

# 2011 FULL YEAR RESULTS

Incorporating the requirements of Appendix 4E

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

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

## Results for Announcement to the Market

### Results for announcement to the market

Report for the year ended 30 September 2011

						<b>30 September 2011</b>
						<b>\$m</b>
Revenue from ordinary activities <sup>(1)</sup>	page 78	down	1.0%	*	to	16,843
Profit after tax from ordinary activities attributable to owners of the Company	page 78	up	23.6%	*	to	5,219
Net profit attributable to owners of the Company <sup>(2)</sup>	page 78	up	23.6%	*	to	5,219

\* On prior corresponding period (twelve months ended 30 September 2010).

<sup>(1)</sup> Reported as the sum of the following items from the Group's consolidated income statement: net interest income, net life insurance income and total other income. On a cash earnings basis revenue increased by 5.7%.

<sup>(2)</sup> Net profit attributable to owners of the Company was up 23.6% to \$5,219 million, reflecting strong performances by Business Banking and Personal Banking combined with a reduction in the charge to provide for bad and doubtful debts and lower mark-to-market losses in Specialised Group Assets.

<b>Dividends</b>	<b>Amount</b>	<b>Franked</b>
	<b>per share</b>	<b>amount per</b>
	<b>cents</b>	<b>share</b>
	<b>%</b>	
Final dividend	88	100
Interim dividend	84	100
Record date for determining entitlements to the final dividend	16 November 2011	

### Highlights <sup>(3)</sup>

Group cash earnings	up	19.2%	Cash earnings of \$5,460 million for the September 2011 year increased by \$879 million or 19.2% on the September 2010 year. The banking operations in Australia were key contributors to the improvement in earnings, together with lower mark-to-market losses in Specialised Group Assets and a lower charge to provide for bad and doubtful debts.
Cash return on equity (ROE)	up to	15.2%	Cash ROE increased by 200 basