sell | 13(d) | **-** | - | **-** | 1,020 |
| Purchase of property, plant, equipment and software | | **(456)** | (333) | **(789)** | (1,300) |
| Proceeds from sale of property, plant, equipment and software, net of costs | | **148** | 46 | **194** | 755 |
| **Net cash (used in)/provided by investing activities** | | **(932)** | (1,112) | **(2,044)** | 3,864 |
| **Cash flows from financing activities** | | | | | |
| Repayments of bonds, notes and subordinated debt | | **(8,864)** | (8,118) | **(16,982)** | (8,337) |
| Proceeds from issue of bonds, notes and subordinated debt, net of costs | | **19,041** | 13,915 | **32,956** | 28,528 |
| Proceeds from issue of ordinary shares, net of costs | | **30** | 30 | **60** | 42 |
| Proceeds from issue of National Capital Instruments, net of costs | | **-** | - | **-** | 1,076 |
| Payments for buy back of ordinary shares | | **(546)** | (654) | **(1,200)** | - |
| Dividends and distributions paid | | **(1,491)** | (1,431) | **(2,922)** | (2,555) |
| **Net cash provided by financing activities** | | **8,170** | 3,742 | **11,912** | 18,754 |
| Net (decrease)/increase in cash and cash equivalents | | **(1,039)** | (3,273) | **(4,312)** | 12,377 |
| Cash and cash equivalents at beginning of period | | **(3,318)** | (306) | **(306)** | (12,459) |
| Effects of exchange rate changes on balance of cash held in foreign currencies | | **27** | 261 | **288** | (224) |
| **Cash and cash equivalents at end of period** | 13(b) | **(4,330)** | (3,318) | **(4,330)** | (306) |

# 1. Principal Accounting Policies

This preliminary financial report is prepared in accordance with the requirements of the ASX listing rules. It should be read in conjunction with any public announcements to the market made by the Company during the year.

This preliminary financial report does not, and cannot be expected to, contain all disclosures of the type normally found within a full annual financial report and it is not designed or intended to be a substitute for the 2007 annual financial report.

This report should be read in conjunction with the 30 September 2006 annual financial report and when released, the 30 September 2007 annual financial report.

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Assumptions made at each balance sheet date are based on best estimates at that date. Although the Group has internal control systems in place to ensure that such estimates are reliably measured, actual amounts may differ from those estimated. It is not anticipated that such differences would be material.

The financial statements have been prepared under the historical cost convention, as modified by the application of fair value measurements required by the relevant accounting standards.

### Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

## 2. Segment Information

The Group's operating and reportable segments are business units engaged in providing either different products or services or similar products and services in different geographical areas. The businesses are managed separately as each requires a strategy focused on the specific services provided for the economic, competitive and regulatory environment in which it operates.

The Group’s business is organised into four operating segments, three of which are managed along regional lines: Australia Region, United Kingdom Region and New Zealand Region, which include banking and wealth management products; as well as nabCapital (which is managed globally). nabCapital is the Group's global division, with key lines of business comprising, Institutional Banking, Corporate Finance, Markets, and Structuring and Investments. It operates in three core regions of Australia (which incorporates the smaller businesses in Americas and Asia), New Zealand and the United Kingdom. The Group’s Central Functions include Group Finance, Group Risk, Group Economics, Business Development, Group Legal, Group Funding/Treasury, People and Culture and other unallocated items which are not considered to be separate reportable operating segments.

The Group evaluates operating segments performance on the basis of cash earnings and return on equity. The segment information provided below is prepared on a gross on-going basis, such that operations that will not form part continuing Group are excluded from all periods presented.

Revenues, expenses and tax 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.

**Major Customers**

Revenues from no one single customer amount to greater than 10% of the Group's revenues.

**Operating Segments**

| | Operating Segments | | | | | |
|---|---|---|---|---|---|---|
| | **Australia Region $m** | **United Kingdom Region $m** | **New Zealand Region $m** | **nabCapital $m** | **Central Functions $m** | **Total $m** |
| **Year ended 30 September 2007** | | | | | | |
| Cash earnings | 2,913 | 592 | 379 | 715 | 70 | **4,669** |
| Total assets | 317,291 | 77,567 | 37,035 | 193,628 | 7,069 | **632,590** |
| **Year ended 30 September 2006** | | | | | | |
| Cash earnings | 2,397 | 518 | 321 | 613 | 133 | **3,982** |
| Total assets | 278,487 | 64,439 | 33,624 | 146,127 | 19,930 | **542,607** |
| **Half year ended 30 September 2007** | | | | | | |
| Cash earnings | 1,539 | 298 | 196 | 377 | 51 | **2,461** |
| Total assets | 317,291 | 77,567 | 37,035 | 193,628 | 7,069 | **632,590** |
| **Half year ended 31 March 2007** | | | | | | |
| Cash earnings | 1,374 | 294 | 183 | 338 | 19 | **2,208** |
| Total assets | 300,237 | 75,968 | 36,154 | 158,374 | 9,362 | **580,095** |

| | Half Year to | | Year to | |
|---|---|---|---|---|
| | Sep 07 | Mar 07 | Sep 07 | Sep 06 |
| | $m | $m | $m | $m |
| **Cash earnings from operating segments** | **2,410** | 2,189 | **4,599** | 3,849 |
| Central functions | **51** | 19 | **70** | 133 |
| Distributions | **(146)** | (137) | **(283)** | (254) |
| **Group cash earnings - ongoing** | **2,315** | 2,071 | **4,386** | 3,728 |
| Disposed operations | **(16)** | 24 | **8** | 175 |
| *Non cash earnings items (after tax):* | | | | |
| Distributions | **146** | 137 | **283** | 254 |
| Treasury shares | **(31)** | (92) | **(123)** | (126) |
| Fair value and hedge ineffectiveness | **53** | 101 | **154** | 64 |
| IoRE discount rate variation | **(22)** | (22) | **(44)** | (6) |
| Revaluation gains / (losses) on exchangeable capital units | **(3)** | (83) | **(86)** | (112) |
| Net profit on sale of controlled entities | **-** | - | **-** | 108 |
| Fair value gain on economic hedge of the proceeds on sale of controlled entities | **-** | - | **-** | 22 |
| Significant items | **-** | - | **-** | 285 |
| **Net profit attributable to members of the company** | **2,442** | 2,136 | **4,578** | 4,392 |

| | As at | | |
|---|---|---|---|
| | 30 Sep 07 | 31 Mar 07 | 30 Sep 06 |
| | $m | $m | $m |
| Total assets for operating segments | **625,521** | 570,733 | 522,677 |
| Central functions | **7,069** | 9,362 | 19,930 |
| Disposed operations | **348** | 350 | 328 |
| Elimination of inter-segment assets | **(68,304)** | (71,610) | (58,150) |
| **Total assets** | **564,634** | 508,835 | 484,785 |

## 3. Income

| | Half Year to | | Year to | |
|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 07 $m | Sep 06 $m |
| **Gains less losses on instruments at fair value** | | | | |
| Trading securities | **(12)** | (7) | **(19)** | 55 |
| Trading derivatives | | | | |
| Trading purposes | **312** | 120 | **432** | 329 |
| Risk management purposes (1) (2) | **(51)** | 109 | **58** | 6 |
| Assets, liabilities and derivatives designated in hedge relationships (2) | **42** | 76 | **118** | 57 |
| Assets and liabilities designated at fair value (2) | **91** | (41) | **50** | 29 |
| Impairment of investments - available for sale | **(40)** | - | **(40)** | - |
| Other | **1** | - | **1** | (5) |
| | **343** | 257 | **600** | 471 |
| **Other operating income** | | | | |
| Dividend revenue | **5** | 6 | **11** | 16 |
| Profit on sale of property, plant and equipment and other assets | **47** | 4 | **51** | 33 |
| Banking fees | **447** | 440 | **887** | 833 |
| Money transfer fees | **297** | 294 | **591** | 564 |
| Fees and commissions | **787** | 785 | **1,572** | 1,492 |
| Investment management fees | **240** | 234 | **474** | 438 |
| Foreign exchange income/(expense) | **17** | 7 | **24** | 24 |
| Fleet management fees | **10** | 9 | **19** | 148 |
| Rentals received on leased vehicle assets | **84** | 77 | **161** | 654 |
| Revaluation gains/(losses) on exchangeable capital units | **(3)** | (76) | **(79)** | (122) |
| Other income | **69** | 145 | **214** | 339 |
| | **2,000** | 1,925 | **3,925** | 4,419 |
| **Significant pensions revenue** | | | | |
| Current service cost | **-** | - | **-** | (111) |
| Interest cost | **-** | - | **-** | (231) |
| Expected return on assets | **-** | - | **-** | 274 |
| Past service gain | **-** | - | **-** | 387 |
| **Significant pensions revenue (3)** | **-** | - | **-** | 319 |

(1) *These trading derivatives are used to match assets and liabilities designated at fair value.*

(2) *The sum of these three line items represents the net fair value movement of assets and liabilities designated at fair value and the derivatives matched against these assets and liabilities plus the impact of hedge ineffectiveness of designated hedging relationships.*

(3) *Significant pensions revenue consists of the items identified above. The Group regards the current service cost, interest cost and expected return on assets as ongoing operating expenses by nature. The past service gain is considered to be of a non-recurring nature.*

## 4. Operating Expenses

| | Half Year to | | Year to | |
|---|---|---|---|---|
| | Sep 07 | Mar 07 | Sep 07 | Sep 06 |
| | $m | $m | $m | $m |
| **Personnel expenses** | | | | |
| Salaries and related on-costs | **1,442** | 1,423 | **2,865** | 2,739 |
| Superannuation costs - defined contribution plans | **98** | 87 | **185** | 170 |
| Superannuation costs - defined benefit plans [1] | **-** | 16 | **16** | - |
| Performance-based compensation | | | | |
| Cash | **219** | 245 | **464** | 347 |
| Equity-based compensation | **95** | 122 | **217** | 143 |
| Other expenses | **260** | 222 | **482** | 470 |
| | **2,114** | 2,115 | **4,229** | 3,869 |
| **Occupancy-related expenses** | | | | |
| Operating lease rental expense | **181** | 172 | **353** | 345 |
| Other expenses | **85** | 81 | **166** | 178 |
| | **266** | 253 | **519** | 523 |
| **General expenses** | | | | |
| Fees and commission expense | **109** | 93 | **202** | 197 |
| Depreciation and amortisation of property, plant and equipment | **135** | 123 | **258** | 246 |
| Amortisation of intangible assets | **117** | 99 | **216** | 188 |
| Depreciation on leased vehicle assets [2] | **26** | 27 | **53** | 339 |
| Operating lease rental expense | **27** | 32 | **59** | 89 |
| Advertising and marketing | **119** | 106 | **225** | 221 |
| Charge to provide for operational risk event losses [3] | **(6)** | 19 | **13** | 120 |
| Communications, postage and stationery | **160** | 182 | **342** | 356 |
| Computer equipment and software | **105** | 118 | **223** | 241 |
| Data communication and processing charges | **50** | 44 | **94** | 93 |
| Transport expenses | **38** | 42 | **80** | 80 |
| Professional fees | **213** | 183 | **396** | 427 |
| Travel | **51** | 42 | **93** | 82 |
| Loss on disposal of property, plant and equipment and other assets | **18** | 1 | **19** | 22 |
| Impairment losses/(reversal) recognised [4] | **61** | 7 | **68** | (9) |
| Other expenses | **166** | 157 | **323** | 495 |
| | **1,389** | 1,275 | **2,664** | 3,187 |
| **Total** | **3,769** | 3,643 | **7,412** | 7,579 |

*(1) Superannuation expenses for the half year to 31 March 2007 includes defined benefit pension costs. These costs for the year to 30 September 2006 have been treated as significant items and are disclosed in Note 3.*

*(2) Depreciation on leased vehicle assets owned by the Group's Custom Fleet business ceased from 1 April 2006 following the business being designated as held for sale. The Custom Fleet business was subsequently sold on 31 July 2006. Depreciation on leased vehicle assets owned by the Group's Commercial Fleet business ceased on 1 October 2006 following the business being designated as held for sale.*

*(3) Operational risk event losses in the September 2006 year includes $53 million in costs relating to fee refunds for Choice package, BAD tax and fixed rate interest only loans. During the September 2007 half year a provision of $11 million was released as this is no longer required.*

*(4) Impairment losses include $64 million relating to the impairment of leased vehicle assets of the Group's Commercial Fleet lease business.*

## 5. Income Tax Expense

| | Half Year to | | Year to | |
|---|---|---|---|---|
| | Sep 07 $m | Mar 07 $m | Sep 07 $m | Sep 06 $m |
| **Profit before income tax expense** | **3,795** | 4,032 | **7,827** | 7,275 |
| Deduct profit before income tax expense attributable to the life insurance statutory funds and their controlled trusts | **(692)** | (1,208) | **(1,900)** | (1,537) |
| **Total profit excluding that attributable to the statutory funds of the life insurance business, before income tax expense** | **3,103** | 2,824 | **5,927** | 5,738 |
| **Prima facie income tax at 30%** | **931** | 847 | **1,778** | 1,721 |
| Add/(deduct): Tax effect of amounts not deductible/(assessable) | | | | |
| Dividend income adjustments | **(1)** | (2) | **(3)** | (12) |
| Assessable foreign income | **4** | 5 | **9** | 2 |
| Depreciation on buildings not deductible | **3** | 3 | **6** | 6 |
| Deferred tax assets not recognised/(recognised) | **-** | - | **-** | 3 |
| Under/(over) provision in prior years | **(65)** | (13) | **(78)** | (8) |
| Foreign tax rate differences | **24** | 20 | **44** | 34 |
| Restatement of deferred tax balances for changes in UK and NZ tax rates | **(17)** | - | **(17)** | - |
| Foreign branch income not assessable | **(33)** | (26) | **(59)** | (46) |
| Profit on sale of controlled entities not assessable | **-** | - | **-** | (19) |
| Assessable income on treasury shares | **11** | 20 | **31** | 30 |
| Loss on exchangeable capital units not deductible | **1** | 30 | **31** | 27 |
| Interest expense on exchangeable capital units not claimed as deductible | **5** | 2 | **7** | 20 |
| Other | **(35)** | (42) | **(77)** | (45) |
| **Total income tax expense on profit excluding that attributable to the statutory funds of the life insurance business** | **828** | 844 | **1,672** | 1,713 |
| Income tax expense attributable to the statutory funds of the life insurance business | **196** | 387 | **583** | 421 |
| **Total income tax expense** | **1,024** | 1,231 | **2,255** | 2,134 |
| **Effective tax rate, excluding statutory funds attributable to the life insurance business** | **26.7%** | 29.9% | **28.2%** | 29.9% |

## 6. Dividends and Distributions

| Dividends on ordinary shares | Amount per share cents | Franked amount per share % | Conduit foreign income per share % | Total amount $m |
|---|---|---|---|---|
| Final dividend declared in respect of the year ended 30 September 2007 | 95 | 100 | Nil | **1,540** |
| Interim dividend paid in respect of the six months ended 31 March 2007 | 87 | 90 | 10 | **1,418** |
| Total dividends paid or payable in respect of the year ended 30 September 2007 | 182 | | | 2,958 |

The record date for determining entitlements to the 2007 final dividend is 22 November 2007.
The final dividend has been declared by the directors of the Company and is payable on 18 December 2007.

| | | | | |
|---|---|---|---|---|
| Final dividend paid in respect of the year ended 30 September 2006 | 84 | 90 | 10 | 1,370 |
| Interim dividend paid in respect of the six months ended 31 March 2006 | 83 | 80 | 20 | 1,334 |
| Total dividends paid or payable in respect of the year ended 30 September 2006 | 167 | | | 2,704 |

| | 30 Sep 07 | | 30 Sep 06 | |
|---|---|---|---|---|
| **Distributions on other equity instruments** | **Amount per security $** | **Total amount $m** | **Amount per security $** | **Total amount $m** |
| National Income Securities - Distributions for the year ended | 7.60 | **152** | 6.95 | 139 |
| Trust Preferred Securities - Distributions for the year ended | 137.50 | **55** | 140.00 | 56 |
| Trust Preferred Securities II - Distributions for the year ended | 67.50 | **54** | 73.75 | 59 |
| National Capital Instruments - Distributions for the year ended | 2,750 | **22** | - | - |
| **Total distributions** | | **283** | | 254 |

### Dividend and distribution plans

The dividend is paid in cash or part of a dividend plan. Cash dividends are paid by way of:

a) cash or cash equivalents; and
b) direct credit.

Dividend plans in operation are:

a) Dividend Reinvestment Plan;
b) Bonus Share Plan (closed to new participants); and
c) United Kingdom Dividend Plan (this enables a UK domiciled shareholder to receive either a dividend in British Pounds Sterling or shares via the Dividend Reinvestment Plan).

The last date for receipt of election notices for the dividend plans is 22 November 2007, 5pm (Melbourne time).

## 7. Net Tangible Assets

| | As at | | |
|---|---|---|---|
| | 30 Sep 07 | 31 Mar 07 | 30 Sep 06 |
| Net tangible assets per ordinary share ($) | **12.26** | 12.03 | 11.35 |

# 8. Loans and Advances including Acceptances

| | As at | | |
|---|---|---|---|
| | 30 Sep 07 $m | 31 Mar 07 $m | 30 Sep 06 $m |
| Overdrafts | **16,514** | 16,103 | 15,470 |
| Credit card outstandings | **7,331** | 7,366 | 7,321 |
| Asset & lease financing | **17,756** | 17,350 | 16,953 |
| Housing loans | **185,809** | 178,960 | 171,762 |
| Other term lending | **113,060** | 95,077 | 88,477 |
| Other | **4,679** | 5,516 | 4,699 |
| Fair value adjustment | **180** | 178 | 281 |
| **Gross loans and advances** [(1)] | **345,329** | 320,550 | 304,963 |
| Acceptances | **49,322** | 45,952 | 41,726 |
| **Gross loans and advances including acceptances** | **394,651** | 366,502 | 346,689 |
| *Represented by:* | | | |
| Loans at fair value | **19,564** | 17,832 | 16,774 |
| Loans at amortised cost | **325,765** | 302,718 | 288,189 |
| Acceptances | **49,322** | 45,952 | 41,726 |
| **Gross loans and advances including acceptances** | **394,651** | 366,502 | 346,689 |
| Unearned income and deferred net fee income | **(2,788)** | (2,380) | (2,391) |
| Provision for doubtful debts | **(2,107)** | (2,112) | (2,021) |
| **Net loans and advances including acceptances** | **389,756** | 362,010 | 342,277 |
| Securitised loans [(2)] | **12,300** | 6,551 | 4,771 |

(1) *Includes loans accounted for at fair value which are included within 'Other financial assets at fair value' on the balance sheet. These amounts are included in the product and geographical analysis below.*

(2) *Securitised loans are included within the balance of Net loans and advances including acceptances.*

| **By product and geographic location** | Australia $m | Europe $m | New Zealand $m | United States $m | Asia $m | Total Group $m |
|---|---|---|---|---|---|---|
| **As at 30 September 2007** | | | | | | |
| Overdrafts | 6,250 | 8,452 | 1,809 | - | 3 | **16,514** |
| Credit card outstandings | 4,975 | 1,294 | 1,062 | - | - | **7,331** |
| Asset & lease financing | 12,310 | 5,412 | 28 | - | 6 | **17,756** |
| Housing loans | 140,406 | 25,109 | 19,614 | - | 680 | **185,809** |
| Other term lending | 54,708 | 35,958 | 17,974 | 3,370 | 1,050 | **113,060** |
| Other | 3,452 | 1,151 | 47 | - | 29 | **4,679** |
| Fair value adjustment | - | 159 | 21 | - | - | **180** |
| **Gross loans and advances** | 222,101 | 77,535 | 40,555 | 3,370 | 1,768 | **345,329** |
| Acceptances | 49,316 | 6 | - | - | - | **49,322** |
| **Gross loans and advances including acceptances** | 271,417 | 77,541 | 40,555 | 3,370 | 1,768 | **394,651** |
| *Represented by:* | | | | | | |
| Loans at fair value | - | 6,353 | 13,211 | - | - | **19,564** |
| Loans at amortised cost | 222,101 | 71,182 | 27,344 | 3,370 | 1,768 | **325,765** |
| Acceptances | 49,316 | 6 | - | - | - | **49,322** |
| **Gross loans and advances including acceptances** | 271,417 | 77,541 | 40,555 | 3,370 | 1,768 | **394,651** |

| By product and geographic location | Australia $m | Europe $m | New Zealand $m | United States $m | Asia $m | Total Group $m |
|---|---|---|---|---|---|---|
| **As at 31 March 2007** | | | | | | |
| Overdrafts | 5,852 | 8,483 | 1,766 | - | 2 | **16,103** |
| Credit card outstandings | 4,861 | 1,408 | 1,097 | - | - | **7,366** |
| Asset & lease financing | 11,744 | 5,598 | - | - | 8 | **17,350** |
| Housing loans | 134,237 | 24,785 | 19,273 | - | 665 | **178,960** |
| Other term lending | 42,983 | 32,329 | 16,817 | 1,824 | 1,124 | **95,077** |
| Other | 4,320 | 1,066 | 84 | - | 46 | **5,516** |
| Fair value adjustment | - | 156 | 22 | - | - | **178** |
| **Gross loans and advances** | 203,997 | 73,825 | 39,059 | 1,824 | 1,845 | **320,550** |
| Acceptances | 45,939 | 13 | - | - | - | **45,952** |
| **Gross loans and advances including acceptances** | 249,936 | 73,838 | 39,059 | 1,824 | 1,845 | **366,502** |
| *Represented by:* | | | | | | |
| Loans at fair value | - | 5,986 | 11,846 | - | - | **17,832** |
| Loans at amortised cost | 203,997 | 67,839 | 27,213 | 1,824 | 1,845 | **302,718** |
| Acceptances | 45,939 | 13 | - | - | - | **45,952** |
| **Gross loans and advances including acceptances** | 249,936 | 73,838 | 39,059 | 1,824 | 1,845 | **366,502** |
| **As at 30 September 2006** | | | | | | |
| Overdrafts | 5,517 | 8,472 | 1,481 | - | - | **15,470** |
| Credit card outstandings | 4,647 | 1,539 | 1,135 | - | - | **7,321** |
| Asset & lease financing | 11,184 | 5,747 | 10 | - | 12 | **16,953** |
| Housing loans | 129,423 | 23,976 | 17,818 | - | 545 | **171,762** |
| Other term lending | 39,232 | 29,696 | 16,376 | 1,815 | 1,358 | **88,477** |
| Other | 3,874 | 702 | 92 | - | 31 | **4,699** |
| Fair value adjustment | - | 227 | 54 | - | - | **281** |
| **Gross loans and advances** | 193,877 | 70,359 | 36,966 | 1,815 | 1,946 | **304,963** |
| Acceptances | 41,714 | 12 | - | - | - | **41,726** |
| **Gross loans and advances including acceptances** | 235,591 | 70,371 | 36,966 | 1,815 | 1,946 | **346,689** |
| *Represented by:* | | | | | | |
| Loans at fair value | - | 5,365 | 11,409 | - | - | **16,774** |
| Loans at amortised cost | 193,877 | 64,994 | 25,557 | 1,815 | 1,946 | **288,189** |
| Acceptances | 41,714 | 12 | - | - | - | **41,726** |
| **Gross loans and advances including acceptances** | 235,591 | 70,371 | 36,966 | 1,815 | 1,946 | **346,689** |

| Movement from 31 March 2007 excluding foreign exchange | Increase / (Decrease) from 31 Mar 07 Australia % | Europe % | New Zealand % | United States % | Asia % | Total % |
|---|---|---|---|---|---|---|
| Overdrafts | 6.8 | 5.8 | 5.7 | - | 50.0 | 6.2 |
| Credit card outstandings | 2.3 | (2.4) | (0.1) | - | - | 1.1 |
| Asset & lease financing | 4.8 | 2.7 | - | - | (25.0) | 4.3 |
| Housing loans | 4.6 | 7.6 | 5.0 | - | 11.7 | 5.1 |
| Other term lending | 27.3 | 18.1 | 10.3 | large | 2.1 | 22.3 |
| Other | (20.1) | 20.3 | (42.0) | - | (34.1) | (13.4) |
| **Total gross loans and advances** | 8.9 | 11.6 | 7.2 | large | 4.6 | 9.7 |

| Movement from 30 September 2006 excluding foreign exchange | Increase / (Decrease) from 30 Sep 06 Australia % | Europe % | New Zealand % | United States % | Asia % | Total % |
|---|---|---|---|---|---|---|
| Overdrafts | 13.3 | 9.1 | 24.6 | - | - | 12.2 |
| Credit card outstandings | 7.1 | (8.0) | (4.6) | - | - | 2.3 |
| Asset & lease financing | 10.1 | 3.0 | large | - | (40.0) | 7.9 |
| Housing loans | 8.5 | 14.6 | 12.3 | - | 47.2 | 9.8 |
| Other term lending | 39.4 | 32.0 | 11.7 | large | (8.8) | 32.6 |
| Other | (10.9) | 79.6 | (61.5) | - | - | 0.9 |
| **Total gross loans and advances** | 14.6 | 20.6 | 11.8 | large | 8.9 | 16.0 |

## 9. Doubtful Debts

| | As at | | |
|---|---|---|---|
| | 30 Sep 07 | 31 Mar 07 | 30 Sep 06 |
| | $m | $m | $m |
| Specific provision for doubtful debts | **307** | 195 | 184 |
| Collective provision for doubtful debts | **1,800** | 1,918 | 1,838 |
| **Total provision for doubtful debts** | **2,107** | 2,113 | 2,022 |
| Deduct: Specific provision for off-balance sheet credit-related commitments | **-** | (1) | (1) |
| **Net provision for doubtful debts** | **2,107** | 2,112 | 2,021 |
| **Net provision for doubtful debts including loans at fair value** | | | |
| Net provision for doubtful debts | **2,107** | 2,112 | 2,021 |
| Credit risk adjustment on assets at fair value [1] | **202** | 144 | 134 |
| **Net provision for doubtful debts and credit risk adjustment on assets at fair value** | **2,309** | 2,256 | 2,155 |

[1] *As at 30 September 2007 included within loans recorded at fair value and trading derivatives is a credit risk adjustment of $202 million (31 March 2007 $144 million; 30 September 2006 $134 million).*

### Movement in provisions for doubtful debts

| | Year to Sep 07 | | | Year to Sep 06 | | |
|---|---|---|---|---|---|---|
| | Specific | Collective | Total | Specific | Collective | Total |
| | $m | $m | $m | $m | $m | $m |
| **Opening balance** | **184** | **1,838** | **2,022** | 281 | 1,649 | 1,930 |
| Transfer to/(from) specific/collective provision | **693** | **(693)** | **-** | 470 | (470) | - |
| Bad debts recovered | **207** | **-** | **207** | 230 | - | 230 |
| Bad debts written off | **(790)** | **-** | **(790)** | (782) | - | (782) |
| Charge to income statement | **-** | **790** | **790** | - | 606 | 606 |
| Disposal of controlled entities | **-** | **-** | **-** | (7) | (1) | (8) |
| Foreign currency translation and other adjustments | **13** | **(135)** | **(122)** | (8) | 54 | 46 |
| **Total provisions for doubtful debts** | **307** | **1,800** | **2,107** | 184 | 1,838 | 2,022 |

| | Half Year to Sep 07 | | | Half Year to Mar 07 | | |
|---|---|---|---|---|---|---|
| | Specific | Collective | Total | Specific | Collective | Total |
| | $m | $m | $m | $m | $m | $m |
| **Opening balance** | **195** | **1,918** | **2,113** | 184 | 1,838 | 2,022 |
| Transfer to/(from) specific/collective provision | **408** | **(408)** | **-** | 285 | (285) | - |
| Bad debts recovered | **116** | **-** | **116** | 91 | - | 91 |
| Bad debts written off | **(423)** | **-** | **(423)** | (367) | - | (367) |
| Charge to income statement | **-** | **400** | **400** | - | 390 | 390 |
| Foreign currency translation and other adjustments | **11** | **(110)** | **(99)** | 2 | (25) | (23) |
| **Total provisions for doubtful debts** | **307** | **1,800** | **2,107** | 195 | 1,918 | 2,113 |

| | Half Year to | | Year to | |
|---|---|---|---|---|
| **Total charge for doubtful debts** | Sep 07 | Mar 07 | Sep 07 | Sep 06 |
| **by geographic location** | $m | $m | $m | $m |
| Australia | **208** | 192 | **400** | 264 |
| Europe | **165** | 175 | **340** | 292 |
| New Zealand | **23** | 23 | **46** | 46 |
| United States | **5** | 1 | **6** | 7 |
| Asia | **(1)** | (1) | **(2)** | (3) |
| **Total charge to provide for doubtful debts** | **400** | 390 | **790** | 606 |

# 10. Asset Quality

| Summary of impaired assets | As at 30 Sep 07 $m | 31 Mar 07 $m | 30 Sep 06 $m |
|---|---|---|---|
| Gross impaired assets [1] [2] | **1,094** | 769 | 904 |
| Less: Specific provision for doubtful debts | **(307)** | (195) | (184) |
| **Net impaired assets** | **787** | 574 | 720 |

| Movement in gross impaired assets | Australia $m | Europe $m | New Zealand $m | United States $m | Asia $m | Total $m |
|---|---|---|---|---|---|---|
| **Balance at 31 March 2006** | 688 | 112 | 49 | - | 1 | 850 |
| New | 311 | 54 | 9 | - | - | 374 |
| Written off | (109) | (33) | (14) | - | - | (156) |
| Returned to performing or repaid | (157) | (6) | (4) | - | - | (167) |
| Foreign currency translation adjustments | - | 4 | (1) | - | - | 3 |
| **Balance at 30 September 2006** | 733 | 131 | 39 | - | 1 | 904 |
| New | 331 | 62 | 19 | - | - | 412 |
| Written off | (53) | (11) | (19) | - | - | (83) |
| Returned to performing or repaid | (391) | (54) | (15) | - | - | (460) |
| Foreign currency translation adjustments | - | (4) | - | - | - | (4) |
| **Balance at 31 March 2007** | 620 | 124 | 24 | - | 1 | 769 |
| New | 502 | 168 | 36 | 47 | - | 753 |
| Written off | (57) | (41) | (17) | - | - | (115) |
| Returned to performing or repaid | (245) | (50) | - | - | (1) | (296) |
| Foreign currency translation adjustments | - | (12) | (1) | (4) | - | (17) |
| **Gross impaired assets at 30 September 2007** | 820 | 189 | 42 | 43 | - | 1,094 |

[1] *Impaired assets consist of retail loans (excluding credit card loans and portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue; non retail loans which are contractually past due 90 days and there is sufficient doubt about the ultimate collectibility of principal and interest; and impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are classified as impaired assets when they become 180 days past due (if not written off).*

[2] *The Group has reviewed its classification as to the recognition of impairment. This has resulted in the Group reclassifying defaulted loans where there is no loss expected from impaired assets to non impaired loans 90 days past due. Prior period comparisons have been amended to reflect this change.*

| Gross impaired assets to gross loans & acceptances - by geographic location | As at 30 Sep 07 % | 31 Mar 07 % | 30 Sep 06 % |
|---|---|---|---|
| Australia | **0.30** | 0.25 | 0.31 |
| Europe | **0.24** | 0.17 | 0.19 |
| New Zealand | **0.10** | 0.06 | 0.11 |
| United States | **1.28** | - | - |
| Asia | **-** | 0.05 | 0.05 |
| **Total gross impaired assets to gross loans & acceptances (1)** | **0.28** | 0.21 | 0.26 |

(1) *Includes loans at amortised cost plus those at fair value.*

| Group coverage ratios | 30 Sep 07 | 31 Mar 07 | 30 Sep 06 |
|---|---|---|---|
| Net impaired assets to total equity (2) | **2.7** | 2.0 | 2.6 |
| Net impaired assets to total equity plus collective provision (2) (3) | **2.5** | 1.8 | 2.4 |
| Specific provision to gross impaired assets | **28.1** | 25.4 | 20.4 |
| Total provision to gross impaired assets (3) | **211** | 293 | 238 |
| Total provision to gross loans and acceptances (3) | **0.59** | 0.62 | 0.62 |
| Collective provision to total risk-weighted assets (3) | **0.56** | 0.62 | 0.62 |
| Collective provision to credit risk-weighted assets (3) | **0.56** | 0.63 | 0.65 |
| Collective provision plus general reserve for credit losses to credit risk-weighted assets (3) (4) (5) | **0.71** | 0.71 | 0.71 |

(2) *Total parent entity interest in equity.*

(3) *Includes provision against both loans at amortised cost and credit risk adjustment against loans at fair value.*

(4) *From 1 July 2006, a General Reserve for Credit Losses has been established to align with APRA's proposed benchmark of 0.5% of collective provisions on a post tax basis to credit risk-weighted assets. As at 30 September 2007, an additional reserve of $325 million (31 March 2007 $192 million; 30 September 2006 $135 million) was held for capital purposes only to meet APRA's requirements. The General Reserve for Credit Losses has been appropriated from Retained Profits (refer Note 12 'Contributed Equity and Reserves').*

(5) *Includes general reserve for credit losses of $507 million before tax (31 March 2007 $274 million; 30 September 2006 $193 million).*

The amounts below are not classified as impaired assets and therefore are not included in the summary on the previous page.

| Summary of non impaired loans 90 days past due | As at 30 Sep 07 $m | 31 Mar 07 $m | 30 Sep 06 $m |
|---|---|---|---|
| Total non impaired assets past due 90 days or more with adequate security | **959** | 877 | 664 |
| Non impaired assets portfolio facilities past due 90 to 180 days | **248** | 255 | 229 |
| **Total 90 day past due loans (6)** | **1,207** | 1,132 | 893 |
| Total 90 day past due loans to gross loans and acceptances (%) | **0.31** | 0.31 | 0.26 |

| Non impaired loans 90 days past due - by geographic location | As at 30 Sep 07 $m | 31 Mar 07 $m | 30 Sep 06 $m |
|---|---|---|---|
| Australia | **876** | 881 | 708 |
| Europe | **286** | 220 | 159 |
| New Zealand | **45** | 31 | 25 |
| Asia | **-** | - | 1 |
| **Total 90 day past due loans (6)** | **1,207** | 1,132 | 893 |

(6) *The Group has reviewed its classification as to the recognition of impairment. This has resulted in the Group reclassifying defaulted loans where there is no loss expected from impaired assets to non impaired loans 90 days past due. Prior period comparisons have been amended to reflect this change.*

## 11. Deposits & Other Borrowings

| | As at 30 Sep 07 $m | 31 Mar 07 $m | 30 Sep 06 $m |
|---|---|---|---|
| Deposits not bearing interest | **10,977** | 12,216 | 12,136 |
| On-demand and short-term deposits | **119,500** | 111,183 | 102,094 |
| Certificates of deposit | **36,714** | 19,615 | 24,512 |
| Term deposits | **77,631** | 70,729 | 69,003 |
| **Total deposits** | **244,822** | 213,743 | 207,745 |
| Securities sold under agreements to repurchase | **3,615** | 6,199 | 5,326 |
| Borrowings | **20,039** | 15,607 | 19,792 |
| Fair value adjustment | **(118)** | (106) | 36 |
| **Total deposits and other borrowings** | **268,358** | 235,443 | 232,899 |
| Total deposits at fair value [1] | **14,133** | 12,987 | 10,622 |
| Total deposits and other borrowings at cost | **254,225** | 222,456 | 222,277 |
| **Total deposits and other borrowings** | **268,358** | 235,443 | 232,899 |

[1] *On the balance sheet this amount is included within 'Other financial liabilities at fair value'.*

| **By product & geographic location** | As at 30 Sep 07 Australia $m | Europe $m | New Zealand $m | United States $m | Asia $m | Total $m |
|---|---|---|---|---|---|---|
| Deposits not bearing interest | 8,710 | 1,368 | 557 | 341 | 1 | **10,977** |
| On-demand and short-term deposits | 73,459 | 34,072 | 7,667 | 4,216 | 86 | **119,500** |
| Certificates of deposit | 23,201 | 8,902 | 4,223 | 388 | - | **36,714** |
| Term deposits | 40,292 | 14,585 | 14,775 | 1,498 | 6,481 | **77,631** |
| **Total deposits** | 145,662 | 58,927 | 27,222 | 6,443 | 6,568 | **244,822** |
| Securities sold under agreements to repurchase | 2,577 | 18 | - | 1,020 | - | **3,615** |
| Borrowings | 11,681 | - | 5,004 | 3,354 | - | **20,039** |
| Fair value adjustment | - | (89) | (29) | - | - | **(118)** |
| **Total deposits and other borrowings** | 159,920 | 58,856 | 32,197 | 10,817 | 6,568 | **268,358** |
| Total deposits at fair value [1] | - | 2,295 | 11,838 | - | - | **14,133** |
| Total deposits and other borrowings at cost | 159,920 | 56,561 | 20,359 | 10,817 | 6,568 | **254,225** |
| **Total deposits and other borrowings** | 159,920 | 58,856 | 32,197 | 10,817 | 6,568 | **268,358** |

[1] *On the balance sheet this amount is included within 'Other financial liabilities at fair value'.*

| By product & geographic location | As at 31 Mar 07 Australia $m | Europe $m | New Zealand $m | United States $m | Asia $m | Total $m |
|---|---|---|---|---|---|---|
| Deposits not bearing interest | 8,102 | 3,205 | 535 | 373 | 1 | **12,216** |
| On-demand and short-term deposits | 68,488 | 31,602 | 8,458 | 2,534 | 101 | **111,183** |
| Certificates of deposit | 5,946 | 10,726 | 2,501 | 442 | - | **19,615** |
| Term deposits | 36,554 | 13,322 | 14,747 | 1,094 | 5,012 | **70,729** |
| **Total deposits** | 119,090 | 58,855 | 26,241 | 4,443 | 5,114 | **213,743** |
| Securities sold under agreements to repurchase | 4,991 | - | 23 | 1,185 | - | **6,199** |
| Borrowings | 9,633 | - | 4,403 | 1,571 | - | **15,607** |
| Fair value adjustment | - | (81) | (25) | - | - | **(106)** |
| **Total deposits and other borrowings** | 133,714 | 58,774 | 30,642 | 7,199 | 5,114 | **235,443** |
| Total deposits at fair value (1) | - | 3,113 | 9,874 | - | - | **12,987** |
| Total deposits and other borrowings at cost | 133,714 | 55,661 | 20,768 | 7,199 | 5,114 | **222,456** |
| **Total deposits and other borrowings** | 133,714 | 58,774 | 30,642 | 7,199 | 5,114 | **235,443** |

(1) *On the balance sheet this amount is included within 'Other financial liabilities at fair value'.*

| By product & geographic region | As at 30 Sep 06 Australia $m | Europe $m | New Zealand $m | United States $m | Asia $m | Total $m |
|---|---|---|---|---|---|---|
| Deposits not bearing interest | 7,555 | 3,701 | 476 | 402 | 2 | **12,136** |
| On-demand and short-term deposits | 63,278 | 29,936 | 7,375 | 1,165 | 340 | **102,094** |
| Certificates of deposit | 8,180 | 12,982 | 2,866 | 484 | - | **24,512** |
| Term deposits | 34,967 | 12,186 | 13,954 | 2,586 | 5,310 | **69,003** |
| **Total deposits** | 113,980 | 58,805 | 24,671 | 4,637 | 5,652 | **207,745** |
| Securities sold under agreements to repurchase | 3,629 | 968 | - | 729 | - | **5,326** |
| Borrowings | 13,101 | - | 4,544 | 2,147 | - | **19,792** |
| Fair value adjustment | - | 47 | (11) | - | - | **36** |
| **Total deposits and other borrowings** | 130,710 | 59,820 | 29,204 | 7,513 | 5,652 | **232,899** |
| Total deposits at fair value (1) | - | 1,013 | 9,609 | - | - | **10,622** |
| Total deposits and other borrowings at cost | 130,710 | 58,807 | 19,595 | 7,513 | 5,652 | **222,277** |
| **Total deposits and other borrowings** | 130,710 | 59,820 | 29,204 | 7,513 | 5,652 | **232,899** |

(1) *On the balance sheet this amount is included within 'Other financial liabilities at fair value'.*

| Movement from 31 March 2007 excluding foreign exchange | Increase / (Decrease) from 31 Mar 07 Australia % | Europe % | New Zealand % | United States % | Asia % | Total % |
|---|---|---|---|---|---|---|
| Deposits not bearing interest | 7.5 | (54.7) | 7.5 | - | - | (8.4) |
| On-demand and short-term deposits | 7.3 | 14.5 | (6.5) | 81.9 | (7.5) | 9.8 |
| Certificates of deposit | large | (11.9) | 74.3 | (4.2) | - | 94.5 |
| Term deposits | 10.2 | 16.3 | 3.4 | 49.7 | 41.4 | 12.5 |
| **Total deposits** | 22.3 | 6.3 | 7.1 | 58.5 | 40.4 | 17.3 |
| Securities sold under agreements to repurchase | (48.4) | - | large | (5.9) | - | (40.7) |
| Borrowings | 21.3 | - | 17.3 | large | - | 30.7 |
| **Total deposits and other borrowings** | 19.6 | 6.3 | 8.4 | 64.2 | 40.4 | 16.7 |

| Movement from 30 September 2006 excluding foreign exchange | Increase / (Decrease) from 30 Sep 06 Australia % | Europe % | New Zealand % | United States % | Asia % | Total % |
|---|---|---|---|---|---|---|
| Deposits not bearing interest | 15.3 | (59.6) | 19.5 | - | (50.0) | (6.6) |
| On-demand and short-term deposits | 16.1 | 24.5 | 6.0 | large | (70.1) | 20.5 |
| Certificates of deposit | large | (25.0) | 50.3 | (5.4) | - | 57.8 |
| Term deposits | 15.2 | 29.6 | 7.9 | (31.7) | 44.0 | 16.5 |
| **Total deposits** | 27.8 | 9.4 | 12.5 | 63.9 | 37.1 | 21.9 |
| Securities sold under agreements to repurchase | (29.0) | (98.0) | - | 65.0 | - | (29.6) |
| Borrowings | (10.8) | - | 12.3 | 84.2 | - | 3.4 |
| **Total deposits and other borrowings** | 22.3 | 7.6 | 12.5 | 69.8 | 37.1 | 19.2 |

## 12. Contributed Equity and Reserves

| Contributed equity | As at 30 Sep 07 $m | 31 Mar 07 $m | 30 Sep 06 $m |
|---|---|---|---|
| **Issued and paid-up share capital** | | | |
| Ordinary shares, fully paid | **8,110** | 8,585 | 7,948 |
| **Other contributed equity** | | | |
| National Income Securities | **1,945** | 1,945 | 1,945 |
| Trust Preferred Securities | **975** | 975 | 975 |
| Trust Preferred Securities II | **1,014** | 1,014 | 1,014 |
| National Capital Instruments | **397** | 397 | 397 |
| | **12,441** | 12,916 | 12,279 |

| Movements in contributed equity | Half Year to Sep 07 $m | Half Year to Mar 07 $m | Year to Sep 07 $m | Year to Sep 06 $m |
|---|---|---|---|---|
| **Ordinary share capital** | | | | |
| Balance at beginning of period | **8,585** | 7,948 | **7,948** | 6,894 |
| Shares issued | | | | |
| Dividend reinvestment plan [1] | **-** | - | **-** | 198 |
| Executive share option plan no. 2 | **29** | 30 | **59** | 41 |
| Paying up of partly paid shares | **1** | - | **1** | 1 |
| Net gain/(loss) realised on treasury shares | **24** | 8 | **32** | 6 |
| Share buy back | **(546)** | (654) | **(1,200)** | - |
| Exchangeable capital units converted [2] | **4** | 1,331 | **1,335** | 972 |
| (Purchase)/sale and vesting of treasury shares | **10** | (80) | **(70)** | (195) |
| Current period equity based payments expense vested immediately | **3** | 2 | **5** | 7 |
| Transfer of vested equity based payments | **-** | - | **-** | 24 |
| **Balance at end of period** | **8,110** | 8,585 | **8,110** | 7,948 |
| **National Income Securities** | | | | |
| Balance at beginning of period | **1,945** | 1,945 | **1,945** | 1,945 |
| Movement during period | **-** | - | **-** | - |
| **Balance at end of period** | **1,945** | 1,945 | **1,945** | 1,945 |
| **Trust Preferred Securities** | | | | |
| Balance at beginning of period | **975** | 975 | **975** | 975 |
| Movement during period | **-** | - | **-** | - |
| **Balance at end of period** | **975** | 975 | **975** | 975 |
| **Trust Preferred Securities II** | | | | |
| Balance at beginning of period | **1,014** | 1,014 | **1,014** | 1,014 |
| Movement during period | **-** | - | **-** | - |
| **Balance at end of period** | **1,014** | 1,014 | **1,014** | 1,014 |
| **National Capital Instruments** | | | | |
| Balance at beginning of period | **397** | 397 | **397** | - |
| Movement during period | **-** | - | **-** | 397 |
| **Balance at end of period** | **397** | 397 | **397** | 397 |

(1) *During the 2007 year, dividend reinvestment plan shares were purchased on market for delivery to shareholders resulting in no issue of new shares.*

(2) *During the 2007 year, holders of 20,897,964 exchangeable capital units were converted into 34,199,031 ordinary shares as per the terms set out in the 2006 Annual Financial Report.*

| Reserves | As at 30 Sep 07 $m | 31 Mar 07 $m | 30 Sep 06 $m |
|---|---|---|---|
| General reserve | **866** | 715 | 687 |
| Asset revaluation reserve | **102** | 95 | 100 |
| Foreign currency translation reserve | **(860)** | (393) | (135) |
| Cash flow hedge reserve | **197** | 96 | 52 |
| Equity based payments reserve | **451** | 358 | 227 |
| General reserve for credit losses | **325** | 192 | 135 |
| Available for sale investments reserve | **(10)** | (2) | (2) |
| **Total reserves** | **1,071** | 1,061 | 1,064 |

| Movements in reserves | Half Year to Sep 07 $m | Half Year to Mar 07 $m | Year to Sep 07 $m | Year to Sep 06 $m |
|---|---|---|---|---|
| **General reserve** | | | | |
| Balance at beginning of period | **715** | 687 | **687** | 694 |
| Transfer from/(to) retained profits | **151** | 28 | **179** | (7) |
| **Balance at end of period** | **866** | 715 | **866** | 687 |
| **Asset revaluation reserve** | | | | |
| Balance at beginning of period | **95** | 100 | **100** | 97 |
| Revaluation of land and buildings | **18** | - | **18** | 11 |
| Tax on revaluation adjustments | **(6)** | - | **(6)** | - |
| Transfer to retained profits | **(5)** | (5) | **(10)** | (8) |
| **Balance at end of period** | **102** | 95 | **102** | 100 |
| **Foreign currency translation reserve** | | | | |
| Balance at beginning of period | **(393)** | (135) | **(135)** | (504) |
| Currency translation adjustments | **(467)** | (258) | **(725)** | 357 |
| Transfer to income statement on sale of controlled entities | **-** | - | **-** | 12 |
| **Balance at end of period** | **(860)** | (393) | **(860)** | (135) |
| **Cash flow hedge reserve** | | | | |
| Balance at beginning of period | **96** | 52 | **52** | (3) |
| Gains/(losses) on cash flow hedging instruments | **140** | 62 | **202** | 77 |
| Gains/(losses) transferred to the income statement | **2** | 5 | **7** | 2 |
| Tax on cash flow hedging instruments | **(41)** | (23) | **(64)** | (24) |
| **Balance at end of period** | **197** | 96 | **197** | 52 |
| **Equity based payments reserve** | | | | |
| Balance at beginning of period | **358** | 227 | **227** | 110 |
| Current period equity based payments expense not yet vested immediately | **100** | 119 | **219** | 136 |
| Tax on equity based payments | **(7)** | 12 | **5** | 5 |
| Transfer of vested amounts to ordinary share capital | **-** | - | **-** | (24) |
| **Balance at end of period** | **451** | 358 | **451** | 227 |

| | Half Year to | | Year to | |
|---|---|---|---|---|
| | Sep 07 | Mar 07 | Sep 07 | Sep 06 |
| | $m | $m | $m | $m |
| **General reserve for credit losses** | | | | |
| Balance at beginning of period | **192** | 135 | **135** | - |
| Transfer from retained profits | **133** | 57 | **190** | 135 |
| **Balance at end of period** | **325** | 192 | **325** | 135 |
| **Available for sale investments reserve** | | | | |
| Balance at beginning of period | **(2)** | (2) | **(2)** | - |
| Net revaluation gains/(losses) | **(48)** | - | **(48)** | (2) |
| Impairment transferred to the income statement | **40** | - | **40** | - |
| **Balance at end of period** | **(10)** | (2) | **(10)** | (2) |

| Reconciliation of Movement in Retained Profits | Half Year to | | Year to | |
|---|---|---|---|---|
| | Sep 07 | Mar 07 | Sep 07 | Sep 06 |
| | $m | $m | $m | $m |
| Balance at beginning of period | **15,259** | 14,461 | **14,461** | 12,788 |
| Actuarial gains/(losses) on defined benefit plans | **173** | 271 | **444** | 207 |
| Income tax on items taken directly to or transferred directly from equity | **(45)** | (98) | **(143)** | (53) |
| Net profit attributable to members of the Company | **2,442** | 2,136 | **4,578** | 4,392 |
| **Total available for appropriation** | **17,829** | 16,770 | **19,340** | 17,334 |
| Transfer from/(to) general reserve | **(151)** | (28) | **(179)** | 7 |
| Transfer from asset revaluation reserve | **5** | 5 | **10** | 8 |
| Transfer to general reserve for credit losses | **(133)** | (57) | **(190)** | (135) |
| Dividends paid | **(1,345)** | (1,294) | **(2,639)** | (2,499) |
| Distributions on other equity instruments | **(146)** | (137) | **(283)** | (254) |
| **Balance at end of period** | **16,059** | 15,259 | **16,059** | 14,461 |

# 13. Notes to the Cash Flow Statement

| (a) Reconciliation of net profit attributable to members of the Company to net cash used in operating activities | Half Year to | | Year to | |
|---|---|---|---|---|
| | Sep 07 | Mar 07 | Sep 07 | Sep 06 |
| | $m | $m | $m | $m |
| Net profit attributable to members of the Company | **2,442** | 2,136 | **4,578** | 4,392 |
| Add/(deduct): Non-cash items | | | | |
| (Increase)/decrease in interest receivable | **(890)** | 110 | **(780)** | (951) |
| Increase in interest payable | **867** | 55 | **922** | 1,635 |
| Increase in unearned income | **464** | 12 | **476** | (101) |
| Fair value movements | | | | |
| Assets, liabilities and derivatives held at fair value | **1,828** | (1,276) | **552** | 1,223 |
| Net adjustment to bid/offer valuation | **(32)** | - | **(32)** | 5 |
| Increase/(decrease) in personnel provisions | **78** | (129) | **(51)** | (87) |
| Increase/(decrease) in other operating provisions | **1** | (188) | **(187)** | (158) |
| Equity based payments recognised in equity or reserves | **103** | 121 | **224** | 143 |
| Superannuation costs - defined benefit pension plans | **(1)** | 17 | **16** | (319) |
| Impairment losses on non-financial assets | **61** | 7 | **68** | (9) |
| Charge to provide for doubtful debts | **400** | 390 | **790** | 606 |
| Depreciation and amortisation expense | **278** | 249 | **527** | 773 |
| Revaluation losses on exchangeable capital units | **3** | 76 | **79** | 122 |
| Movement in life insurance policyholder liabilities | **3,295** | 4,782 | **8,077** | 5,872 |
| Unrealised loss/(gain) on investments relating to life insurance business [1] | **1,372** | (2,867) | **(1,495)** | (1,629) |
| Increase in other assets [1] | **(3,781)** | (1,060) | **(4,841)** | (2,893) |
| Increase/(decrease) in other liabilities | **149** | (10) | **139** | (65) |
| (Decrease)/increase in income tax payable | **(518)** | 362 | **(156)** | 109 |
| (Decrease)/increase in deferred tax liabilities | **(324)** | 244 | **(80)** | (129) |
| Decrease in deferred tax assets | **5** | 83 | **88** | 214 |
| Add/(deduct): Operating cash flows items not included in profit [1] | **(14,064)** | (9,013) | **(23,077)** | (18,832) |
| Add/(deduct): Investing or financing cash flows included in profit | | | | |
| Profit on sale of controlled entities, before income tax | **-** | - | **-** | (151) |
| Loss on investments classified as available for sale and held to maturity | **8** | - | **8** | - |
| Profit on sale of property, plant, equipment and other assets | **(28)** | (4) | **(32)** | (11) |
| **Net cash used in operating activities** | **(8,284)** | (5,903) | **(14,187)** | (10,241) |

[1] *The Group has reviewed its classification in respect of cash flows on investments of the life insurance business. This has resulted in reclassifying unrealised gains and losses on investments and other assets. 2006 year and 2007 half year comparatives have been amended to reflect this change.*

### (b) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the year as shown in the statement of cash flows is reconciled to the related items on the balance sheet as follows:

| | Half Year to | | Year to | |
|---|---|---|---|---|
| | Sep 07 | Mar 07 | Sep 07 | Sep 06 |
| **Cash and cash equivalents** | | | | |
| **Assets** | | | | |
| Cash and liquid assets (excluding money at short call) | **12,796** | 13,761 | **12,796** | 12,768 |
| Treasury and other eligible bills | **424** | 660 | **424** | 167 |
| Due from other banks (excluding mandatory deposits with supervisory central banks) | **25,016** | 20,523 | **25,016** | 24,248 |
| | **38,236** | 34,944 | **38,236** | 37,183 |
| **Liabilities** | | | | |
| Due to other banks | **(42,566)** | (38,262) | **(42,566)** | (37,489) |
| Total cash and cash equivalents | **(4,330)** | (3,318) | **(4,330)** | (306) |

| (c) Non-cash financing and investing activities | Half Year to | | Year to | |
|---|---|---|---|---|
| | Sep 07 | Mar 07 | Sep 07 | Sep 06 |
| | $m | $m | $m | $m |
| New share issues | | | | |
| Dividend reinvestment plan | **-** | - | **-** | 198 |
| Bonus share plan | **50** | 53 | **103** | 107 |
| Movement in assets under finance lease | **8** | 13 | **21** | 22 |

### (d) Sales of controlled entities

The following sales were made during the last two years to 30 September 2007:

- on 31 July 2006, the Group's Custom Fleet business was sold for consideration of $571 million (the Group's Custom Fleet business was included within the Australia Region, UK Region and New Zealand Region business segments);
- on 8 May 2006, the MLC Asia business was sold for cash consideration of $565 million (this business was included within the Australia Region business segment);
- on 31 January 2006, BNZ Investment Management Limited was sold for cash consideration of $8 million (this business was included within the New Zealand Region business segment).

The operating results of the controlled entities have been included in the Group's consolidated income statement up to the date of sale. Details of the sales were as follows:

| | Half Year to | | Year to | |
|---|---|---|---|---|
| | Sep 07 | Mar 07 | Sep 07 | Sep 06 |
| | $m | $m | $m | $m |
| Cash consideration received (cash and receivables to be discharged in cash) | **-** | - | **-** | 1,144 |
| **Net assets of controlled entities sold** | | | | |
| Cash and liquid assets | **-** | - | **-** | 60 |
| Investments relating to life insurance business | **-** | - | **-** | 822 |
| Loans and advances | **-** | - | **-** | 148 |
| Property, plant and equipment | **-** | - | **-** | 2,019 |
| Other assets | **-** | - | **-** | 294 |
| Life policy liabilities | **-** | - | **-** | (583) |
| Provisions | **-** | - | **-** | (65) |
| Bonds, notes and subordinated debt | **-** | - | **-** | (43) |
| Other liabilities | **-** | - | **-** | (2,099) |
| **Total net assets of controlled entities sold** | **-** | - | **-** | 553 |
| Goodwill | **-** | - | **-** | 344 |
| Foreign currency translation reserve relating to controlled entities sold | **-** | - | **-** | 12 |
| Transaction costs on disposal of controlled entities sold (including provisions and warranties recognised) | **-** | - | **-** | 84 |
| **Total costs on disposal of controlled entities sold** | **-** | - | **-** | 993 |
| **Profit on sale of controlled entities before income tax** | **-** | - | **-** | 151 |

There were no material entities over which the Group gained control during the year ended 30 September 2007.
The Group holds no material interests in associates or joint venture entities as at 30 September 2007.

## 14. Contingent Liabilities and Commitments

**Exchangeable capital units capital raising**

The Group announced in February 2004 and May 2005 that it had received amended assessments from the Australian Taxation Office (ATO) which seek to disallow interest deductions on exchangeable capital units (ExCaps) for the tax years 1997 to 2003 and deductions for certain issue costs for the years 1998 to 2001. The ATO assessments are for $298 million of primary tax and interest and penalties of $254 million (after-tax), a total of $552 million (after-tax). As previously advised, should the ATO also disallow issue costs claimed in 2002 and 2003, the further primary tax assessed would be approximately $2 million. Interest and penalties may also be imposed.

As previously announced in May 2007, the ATO has also issued amended assessments to disallow deductions claimed for the payment of management fees associated with the ExCaps for years 1997 to 2003. These additional ATO assessments are for $9 million of primary tax and interest and penalties of $7 million (after tax), a total of $16 million (after-tax).

The ATO has advised the Group that it has reviewed the amount of interest imposed and as a result of this review it has decided to remit interest by applying reduced rates for all years, except the 2004 year.

In accordance with ATO practice on disputed assessments, the Group has paid 50% of the amounts owing under the amended assessments, a total of $307 million. These payments have been recognised as an asset by the Group in its accounts, included within other assets, on the basis that the Group expects recovery of the amount paid to the ATO. Interest may accrue on the unpaid disputed amounts. The Group has not tax-effected interest paid on the ExCaps after 1 October 2003 whilst the tax treatment is in dispute. As a result, an additional $7 million (2006 year: $20 million) has been recognised in determining income tax expense for the 2007 year.

The Group disputes the amended assessments for the ExCaps and intends to pursue all necessary avenues of objection and appeal. Objections against the amended assessments have been lodged but as yet have not been determined. No provision has been raised for this matter. The Company continues to consider opportunities to resolve this matter.

**New Zealand structured finance transactions**

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

As part of this review, subsidiaries of the Group have received amended tax assessments for the 1998 to 2002 years from the IRD with respect to certain structured finance transactions. The amended assessments are for income tax of approximately NZ$256 million. Interest will be payable on this amount, and the possible application of penalties has yet to be considered by the IRD.

The New Zealand Government introduced new legislation, effective 1 July 2005, which addresses their concerns with banks entering into these transactions. All of the structured finance transactions of the Group's subsidiaries that are the subject of the IRD's review were terminated by that date.

If the IRD issues amended assessments for all transactions for periods up to 30 June 2005, the maximum sum of primary tax, which the IRD might claim for all years is approximately NZ$416 million. In addition, as at 30 September 2007, interest of NZ$183 million (net of tax) will be payable.

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

The financial effect of the unpaid balance of the amounts owing under the amended assessments has not been brought to account in the financial statements for the year ended 30 September 2007.

**Wealth Management Reinsurance**

The ATO continues its review of a reinsurance contract entered into by the Australian Wealth Management business in the 1998 tax year and amended in the 2000 tax year. The ATO previously expressed the view that expenditure incurred under the reinsurance contract was not deductible under certain technical provisions of the tax law.

In August 2007, the ATO concluded its review of this matter and issued amended assessments to the Wealth Management subsidiaries that were parties to the reinsurance contract.

The ATO assessments were for $54 million of primary tax and interest and penalties of $16 million (after tax), a total of $70 million (after tax).

In accordance with ATO practice on disputed assessments, the Group has paid 50% of the amounts owing under the amended assessments. This payment has been recognised as an asset by the Group in its accounts as at 30 September 2007 on the basis that the Group expects full recovery of the amount paid to the ATO. Interest may accrue on the unpaid disputed amount. No provision has been raised for this matter.

Objections have been lodged disputing the ATO's amended assessments. Should the objections be determined unfavourably by the ATO, the Group intends to pursue all necessary avenues of appeal.

**Refund of current account fees & associated costs regarding the Office of Fair Trading (OFT) investigation**

In September 2006, the UK Office of Fair Trading (OFT) announced a formal investigation into the fairness of bank current accounts charges. The responses received from the banking industry generally challenged this belief, but the OFT announced a joint 'fact finding' exercise with the British Bankers Association to review the legal basis for banking charges. Due to the legal uncertainty and as a result of increasing customer claims, the OFT agreed to a test case to which Clydesdale Bank is a party. Proceedings were issued on 27 July 2007 in the High Court in England and Wales. The timing for the outcome of the legal proceedings is uncertain; however, Clydesdale considers the case to be strong and the charges to be both fair and legally enforceable. Clydesdale is, however, unable to predict with any accuracy the outcome of the legal action and is thus unable to reliably estimate any potential liability that may arise. No recognition has therefore been made, contingent or actual, within the financial statements for an adverse outcome.

## Compliance statement

This preliminary final report is prepared in accordance with the ASX listing rules. It should be read in conjunction with any announcements to the market made by the entity during the period.

The preliminary final report has been prepared in accordance with the recognition and measurement requirements of applicable Australian Accounting Standards and Urgent Issues Group Consensus Views.

This preliminary financial report is based on the financial statements of the Group which are in the process of being audited.

9 November 2007

Michaela Healey
Company Secretary

## Section 6 – Supplementary Information


| | | |
|---|---|---|
| 106. | Note 1 - | Net Interest Margins and Spreads |
| 107. | Note 2 - | Loans and Advances by Industry and Geography |
| 108. | Note 3 - | Average Balance Sheet and Related Interest |
| 112. | Note 4 - | Capital Adequacy |
| 115. | Note 5 - | Earnings per Share |
| 117. | Note 6 - | Number of Ordinary Shares |
| 118. | Note 7 - | Exchange Rates |
| 118. | Note 8 - | Australian Life Company Margins |
| 119. | Note 9 - | Reconciliation between Statutory Net Profit after Tax and Cash Earnings |
| 123. | Note 10 - | Summary of Disposed Operations |

# 1. Net Interest Margins and Spreads

| Group | Half Year to Sep 07 % | Half Year to Mar 07 % | Fav / (Unfav) Change Mar 07 basis pts | Year to Sep 07 % | Year to Sep 06 % | Fav / (Unfav) Change on Sep 06 basis pts |
|---|---|---|---|---|---|---|
| **Net interest spread** [1] | 1.76 | 1.85 | (9bp) | 1.80 | 1.88 | (8bp) |
| Benefit of net free liabilities, provisions and equity | 0.49 | 0.48 | 1bp | 0.48 | 0.43 | 5bp |
| **Net interest margin** [2] | **2.25** | 2.33 | (8bp) | **2.28** | 2.31 | (3bp) |

[1] *Net interest spread represents the difference between the average interest rate earned and the average interest rate incurred on funds.*

[2] *Net interest margin is net interest income as a percentage of average interest-earning assets.*

| Interest earning assets | Year to Sep 07 $bn | Year to Sep 07 Mix % | Year to Sep 06 $bn | Year to Sep 06 Mix % | % of Group AIEA |
|---|---|---|---|---|---|
| Australia Banking | **229.0** | **53.7** | 201.8 | 53.7 | (0.0) |
| UK Region | **64.9** | **15.2** | 52.4 | 13.9 | 1.3 |
| New Zealand Region | **35.2** | **8.3** | 31.0 | 8.3 | 0.0 |
| nabCapital | **150.1** | **35.2** | 138.2 | 36.8 | (1.6) |
| Other [1] | **13.4** | **3.1** | 11.5 | 3.1 | (0.0) |
| Intercompany | **(66.0)** | **(15.5)** | (59.2) | (15.8) | 0.3 |
| **Group** | **426.6** | **100.0** | 375.7 | 100.0 | 0.0 |

| Net interest income and margins | Year to Sep 07 $m | Year to Sep 07 NIM % | Year to Sep 06 $m | Year to Sep 06 NIM % | NIM Change |
|---|---|---|---|---|---|
| Australia Banking | **5,520** | **2.41%** | 4,870 | 2.41% | (0bp) |
| UK Region | **1,982** | **3.06%** | 1,852 | 3.54% | (48bp) |
| New Zealand Region | **864** | **2.45%** | 797 | 2.57% | (12bp) |
| nabCapital | **1,134** | **0.76%** | 937 | 0.68% | 8bp |
| Other [1] | **265** | **1.98%** | 321 | 2.80% | (82bp) |
| Intercompany | **-** | **0.00%** | - | 0.00% | 0bp |
| **Group - Ongoing operations** | **9,765** | **2.29%** | 8,777 | 2.34% | (5bp) |
| Disposed operations | **(21)** | **(0.01%)** | (99) | (0.03%) | 2bp |
| **Group** | **9,744** | **2.28%** | 8,678 | 2.31% | (3bp) |

| Contribution to Group Margin | Impact of Change in NIM [2] | Impact of Change in Mix [3] | Impact on Group NIM |
|---|---|---|---|
| Australia Banking | 0bp | 0bp | **0bp** |
| UK Region | (7bp) | 1bp | **(6bp)** |
| New Zealand Region | (1bp) | 0bp | **(1bp)** |
| nabCapital | 3bp | 2bp | **5bp** |
| Other [1] | (2bp) | 0bp | **(2bp)** |
| Intercompany | 0bp | (1bp) | **(1bp)** |
| **Group - Ongoing operations** | **(7bp)** | **2bp** | **(5bp)** |
| Disposed operations | 2bp | 0bp | **2bp** |
| **Group** | **(5bp)** | **2bp** | **(3bp)** |

[1] *Includes Other (Including Asia), Group Funding and Corporate Centre operations.*

[2] *The increase/(decrease) in net interest margin assuming no change in mix of average interest earning assets.*

[3] *The increase/(decrease) in net interest margin caused by changes in regional mix of average interest earning assets.*

## 2. Loans and Advances by Industry and Geography

| As at 30 September 2007 | Australia $m | Europe $m | New Zealand $m | United States $m | Asia $m | Total $m |
|---|---|---|---|---|---|---|
| Government and public authorities | 699 | 569 | 320 | 16 | - | **1,604** |
| Agriculture, forestry, fishing and mining | 6,371 | 2,854 | 5,694 | - | 43 | **14,962** |
| Financial, investment and insurance | 9,116 | 4,986 | 1,347 | 2,833 | 726 | **19,008** |
| Real estate - construction | 909 | 1,804 | 79 | 50 | 61 | **2,903** |
| Manufacturing | 4,639 | 2,663 | 2,094 | 310 | 10 | **9,716** |
| Real estate - mortgage | 140,406 | 25,109 | 19,614 | - | 680 | **185,809** |
| Instalment loans to individuals and other personal lending (including credit cards) | 9,021 | 5,141 | 1,413 | - | - | **15,575** |
| Asset and lease financing | 12,310 | 5,412 | 28 | - | 6 | **17,756** |
| Other commercial and industrial | 38,630 | 28,997 | 9,966 | 161 | 242 | **77,996** |
| **Gross loans and advances** [1] | 222,101 | 77,535 | 40,555 | 3,370 | 1,768 | **345,329** |
| Acceptances | 49,316 | 6 | - | - | - | **49,322** |
| **Gross loans and advances including acceptances** | 271,417 | 77,541 | 40,555 | 3,370 | 1,768 | **394,651** |
| Deduct: Unearned income and deferred net fee income | (1,868) | (889) | (24) | (4) | (3) | **(2,788)** |
| Provisions for doubtful debts | (1,294) | (640) | (145) | (24) | (4) | **(2,107)** |
| **Total net loans and advances including acceptances** | 268,255 | 76,012 | 40,386 | 3,342 | 1,761 | **389,756** |

[1] *Includes loans accounted for at fair value which are included within 'Other financial assets at fair value' on the balance sheet.*

| As at 30 September 2006 | Australia $m | Europe $m | New Zealand $m | United States $m | Asia $m | Total $m |
|---|---|---|---|---|---|---|
| Government and public authorities | 640 | 585 | 272 | 23 | - | **1,520** |
| Agriculture, forestry, fishing and mining | 6,278 | 2,654 | 5,100 | - | 31 | **14,063** |
| Financial, investment and insurance | 6,092 | 2,118 | 1,183 | 1,241 | 699 | **11,333** |
| Real estate - construction | 1,188 | 1,792 | 153 | - | 222 | **3,355** |
| Manufacturing | 3,736 | 2,712 | 1,386 | 265 | 14 | **8,113** |
| Real estate - mortgage | 129,423 | 23,976 | 17,818 | - | 545 | **171,762** |
| Instalment loans to individuals and other personal lending (including credit cards) | 8,236 | 7,696 | 1,533 | - | - | **17,465** |
| Asset and lease financing | 11,184 | 5,747 | 10 | - | 12 | **16,953** |
| Other commercial and industrial | 27,100 | 23,079 | 9,511 | 286 | 423 | **60,399** |
| **Gross loans and advances** [1] | 193,877 | 70,359 | 36,966 | 1,815 | 1,946 | **304,963** |
| Acceptances | 41,714 | 12 | - | - | - | **41,726** |
| **Gross loans and advances including acceptances** | 235,591 | 70,371 | 36,966 | 1,815 | 1,946 | **346,689** |
| Deduct: Unearned income and deferred net fee income | (1,598) | (772) | (21) | - | - | **(2,391)** |
| Provisions for doubtful debts | (1,145) | (718) | (130) | (22) | (6) | **(2,021)** |
| **Total net loans and advances including acceptances** | 232,848 | 68,881 | 36,815 | 1,793 | 1,940 | **342,277** |

[1] *Includes loans accounted for at fair value which are included within 'Other financial assets at fair value' on the balance sheet.*

## 3. Average Balance Sheet and Related Interest

The following tables set forth the major categories of interest-earning assets and interest-bearing liabilities, together with their respective interest rates earned or paid by the Group. Averages are predominantly daily averages. Interest income figures include interest income on impaired assets to the extent cash payments have been received. Amounts classified as Other International represent interest-earning assets or interest-bearing liabilities of the controlled entities and overseas branches, excluding Europe. Impaired assets are included within interest-earning assets within loans and advances.

### Average assets and interest income

| | Year ended Sep 07 | | | Year ended Sep 06 | | |
|---|---|---|---|---|---|---|
| | Average balance $m | Interest $m | Average rate % | Average balance $m | Interest $m | Average rate % |
| **Average interest-earning assets** | | | | | | |
| Due from other banks | | | | | | |
| *Australia* | 12,974 | 723 | 5.6 | 9,561 | 450 | 4.7 |
| *Europe* | 8,364 | 444 | 5.3 | 11,298 | 453 | 4.0 |
| *Other International* | 4,218 | 252 | 6.0 | 3,036 | 159 | 5.2 |
| Marketable debt securities | | | | | | |
| *Australia* | 12,060 | 743 | 6.2 | 9,697 | 540 | 5.6 |
| *Europe* | 6,026 | 270 | 4.5 | 7,701 | 238 | 3.1 |
| *Other International* | 6,007 | 368 | 6.1 | 7,555 | 377 | 5.0 |
| Loans and advances - housing | | | | | | |
| *Australia* | 134,564 | 9,824 | 7.3 | 120,057 | 8,241 | 6.9 |
| *Europe* | 24,766 | 1,463 | 5.9 | 20,513 | 1,121 | 5.5 |
| *Other International* | 19,761 | 1,553 | 7.9 | 17,414 | 1,314 | 7.5 |
| Loans and advances - non-housing | | | | | | |
| *Australia* | 71,036 | 5,460 | 7.7 | 60,369 | 4,450 | 7.4 |
| *Europe* | 48,477 | 3,589 | 7.4 | 40,608 | 2,838 | 7.0 |
| *Other International* | 23,643 | 2,276 | 9.6 | 21,759 | 1,995 | 9.2 |
| Acceptances | | | | | | |
| *Australia* | 46,408 | 3,518 | 7.6 | 37,874 | 2,750 | 7.3 |
| *Europe* | 12 | - | - | 17 | - | - |
| Other interest-earning assets | | | | | | |
| *Australia* | 3,081 | 281 | n/a | 1,943 | 162 | n/a |
| *Europe* | 1,911 | 100 | n/a | 2,942 | 385 | n/a |
| *Other International* | 3,251 | 94 | n/a | 3,347 | 80 | n/a |
| **Total average interest-earning assets and interest revenue by:** | | | | | | |
| ***Australia*** | 280,123 | 20,549 | 7.3 | 239,501 | 16,593 | 6.9 |
| ***Europe*** | 89,556 | 5,866 | 6.6 | 83,079 | 5,035 | 6.1 |
| ***Other International*** | 56,880 | 4,543 | 8.0 | 53,111 | 3,925 | 7.4 |
| **Total average interest-earning assets and interest revenue** | 426,559 | 30,958 | 7.3 | 375,691 | 25,553 | 6.8 |

### Average assets and interest income

| | Year ended Sep 07 | | | Year ended Sep 06 | | |
|---|---|---|---|---|---|---|
| | Average balance $m | Interest $m | Average rate % | Average balance $m | Interest $m | Average rate % |
| **Average non-interest-earning assets** | | | | | | |
| Investments relating to life insurance business [1] | | | | | | |
| *Australia* | 60,464 | | | 51,318 | | |
| *Other International* | 40 | | | 496 | | |
| Other assets | 34,805 | | | 38,058 | | |
| **Total average non-interest-earning assets** | 95,309 | | | 89,872 | | |
| Provision for doubtful debts | | | | | | |
| *Australia* | (1,228) | | | (1,208) | | |
| *Europe* | (689) | | | (589) | | |
| *Other International* | (163) | | | (166) | | |
| **Total average assets** | 519,788 | | | 463,600 | | |
| Percentage of total average interest-earning assets applicable to international operations | 34.3% | | | 36.3% | | |

*[1] Included within investments relating to life insurance business are interest-earning debt securities. The interest earned from these securities is reported in life insurance income, and has therefore been treated as non-interest earning for the purposes of this note. The assets and liabilities held in the statutory funds of the Group's Australian life insurance business are subject to the restrictions of the Life Insurance Act 1995.*

## Average liabilities and interest expense

| | Year ended Sep 07 | | | Year ended Sep 06 | | |
|---|---|---|---|---|---|---|
| | Average balance $m | Interest $m | Average rate % | Average balance $m | Interest $m | Average rate % |
| **Average interest-bearing liabilities** | | | | | | |
| Term deposits and certificates of deposit | | | | | | |
| *Australia* | 47,024 | 2,810 | 6.0 | 45,770 | 2,495 | 5.5 |
| *Europe* | 28,023 | 1,415 | 5.0 | 24,675 | 1,068 | 4.3 |
| *Other International* | 27,786 | 1,840 | 6.6 | 29,573 | 1,758 | 5.9 |
| On-demand and savings (short-term) deposits | | | | | | |
| *Australia* | 68,671 | 3,351 | 4.9 | 58,026 | 2,577 | 4.4 |
| *Europe* | 30,695 | 935 | 3.0 | 24,294 | 559 | 2.3 |
| *Other International* | 10,783 | 441 | 4.1 | 11,503 | 403 | 3.5 |
| Due to other banks and official institutions | | | | | | |
| *Australia* | 14,193 | 729 | 5.1 | 11,665 | 533 | 4.6 |
| *Europe* | 14,005 | 750 | 5.4 | 14,570 | 661 | 4.5 |
| *Other International* | 11,388 | 574 | 5.0 | 10,478 | 492 | 4.7 |
| Short-term borrowings | | | | | | |
| *Australia* | 20,208 | 1,125 | 5.6 | 21,440 | 947 | 4.4 |
| *Europe* | 115 | 6 | 5.2 | 851 | 45 | 5.3 |
| *Other International* | 8,198 | 426 | 5.2 | 6,008 | 276 | 4.6 |
| Long-term borrowings | | | | | | |
| *Australia* | 61,735 | 3,705 | 6.0 | 47,366 | 2,240 | 4.7 |
| *Europe* | 5,749 | 340 | 5.9 | 1,684 | 82 | 4.9 |
| *Other International* | 4,889 | 288 | 5.9 | 2,447 | 156 | 6.4 |
| Liability on acceptances | | | | | | |
| *Australia* | 34,404 | 2,164 | 6.3 | 30,694 | 1,758 | 5.7 |
| *Europe* | 6 | - | - | 17 | - | - |
| Other interest-bearing liabilities | | | | | | |
| *Australia* | 110 | 11 | n/a | 748 | 226 | n/a |
| *Europe* | 157 | 8 | n/a | 1,012 | 365 | n/a |
| *Other International* | 689 | 294 | n/a | 70 | 226 | n/a |
| **Total average interest-bearing liabilities and interest expense by:** | | | | | | |
| ***Australia*** | 246,345 | 13,895 | 5.6 | 215,709 | 10,776 | 5.0 |
| ***Europe*** | 78,750 | 3,454 | 4.4 | 67,103 | 2,780 | 4.1 |
| ***Other International*** | 63,733 | 3,863 | 6.1 | 60,079 | 3,311 | 5.5 |
| **Total average interest-bearing liabilities and interest expense** | 388,828 | 21,212 | 5.5 | 342,891 | 16,867 | 4.9 |

## Average liabilities and interest expense

| | Year ended Sep 07 | | | Year ended Sep 06 | | |
|---|---|---|---|---|---|---|
| | Average balance $m | Interest $m | Average rate % | Average balance $m | Interest $m | Average rate % |
| **Average non-interest-bearing liabilities** | | | | | | |
| Deposits not bearing interest | | | | | | |
| *Australia* | 7,905 | | | 7,042 | | |
| *Europe* | 1,952 | | | 3,021 | | |
| *Other International* | 906 | | | 984 | | |
| Life insurance policy liabilities | | | | | | |
| *Australia* | 50,310 | | | 42,760 | | |
| *Other International* | - | | | 337 | | |
| Other liabilities | 40,805 | | | 40,549 | | |
| **Total average non-interest-bearing liabilities** | 101,878 | | | 94,693 | | |
| **Total average liabilities** | 490,706 | | | 437,584 | | |
| **Average equity** | | | | | | |
| Ordinary shares | 8,201 | | | 7,662 | | |
| Trust Preferred Securities | 975 | | | 975 | | |
| Trust Preferred Securities II | 1,014 | | | 1,014 | | |
| National Income Securities | 1,945 | | | 1,945 | | |
| National Capital Instruments | 397 | | | 13 | | |
| Contributed equity | 12,532 | | | 11,609 | | |
| Reserves | 1,042 | | | 659 | | |
| Retained profits | 15,200 | | | 13,698 | | |
| Parent entity interest | 28,774 | | | 25,966 | | |
| Minority interest in controlled entities | 308 | | | 50 | | |
| **Total average equity** | 29,082 | | | 26,016 | | |
| **Total average liabilities and equity** | 519,788 | | | 463,600 | | |
| Percentage of total average interest-bearing liabilities applicable to international operations | 36.6% | | | 37.1% | | |

## 4. Capital Adequacy

### Life Insurance and Funds Management Activities

Under guidelines issued by APRA, life insurance and funds management activities are excluded from the calculation of risk-weighted assets, and the related controlled entities are deconsolidated for the purposes of calculating capital adequacy. The intangible component of the investment in these controlled entities is deducted from Tier 1 capital, with the balance of the investment deducted from the total of eligible Tier 1 and Tier 2 capital. From 1 January 2008, the balance of the investment will be deducted 50% from Tier 1 capital and 50% from the total of eligible Tier 1 and Tier 2 capital. Additionally, any profits from these activities included in the Group's results are excluded from the determination of Tier 1 capital to the extent that they have not been remitted to the Company.

| | As at | | |
|---|---|---|---|
| | 30 Sep 07 | 31 Mar 07 | 30 Sep 06 |
| **Reconciliation to shareholder's funds** | $m | $m | $m |
| Contributed equity | **12,441** | 12,916 | 12,279 |
| Reserves | **1,071** | 1,061 | 1,064 |
| Retained profits | **16,059** | 15,259 | 14,461 |
| Minority interest | **314** | 331 | 168 |
| **Total equity per consolidated balance sheet** | **29,885** | 29,567 | 27,972 |
| National Capital Instruments, €400 million (1) | **642** | 661 | 679 |
| Treasury shares | **1,080** | 1,107 | 966 |
| Exchangeable capital units - embedded derivative and foreign exchange movements | **-** | - | 572 |
| Eligible deferred fee income | **227** | 207 | 186 |
| **Adjusted total equity** | **31,834** | 31,542 | 30,375 |
| Estimated reinvestment under dividend reinvestment plan and bonus share plan | **172** | 51 | 57 |
| Less: Banking goodwill | **(565)** | (553) | (553) |
| Estimated final dividend | **(1,540)** | (1,420) | (1,367) |
| Wealth Management goodwill and other intangibles | **(3,901)** | (3,905) | (3,921) |
| Asset revaluation reserve | **(102)** | (94) | (100) |
| Profit on sale arising from Wealth Management restructure (2) | **451** | 451 | 494 |
| Deconsolidation of Wealth Management profits (net of dividends) | **(349)** | (104) | (110) |
| DTA (excluding DTA on the collective provision for doubtful debts) (3) | **(166)** | (114) | (199) |
| Non qualifying minority interest | **(314)** | (331) | (168) |
| Capitalised expenses (4) | **(92)** | (51) | (69) |
| Capitalised software (excluding Wealth Management) | **(864)** | (759) | (687) |
| Defined benefit pension surplus | **(348)** | (199) | (161) |
| Change in own creditworthiness | **(10)** | - | - |
| General reserve for credit losses (5) | **(325)** | (192) | (135) |
| Cash flow hedge reserve | **(197)** | (96) | (52) |
| **Tier 1 capital** | **23,684** | 24,226 | 23,404 |

| | As at | | |
|---|---|---|---|
| | 30 Sep 07 | 31 Mar 07 | 30 Sep 06 |
| | $m | $m | $m |
| Collective provision for doubtful debts [6] | **1,432** | 1,443 | 1,389 |
| General reserve for credit losses [5] | **325** | 192 | 135 |
| Total collective provision for doubtful debts | **1,757** | 1,635 | 1,524 |
| Asset revaluation reserve | **46** | 42 | 45 |
| Perpetual floating rate notes | **283** | 310 | 334 |
| Dated subordinated debts | **11,035** | 9,713 | 9,786 |
| Exchangeable capital units | **-** | - | 665 |
| **Tier 2 capital** | **13,121** | 11,700 | 12,354 |
| **Other deductions [7]** | **(1,313)** | (1,194) | (1,351) |
| **Total regulatory capital** | **35,492** | 34,732 | 34,407 |
| Risk-weighted assets - credit risk | **351,410** | 327,027 | 304,771 |
| Risk-weighted assets - market risk [8] | **3,856** | 3,430 | 13,552 |
| **Total risk-weighted assets** | **355,266** | 330,457 | 318,323 |
| **Risk adjusted capital ratios** | | | |
| Tier 1 | **6.67%** | 7.33% | 7.35% |
| Tier 2 | **3.69%** | 3.54% | 3.88% |
| Deductions | **(0.37%)** | (0.36%) | (0.42%) |
| **Total capital** | **9.99%** | 10.51% | 10.81% |

| | As at | | |
|---|---|---|---|
| | 30 Sep 07 | 31 Mar 07 | 30 Sep 06 |
| **Regulatory capital summary** | $m | $m | $m |
| **Fundamental Tier 1 capital** | **26,861** | 26,550 | 25,365 |
| Non-innovative residual Tier 1 capital | **1,945** | 1,945 | 1,945 |
| Innovative residual Tier 1 capital | **3,028** | 3,047 | 3,065 |
| **Total residual Tier 1 capital** | **4,973** | 4,992 | 5,010 |
| Tier 1 deductions | **(8,150)** | (7,316) | (6,971) |
| **Tier 1 capital** | **23,684** | 24,226 | 23,404 |
| **Tier 2 capital** | **13,121** | 11,700 | 12,354 |
| Other deductions | **(1,313)** | (1,194) | (1,351) |
| **Total regulatory capital** | **35,492** | 34,732 | 34,407 |

(1) *The €400 million National Capital Instruments issued on 29 September 2006 are classified as debt for accounting purposes but qualify as Tier 1 capital for regulatory capital purposes.*

(2) *Relates to profit, arising in the banking group, from the sale of the life and insurance businesses of Bank of New Zealand and National Australia Group Europe to NAFiM subsidiaries on 1 January 2002. With effect from 1 January 2008, the profit on sale will be excluded from Tier 1 capital.*

(3) *APRA requires any excess deferred tax assets (DTA) (excluding DTA on the collective provision for doubtful debts) over deferred tax liabilities to be deducted from Tier 1 capital.*

(4) *Comprises capitalised costs associated with debt raisings and securitisations. Loan origination fees are netted against eligible deferred fee income.*

(5) *As required by APRA, the general reserve for credit losses is a specific reserve set up such that the sum of this reserve and the collective provision for doubtful debts on a post tax basis is equal to 0.5% of credit risk-weighted assets. This is an appropriation from retained profits to non distributable reserves. It is a deduction from Tier 1 capital and qualifies as Tier 2 capital.*

(6) *Includes $202 million (pre-tax) provision for doubtful debts classified within loans recorded at fair value and trading derivatives at 30 September 2007 (31 March 2007 $144 million ; 30 September 2006 $134 million).*

(7) *Includes $1,075 million investment in non-consolidated controlled entities, net of intangible component deducted from Tier 1 capital (31 March 2007 $1,075 million ; 30 September 2006 $1,223 million).*

(8) *Risk-weighted assets - market risk is calculated based on the Internal Method from 1 January 2007.*

| Adjusted common equity ratio reconciliation | As at 30 Sep 07 $m | 31 Mar 07 $m | 30 Sep 06 $m |
|---|---|---|---|
| **Tier 1 capital** | **23,684** | 24,226 | 23,404 |
| Adjusted for: | | | |
| National Income Securities | **(1,945)** | (1,945) | (1,945) |
| Trust Preferred Securities | **(975)** | (975) | (975) |
| Trust Preferred Securities II | **(1,014)** | (1,014) | (1,014) |
| National Capital Instruments, A$ | **(397)** | (397) | (397) |
| National Capital Instruments, €400 million | **(642)** | (661) | (679) |
| Other deductions | **(1,313)** | (1,194) | (1,351) |
| **Adjusted common equity** | **17,398** | 18,040 | 17,043 |
| **Total risk-weighted assets** | **355,266** | 330,457 | 318,323 |
| **Adjusted common equity ratio** | **4.90%** | 5.46% | 5.35% |

### Wealth Management capital adequacy position

The Group conservatively manages the capital adequacy and solvency position of its Wealth Management entities separately from that of the banking business by reference to regulatory and internal requirements. The principal National Wealth Management entities are separately regulated and need to meet APRA's capital adequacy and solvency standards. In addition, internal Board policy ensures that capital is held in excess of minimum regulatory capital requirements in order to provide a conservative buffer. There are currently three entities within the Wealth Management group with credit ratings, National Wealth Management Holdings Limited which is rated AA- by Standard and Poors; and MLC Lifetime Company Limited and MLC Ltd, both of which have the same long-term credit rating as the National (AA).

## 5. Earnings per Share

| Earnings per Share | Year to | | | |
|---|---|---|---|---|
| | Sep 07 | | Sep 06 | |
| | Basic | Diluted (1) | Basic | Diluted (1) |
| **Earnings ($m)** | | | | |
| Net profit attributable to members of the Company | **4,578** | **4,578** | 4,392 | 4,392 |
| Distributions on other equity instruments | **(283)** | **(283)** | (254) | (254) |
| Adjusted earnings | **4,295** | **4,295** | 4,138 | 4,138 |
| **Weighted average ordinary shares (no. '000)** | | | | |
| Weighted average ordinary shares | **1,623,858** | **1,623,858** | 1,599,919 | 1,599,919 |
| Treasury shares | **(27,228)** | **(27,228)** | (24,315) | (24,315) |
| Potential dilutive ordinary shares | | | | |
| Performance options and performance rights | **-** | **1,836** | - | 3,673 |
| Partly paid ordinary shares | **-** | **210** | - | 288 |
| Employee share plans | **-** | **1,717** | - | 1,113 |
| Total weighted average ordinary shares | **1,596,630** | **1,600,393** | 1,575,604 | 1,580,678 |
| **Earnings per share (cents)** | **269.0** | **268.4** | 262.6 | 261.8 |

(1) *During the years ended 30 September 2006 and 30 September 2007, the impact of exchangeable capital units has not been included in the diluted earning because they were antidilutive.*

| Earnings per Share | Half Year to | | | |
|---|---|---|---|---|
| | Sep 07 | | Mar 07 | |
| | Basic | Diluted (2) | Basic | Diluted (2) |
| **Earnings ($m)** | | | | |
| Net profit attributable to members of the Company | **2,442** | **2,442** | 2,136 | 2,136 |
| Distributions on other equity instruments | **(146)** | **(146)** | (137) | (137) |
| Adjusted earnings | **2,296** | **2,296** | 1,999 | 1,999 |
| **Weighted average ordinary shares (no. '000)** | | | | |
| Weighted average ordinary shares | **1,624,891** | **1,624,891** | 1,622,864 | 1,622,864 |
| Treasury shares | **(27,668)** | **(27,668)** | (26,541) | (26,541) |
| Potential dilutive ordinary shares | | | | |
| Performance options and performance rights | **-** | **1,670** | - | 4,754 |
| Partly paid ordinary shares | **-** | **211** | - | 263 |
| Employee share plans | **-** | **1,759** | - | 2,461 |
| Total weighted average ordinary shares | **1,597,223** | **1,600,863** | 1,596,323 | 1,603,801 |
| **Earnings per share (cents)** | **143.7** | **143.4** | 125.2 | 124.6 |

(2) *During the half years ended 31 March 2007 and 30 September 2007, the impact of exchangeable capital units has not been included in the diluted earnings per share because they were antidilutive.*

| | Year to | | | |
|---|---|---|---|---|
| | Sep 07 | | Sep 06 | |
| **Cash Earnings per Share** | **Basic** | **Diluted** | **Basic** | **Diluted** |
| **Earnings ($m)** | | | | |
| Cash earnings [1] - ongoing operations | **4,386** | **4,386** | 3,728 | 3,728 |
| Potential dilutive adjustments | | | | |
| Interest expense on exchangeable capital units (after tax) | **-** | **9** | - | 61 |
| Adjusted cash earnings | **4,386** | **4,395** | 3,728 | 3,789 |
| **Weighted average ordinary shares (no. '000)** | | | | |
| Weighted average ordinary shares | **1,623,858** | **1,623,858** | 1,599,919 | 1,599,919 |
| Potential dilutive weighted average ordinary shares | | | | |
| Performance options and performance rights | **-** | **1,836** | - | 3,673 |
| Partly paid ordinary shares | **-** | **210** | - | 288 |
| Employee share plans | **-** | **1,717** | - | 1,113 |
| Exchangeable capital units | **-** | **8,991** | - | 38,429 |
| Total weighted average ordinary shares | **1,623,858** | **1,636,612** | 1,599,919 | 1,643,422 |
| **Cash earnings per share (cents)** | **270.1** | **268.5** | 233.0 | 230.6 |

[1] *Refer to Section 3 'Review of Group Strategy, Operations and Results' for a reconciliation of cash earnings to Group net profit.*

| | Half Year to | | | |
|---|---|---|---|---|
| | Sep 07 | | Mar 07 | |
| **Cash Earnings per Share** | **Basic** | **Diluted** | **Basic** | **Diluted** |
| **Earnings ($m)** | | | | |
| Cash earnings [2] - ongoing operations | **2,315** | **2,315** | 2,071 | 2,071 |
| Potential dilutive adjustments | | | | |
| Interest expense on exchangeable capital units (after tax) | **-** | **-** | - | 9 |
| Adjusted cash earnings | **2,315** | **2,315** | 2,071 | 2,080 |
| **Weighted average ordinary shares (no. '000)** | | | | |
| Weighted average ordinary shares | **1,624,891** | **1,624,891** | 1,622,864 | 1,622,864 |
| Potential dilutive weighted average ordinary shares | | | | |
| Performance options and performance rights | **-** | **1,670** | - | 4,754 |
| Partly paid ordinary shares | **-** | **211** | - | 263 |
| Employee share plans | **-** | **1,759** | - | 2,461 |
| Exchangeable capital units | **-** | **286** | - | 17,744 |
| Total weighted average ordinary shares | **1,624,891** | **1,628,817** | 1,622,864 | 1,648,086 |
| **Cash earnings per share (cents)** | **142.5** | **142.1** | 127.6 | 126.2 |

[2] *Refer to Section 3 'Review of Group Strategy, Operations and Results' for a reconciliation of cash earnings to Group net profit.*

## 6. Number of Ordinary Shares

| | Year to | |
|---|---|---|
| | Sep 07 | Sep 06 |
| | No. '000 | No. '000 |
| **Ordinary shares, fully paid** | | |
| Balance at beginning of period | **1,609,898** | 1,567,188 |
| Shares issued | | |
| Dividend reinvestment plan [1] | **-** | 5,918 |
| Bonus share plan | **2,634** | 3,229 |
| Employee share plan | **1,339** | 2,476 |
| Executive option plan no. 2 | **2,194** | 1,639 |
| Exchangeable capital units converted | **34,199** | 29,372 |
| Paying up of partly paid shares | **117** | 76 |
| Shares bought back | **(29,315)** | - |
| | **1,621,066** | 1,609,898 |
| **Ordinary shares, partly paid to 25 cents** | | |
| Balance at beginning of period | **390** | 466 |
| Paying up of partly paid shares | **(117)** | (76) |
| | **273** | 390 |
| **Total number of ordinary shares on issue at end of period (including treasury shares)** | **1,621,339** | 1,610,288 |
| Less: treasury shares | **(27,463)** | (26,993) |
| **Total number of ordinary shares on issue at end of period (excluding treasury shares)** | **1,593,876** | 1,583,295 |

| | Half Year to | |
|---|---|---|
| | Sep 07 | Mar 07 |
| | No. '000 | No. '000 |
| **Ordinary shares, fully paid** | | |
| Balance at beginning of period | **1,631,457** | 1,609,898 |
| Shares issued | | |
| Dividend reinvestment plan [1] | **-** | - |
| Bonus share plan | **1,242** | 1,392 |
| Employee share plan | **23** | 1,316 |
| Executive option plan no. 2 | **1,044** | 1,150 |
| Exchangeable capital units converted | **264** | 33,935 |
| Paying up of partly paid shares | **70** | 47 |
| Shares bought back | **(13,034)** | (16,281) |
| | **1,621,066** | 1,631,457 |
| **Ordinary shares, partly paid to 25 cents** | | |
| Balance at beginning of period | **343** | 390 |
| Paying up of partly paid shares | **(70)** | (47) |
| | **273** | 343 |
| **Total number of ordinary shares on issue at end of period (including treasury shares)** | **1,621,339** | 1,631,800 |
| Less: treasury shares | **(27,463)** | (26,088) |
| **Total number of ordinary shares on issue at end of period (excluding treasury shares)** | **1,593,876** | 1,605,712 |

[1] *During the 2007 year, dividend reinvestment plan shares were purchased on market for delivery to shareholders resulting in no issue of new shares.*

## 7. Exchange Rates

| | Income Statement - average | | | | Balance Sheet - spot | | |
|---|---|---|---|---|---|---|---|
| | Half Year to | | Year to | | As at | | |
| | Sep 07 | Mar 07 | Sep 07 | Sep 06 | 30 Sep 07 | 31 Mar 07 | 30 Sep 06 |
| British Pounds | **0.4190** | 0.4020 | **0.4105** | 0.4150 | **0.4366** | 0.4112 | 0.3991 |
| Euros | **0.6166** | 0.5984 | **0.6075** | 0.6071 | **0.6228** | 0.6051 | 0.5890 |
| United States Dollars | **0.8393** | 0.7782 | **0.8088** | 0.7467 | **0.8820** | 0.8070 | 0.7478 |
| New Zealand Dollars | **1.1322** | 1.1364 | **1.1343** | 1.1432 | **1.1669** | 1.1306 | 1.1439 |

## 8. Australian Life Company Margins

| | Half Year to | | | Year to | | |
|---|---|---|---|---|---|---|
| **Sources of Operating Profit from Australian Life Companies life insurance funds** | Sep 07 $m | Mar 07 $m | Sep 07 v Mar 07 % | Sep 07 $m | Sep 06 $m | Sep 07 v Sep 06 % |
| Life company - planned profit margins | 124 | 114 | 8.8 | **238** | 217 | 9.7 |
| Life company - experience profit | 23 | 22 | 4.5 | **45** | 52 | (13.5) |
| Capitalised (losses)/ reversal of losses | 5 | - | - | **5** | (3) | large |
| **Life company operating margins** (1) | 152 | 136 | 11.8 | **288** | 266 | 8.3 |
| IoRE (after tax) (2) | 8 | 12 | (33.3) | **20** | 52 | (61.5) |
| **Net profit of life insurance funds after minority interest** | 160 | 148 | 8.1 | **308** | 318 | (3.1) |

(1) *Reflects operating profit of all business types (investment or insurance) written through life insurance funds.*

(2) *Includes investment earnings on shareholders' retained profits and capital from life businesses after minority interest of $64m (Sep 06 $58m; HY Sep 07 $30m; HY Mar 07 $34m) and IoRE discount rate variation of ($44m) (Sep 06 ($6m); HY Sep 07 ($22m); HY Mar 07 ($22m)); IoRE attributable to non life insurance funds of ($25m) (Sep 06 ($2m); HY Sep 07 ($12m); HY Mar 07 ($13m)) is excluded.*

# 9. Reconciliation between Statutory Net Profit after Tax and Cash Earnings

| Year ended 30 September 2007 | Statutory Profit $m | Net profit - Minority Interest[1] $m | Wealth Mgt Net Adj.[1] $m | Distri-butions $m | Treasury Shares $m | Fair Value and Hedge Ineffec. $m | IoRE Disc. Rate $m | Excaps Gains/ Losses $m | Disposed Operations $m | Cash Earnings - Ongoing $m |
|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 9,746 | - | (2) | - | - | - | - | - | 21 | **9,765** |
| Net life insurance income | 1,758 | (994) | (958) | - | 131 | - | 63 | - | - | **-** |
| Other operating income | 4,525 | - | (761) | - | - | (226) | - | 79 | (98) | **3,519** |
| Wealth Management net operating income | - | - | 1,286 | - | - | - | - | - | - | **1,286** |
| Net operating income | 16,029 | (994) | (435) | - | 131 | (226) | 63 | 79 | (77) | **14,570** |
| Operating expenses [2] | (7,412) | - | (82) | - | - | - | - | - | 66 | **(7,428)** |
| Operating profit pre charge to provide for doubtful debts | 8,617 | (994) | (517) | - | 131 | (226) | 63 | 79 | (11) | **7,142** |
| Charge to provide for doubtful debts | (790) | - | - | - | - | - | - | - | - | **(790)** |
| Operating Profit before tax | 7,827 | (994) | (517) | - | 131 | (226) | 63 | 79 | (11) | **6,352** |
| Income tax expense | (2,255) | - | 478 | - | (8) | 72 | (19) | 7 | 3 | **(1,722)** |
| **Operating Profit before distributions and minority interest** | 5,572 | (994) | (39) | - | 123 | (154) | 44 | 86 | (8) | **4,630** |
| Net profit - minority interest | (994) | 994 | - | - | - | - | - | - | - | **-** |
| Distributions | - | - | - | (283) | - | - | - | - | - | **(283)** |
| IoRE (after tax) | - | - | 39 | - | - | - | - | - | - | **39** |
| **Net profit attributable to members of the Company** | 4,578 | - | - | (283) | 123 | (154) | 44 | 86 | (8) | **4,386** |

[1] *In order to align the statutory and management results for the Wealth Management business the following significant reclassifications have been made between disclosure lines:*
- *Life operating expenses and other operating income included in the net life insurance income have been reclassified to operating expenses and Wealth Management net operating income lines respectively.*
- *Wealth Management non-life volume related expenses have been reclassified from operating expenses to Wealth Management net operating income. In addition, non-life other operating income has also been reclassified to Wealth Management net operating income.*
- *Tax on the unit linked business has been reclassified to net life insurance income from the income tax expense line to offset with the tax included in change in policy liabilities.*
- *The policyholder portion of the traditional business has been eliminated.*
- *Income on retained earnings has been reclassified from net life insurance income and income tax to a separate disclosure item.*

[2] *On a statutory basis operating expenses include bad and doubtful debts. These have been disclosed separately below for the purposes of this reconciliation.*

# 9. Reconciliation between Statutory Net Profit after Tax and Cash Earnings (continued)

| Year ended 30 September 2006 | Statutory Profit $m | Net profit - Minority Interest[1] $m | Wealth Mgt Net Adj.[1] $m | Distri-butions $m | Treasury Shares $m | Fair Value and Hedge Ineffec. $m | IoRE Disc. Rate $m | Excaps Gains/ Losses $m | Sale of Controlled Entities $m | Economic Hedge $m | Significant Items $m | Disposed Operations $m | Cash Earnings - Ongoing $m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 8,686 | - | (8) | - | - | - | - | - | - | - | - | 99 | 8,777 |
| Net life insurance income | 1,417 | (749) | (812) | - | 138 | - | 6 | - | - | - | - | - | - |
| Other operating income | 5,420 | - | (596) | - | - | (92) | - | 122 | (196) | (31) | (334) | (739) | 3,554 |
| Wealth Management net operating income | - | - | 1,123 | - | - | - | - | - | - | - | - | - | 1,123 |
| Net operating income | 15,523 | (749) | (293) | - | 138 | (92) | 6 | 122 | (196) | (31) | (334) | (640) | 13,454 |
| Operating expenses [2] | (7,642) | - | (126) | - | - | - | - | - | 63 | - | (68) | 413 | (7,360) |
| Operating profit pre charge to provide for doubtful debts | 7,881 | (749) | (419) | - | 138 | (92) | 6 | 122 | (133) | (31) | (402) | (227) | 6,094 |
| Charge to provide for doubtful debts | (606) | - | - | - | - | - | - | - | - | - | - | 1 | (605) |
| Operating Profit before tax | 7,275 | (749) | (419) | - | 138 | (92) | 6 | 122 | (133) | (31) | (402) | (226) | 5,489 |
| Income tax expense | (2,134) | - | 350 | | (12) | 28 | | (10) | 25 | 9 | 117 | 64 | (1,563) |
| **Operating Profit before distributions and minority interest** | 5,141 | (749) | (69) | - | 126 | (64) | 6 | 112 | (108) | (22) | (285) | (162) | 3,926 |
| Net profit - minority interest | (749) | 749 | - | - | - | - | - | - | - | - | - | - | - |
| Distributions | - | - | - | (254) | - | - | - | - | - | - | - | - | (254) |
| IoRE (after tax) | - | - | 69 | - | - | - | - | - | - | - | - | (13) | 56 |
| **Net profit attributable to members of the Company** | 4,392 | - | - | (254) | 126 | (64) | 6 | 112 | (108) | (22) | (285) | (175) | 3,728 |

*[1] In order to align the statutory and management results for the Wealth Management business the following significant reclassifications have been made between disclosure lines:*
- *Life operating expenses and other operating income included in the net life insurance income have been reclassified to operating expenses and Wealth Management net operating income lines respectively.*
- *Wealth Management non-life volume related expenses have been reclassified from operating expenses to Wealth Management net operating income. In addition, non-life other operating income has also been reclassified to Wealth Management net operating income.*
- *Tax on the unit linked business has been reclassified to net life insurance income from the income tax expense line to offset with the tax included in change in policy liabilities.*
- *The policyholder portion of the traditional business has been eliminated.*
- *Income on retained earnings has been reclassified from net life insurance income and income tax to a separate disclosure item.*

*[2] On a statutory basis operating expenses include bad and doubtful debts. These have been disclosed separately below for the purposes of this reconciliation.*

## 9. Reconciliation between Statutory Net Profit after Tax and Cash Earnings (continued)

| Half year ended 30 September 2007 | Statutory Profit $m | Net profit - Minority Interest[(1)] $m | Wealth Mgt Net Adj.[(1)] $m | Distri-butions $m | Treasury Shares $m | Fair Value and Hedge Ineffec. $m | IoRE Disc. Rate $m | Excaps Gains/ Losses $m | Disposed Operations $m | Cash Earnings - Ongoing $m |
|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 4,963 | - | (8) | - | - | - | - | - | 11 | **4,966** |
| Net life insurance income | 658 | (329) | (390) | - | 29 | - | 32 | - | - | **-** |
| Other operating income | 2,343 | - | (417) | - | - | (82) | - | 3 | (51) | **1,796** |
| Wealth Management net operating income | - | - | 677 | - | - | - | - | - | - | **677** |
| Net operating income | 7,964 | (329) | (138) | - | 29 | (82) | 32 | 3 | (40) | **7,439** |
| Operating expenses [(2)] | (3,769) | - | (14) | - | - | - | - | - | 64 | **(3,719)** |
| Operating profit pre charge to provide for doubtful debts | 4,195 | (329) | (152) | - | 29 | (82) | 32 | 3 | 24 | **3,720** |
| Charge to provide for doubtful debts | (400) | - | - | - | - | - | - | - | - | **(400)** |
| Operating Profit before tax | 3,795 | (329) | (152) | - | 29 | (82) | 32 | 3 | 24 | **3,320** |
| Income tax expense | (1,024) | - | 134 | - | 2 | 29 | (10) | - | (8) | **(877)** |
| **Operating Profit before distributions and minority interest** | 2,771 | (329) | (18) | - | 31 | (53) | 22 | 3 | 16 | **2,443** |
| Net profit - minority interest | (329) | 329 | - | - | - | - | - | - | - | **-** |
| Distributions | - | - | - | (146) | - | - | - | - | - | **(146)** |
| IoRE (after tax) | - | - | 18 | - | - | - | - | - | - | **18** |
| **Net profit attributable to members of the Company** | 2,442 | - | - | (146) | 31 | (53) | 22 | 3 | 16 | **2,315** |

*(1) In order to align the statutory and management results for the Wealth Management business the following significant reclassifications have been made between disclosure lines:*
*- Life operating expenses and other operating income included in the net life insurance income have been reclassified to operating expenses and Wealth Management net operating income lines respectively.*
*- Wealth Management non-life volume related expenses have been reclassified from operating expenses to Wealth Management net operating income. In addition, non-life other operating income has also been reclassified to Wealth Management net operating income.*
*- Tax on the unit linked business has been reclassified to net life insurance income from the income tax expense line to offset with the tax included in change in policy liabilities.*
*- The policyholder portion of the traditional business has been eliminated.*
*- Income on retained earnings has been reclassified from net life insurance income and income tax to a separate disclosure item.*

*(2) On a statutory basis operating expenses include bad and doubtful debts. These have been disclosed separately below for the purposes of this reconciliation.*

# 9. Reconciliation between Statutory Net Profit after Tax and Cash Earnings (continued)

| Half year ended 31 March 2007 | Statutory Profit $m | Net profit - Minority Interest[1] $m | Wealth Mgt Net Adj.[1] $m | Distri-butions $m | Treasury Shares $m | Fair Value and Hedge Ineffec. $m | IoRE Disc. Rate $m | Excaps Gains/ Losses $m | Disposed Operations $m | Cash Earnings - Ongoing $m |
|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 4,783 | - | 6 | - | - | - | - | - | 10 | **4,799** |
| Net life insurance income | 1,100 | (665) | (568) | - | 102 | - | 31 | - | - | **-** |
| Other operating income | 2,182 | - | (344) | - | - | (144) | - | 76 | (47) | **1,723** |
| Wealth Management net operating income | - | - | 609 | - | - | - | - | - | - | **609** |
| Net operating income | 8,065 | (665) | (297) | - | 102 | (144) | 31 | 76 | (37) | **7,131** |
| Operating expenses [2] | (3,643) | - | (68) | - | - | - | - | - | 2 | **(3,709)** |
| Operating profit pre charge to provide for doubtful debts | 4,422 | (665) | (365) | - | 102 | (144) | 31 | 76 | (35) | **3,422** |
| Charge to provide for doubtful debts | (390) | - | - | - | - | - | - | - | - | **(390)** |
| Operating Profit before tax | 4,032 | (665) | (365) | - | 102 | (144) | 31 | 76 | (35) | **3,032** |
| Income tax expense | (1,231) | - | 344 | - | (10) | 43 | (9) | 7 | 11 | **(845)** |
| **Operating Profit before distributions and minority interest** | 2,801 | (665) | (21) | - | 92 | (101) | 22 | 83 | (24) | **2,187** |
| Net profit - minority interest | (665) | 665 | - | - | - | - | - | - | - | **-** |
| Distributions | - | - | - | (137) | - | - | - | - | - | **(137)** |
| IoRE (after tax) | - | - | 21 | - | - | - | - | - | - | **21** |
| **Net profit attributable to members of the Company** | 2,136 | - | - | (137) | 92 | (101) | 22 | 83 | (24) | **2,071** |

(1) *In order to align the statutory and management results for the Wealth Management business the following significant reclassifications have been made between disclosure lines:*
- *Life operating expenses and other operating income included in the net life insurance income have been reclassified to operating expenses and Wealth Management net operating income lines respectively.*
- *Wealth Management non-life volume related expenses have been reclassified from operating expenses to Wealth Management net operating income. In addition, non-life other operating income has also been reclassified to Wealth Management net operating income.*
- *Tax on the unit linked business has been reclassified to net life insurance income from the income tax expense line to offset with the tax included in change in policy liabilities.*
- *The policyholder portion of the traditional business has been eliminated.*
- *Income on retained earnings has been reclassified from net life insurance income and income tax to a separate disclosure item.*

(2) *On a statutory basis operating expenses include bad and doubtful debts. These have been disclosed separately below for the purposes of this reconciliation.*

# 10. Summary of Disposed Operations

| Year ended 30 September 2007 | Custom Fleet Australia $m | Custom Fleet UK $m | Custom Fleet NZ $m | Commercial Fleet $m | MLC Asia $m | UK Discretionary Investment Management $m | Total Disposed Operations $m |
|---|---|---|---|---|---|---|---|
| Net interest income | - | - | - | (21) | - | - | **(21)** |
| Other operating income | - | - | - | 98 | - | - | **98** |
| Net operating income | - | - | - | 77 | - | - | **77** |
| Operating expenses | - | - | - | (66) | - | - | **(66)** |
| Underlying profit | - | - | - | 11 | - | - | **11** |
| Charge to provide for doubtful debts | - | - | - | - | - | - | **-** |
| Cash earnings before tax and IoRE | - | - | - | 11 | - | - | **11** |
| Income tax expense | - | - | - | (3) | - | - | **(3)** |
| **Cash earnings before IoRE** | - | - | - | 8 | - | - | **8** |
| IoRE | - | - | - | - | - | - | **-** |
| **Cash earnings** | - | - | - | 8 | - | - | **8** |
| **FTEs (spot)** | - | - | - | 15 | - | - | **15** |

| Year ended 30 September 2006 | Custom Fleet Australia $m | Custom Fleet UK $m | Custom Fleet NZ $m | Commercial Fleet $m | MLC Asia $m | UK Discretionary Investment Management $m | Total Disposed Operations $m |
|---|---|---|---|---|---|---|---|
| Net interest income | (48) | (13) | (22) | (17) | - | 1 | **(99)** |
| Other operating income | 358 | 119 | 136 | 91 | 28 | 7 | **739** |
| Net operating income | 310 | 106 | 114 | 74 | 28 | 8 | **640** |
| Operating expenses | (190) | (68) | (75) | (66) | (8) | (6) | **(413)** |
| Underlying profit | 120 | 38 | 39 | 8 | 20 | 2 | **227** |
| Charge to provide for doubtful debts | - | (1) | - | - | - | - | **(1)** |
| Cash earnings before tax and IoRE | 120 | 37 | 39 | 8 | 20 | 2 | **226** |
| Income tax expense | (36) | (11) | (13) | (2) | (1) | (1) | **(64)** |
| **Cash earnings before IoRE** | 84 | 26 | 26 | 6 | 19 | 1 | **162** |
| IoRE | - | - | - | - | 13 | - | **13** |
| **Cash earnings** | 84 | 26 | 26 | 6 | 32 | 1 | **175** |
| **FTEs (spot)** | - | - | - | 14 | - | - | **14** |

# 10. Summary of Disposed Operations (continued)

| Half year ended 30 September 2007 | Custom Fleet Australia $m | Custom Fleet UK $m | Custom Fleet NZ $m | Commercial Fleet $m | MLC Asia $m | UK Discretionary Investment Management $m | Total Disposed Operations $m |
|---|---|---|---|---|---|---|---|
| Net interest income | - | - | - | (11) | - | - | **(11)** |
| Other operating income | - | - | - | 51 | - | - | **51** |
| Net operating income | - | - | - | 40 | - | - | **40** |
| Operating expenses | - | - | - | (64) | - | - | **(64)** |
| Underlying profit | - | - | - | (24) | - | - | **(24)** |
| Charge to provide for doubtful debts | - | - | - | - | - | - | **-** |
| Cash earnings before tax and IoRE | - | - | - | (24) | - | - | **(24)** |
| Income tax expense | - | - | - | 8 | - | - | **8** |
| **Cash earnings before IoRE** | - | - | - | (16) | - | - | **(16)** |
| IoRE | - | - | - | - | - | - | **-** |
| **Cash earnings** | - | - | - | (16) | - | - | **(16)** |
| **FTEs (spot)** | - | - | - | 15 | - | - | **15** |

| Half year ended 31 March 2007 | Custom Fleet Australia $m | Custom Fleet UK $m | Custom Fleet NZ $m | Commercial Fleet $m | MLC Asia $m | UK Discretionary Investment Management $m | Total Disposed Operations $m |
|---|---|---|---|---|---|---|---|
| Net interest income | - | - | - | (10) | - | - | **(10)** |
| Other operating income | - | - | - | 47 | - | - | **47** |
| Net operating income | - | - | - | 37 | - | - | **37** |
| Operating expenses | - | - | - | (2) | - | - | **(2)** |
| Underlying profit | - | - | - | 35 | - | - | **35** |
| Charge to provide for doubtful debts | - | - | - | - | - | - | **-** |
| Cash earnings before tax and IoRE | - | - | - | 35 | - | - | **35** |
| Income tax expense | - | - | - | (11) | - | - | **(11)** |
| **Cash earnings before IoRE** | - | - | - | 24 | - | - | **24** |
| IoRE | - | - | - | - | - | - | **-** |
| **Cash earnings** | - | - | - | 24 | - | - | **24** |
| **FTEs (spot)** | - | - | - | 15 | - | - | **15** |

## Section 7 – Glossary of Terms

| Term | Description |
|---|---|
| Adjusted common equity (ACE) Ratio | Tier 1 capital, as defined by APRA, less residual tier 1 instruments, the tangible component of the investment in non-consolidated controlled entities, and any other items deducted from total capital, divided by risk weighted assets. This measures the core equity capital available to support banking operations. |
| Average assets | Represents the average of assets over the period adjusted for disposed operations. |
| Banking | Banking operations include the Group's:<br>- Retail, business and agri-business banking operations operating in the Australia Region, UK Region and New Zealand Region;<br>- Institutional Banking, Corporate Finance, Markets and Structuring and Investments business within nabCapital; and<br>- Treasury and support functions operating in the Regions and within Central Functions |
| Cash earnings | Is a non-GAAP key performance measure and financial target used by the Group. Dividends paid by the Company are based on after-tax cash earnings. It is also a key performance measure used by the investment community, as well as by those Australian peers of the Group with a similar business portfolio. It does not refer to, or in any way purport to represent the cash flows, funding or liquidity position of the Group. It does not refer to any amount represented on a Cash flow statement. Cash earnings is defined as:<br>Net profit attributable to members of the company<br>*Less:*<br>Distributions<br>Treasury shares<br>Fair value and hedge ineffectiveness<br>IoRE discount rate variation<br>Revaluation gains/(losses) on exchangeable capital units<br>Net profit/(loss) on sale of controlled entities<br>Fair value gains/losses on economic hedge of the proceeds on sale of controlled entities<br>Significant items<br>*Add:*<br>Impairment of goodwill |
| Cash earnings on average equity | Calculated as cash earnings – ongoing divided by average shareholders' equity, excluding minority interests and other equity instruments and adjusted for treasury shares and exchangeable capital units valuation adjustments. |
| Cash earnings - ongoing | Cash earnings adjusted for disposed operations. The disposed operations results are excluded to assist in the interpretation of the Group's result as it facilitates a like-for-like comparison. |
| Cash earnings per share - basic | Calculated as cash earnings – ongoing divided by the weighted average number of shares adjusted to include treasury shares. |
| Cash earnings per share - diluted | Cash earnings – ongoing, adjusted for interest expense on exchangeable capital units, divided by the weighted average number of ordinary shares, adjusted to include treasury shares and exchangeable capital units. |
| Core Assets | Include net loans and advances to customers and banks (including leases) booked at amortised cost, but excluding all loans booked at fair value or held for trading. |
| Cost to Income Ratio | Represents banking operating expenses (before inter-segment eliminations) as a percentage of total banking operating revenue (before inter-segment eliminations). |
| Customer Deposits | Deposits (primarily Interest Bearing, Non-Interest Bearing, TDs, debentures). |
| Customer Funding Index (CFI) | Customer Deposits divided by Core Assets. |
| Disposed operations | Are operations that will not form part of the continuing Group. These include operations sold and those that have been announced to the market that have yet to reach completion. This may differ from the treatment for statutory accounting purposes but facilitates a like-for-like comparison. |
| Distributions | Payments to holders of other equity instruments issues such as National Income Securities, Trust Preferred Securities, Trust Preferred Securities II and National Capital Instruments. Distributions are subtracted from net profit to reflect the amount that is attributable to ordinary shareholders. |
| Dividend Payout Ratio | Dividends paid on ordinary shares divided by cash earnings per share |
| Earnings Per Share | Calculated in accordance with the requirements of AASB 133 "Earnings per Share." |
| Fair value and hedge ineffectiveness | Represents volatility attributable to the Group's application of the fair value option and ineffectiveness from designated hedge accounting relationships. |
| Fair value gains/losses on economic hedge of the proceeds on sale of controlled entities | Represents the fair value movement on derivatives taken out to protect against foreign exchange rate movements on the proceeds of the sale of controlled entities. |

| Term | Description |
|---|---|
| Full time equivalent employees (FTEs) | Include all permanent full time staff, part time staff equivalents and external contractors employed by third party agencies. |
| Impaired Assets | Consist of retail loans (excluding credit card loans and portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue; non retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest; and impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are also classified as impaired assets when they become 180 days past due (if not written off). |
| Impairment of goodwill | Is an impairment expense recognised on the application of an impairment test. As it relates to an intangible asset, and financial statement users generally do not regard impairment of goodwill as being useful information in analysing investments, management believes it is prudent to isolate this amount from the underlying operating result. |
| Insurance | Includes the provision of personal insurance by Wealth Management. |
| Investments | Includes funds managed in the provision of investment and superannuation solutions by Wealth Management. |
| IoRE | Represents investment earnings on shareholders' retained profits and capital from life businesses net of capital funding costs. |
| IoRE discount rate variation | Is the movement in Investment Earnings on Shareholders' Retained Profits (IoRE) attributable to the impact of changes in long term discount rates. |
| Net interest margin | Net interest income as a percentage of average interest earning assets. |
| Net profit attributable to members of the company | Represents the Group's statutory profit after tax and reflects the amount of net profit that is attributable to ordinary shareholders. |
| Net profit attributable to minority interest | Reflects the allocation of profit to minority interests in the Group, and is adjusted from net profit to reflect the amount of net profit that is attributable to ordinary shareholders. |
| Net Tangible Assets per Share | Net assets excluding intangible assets, minority interests, preference shares and other equity instruments divided by ordinary shares on issue at the end of the period. |
| Non-impaired assets 90+ days past due | Non-impaired assets 90+ days past due consist of well-secured assets that are more than 90 days past due and portfolio-managed facilities that are not well secured and between 90 and 180 days past due |
| Revaluation gains/(losses) on exchangeable capital units (ExCaps) | The Group's exposure to foreign exchange risk is eliminated through the existence of certain conversion features that convert the ExCaps to equity at pre-determined exchange rates. There are no remaining ExCaps on issue at the end of the period. |
| Risk weighted assets | On and off balance sheet assets of the Bank are allocated a risk weighting based on the amount of capital required to support the asset. This credit risk weighted exposure is then increased by a market risk weighted exposure to determine risk weighted asset exposure. |
| Scorecards | A decision model incorporating algorithms that calculates a customer risk score, the outcome of which is used in the credit assessment process. |
| Significant items | Those items included on the face of the statutory Income Statement when it is necessary to explain the elements of financial performance. Factors to consider include materiality and the nature and function of the components of income and expenses. |
| Stable Funding Index (SFI) | Term Funding Index (TFI) plus Customer Funding Index (CFI) |
| Term Funding Index (TFI) | Term Wholesale Funding (with a remaining maturity greater than 12 months) divided by Core Assets. |
| Tier 1 ratio | Tier 1 capital as defined by APRA divided by risk weighted assets. |
| Tier 2 ratio | Tier 2 capital as defined by APRA divided by risk weighted assets. |
| Treasury shares | Relates to the movement in treasury share assets (direct investments in National Australia Bank Limited) caused by the movement in the share price and/or volume along with dividend income. |
| Weighted Average Number of Shares | Calculated in accordance with the requirements of AASB 133 'Earnings per Share.' |

National Australia Bank

www.nabgroup.com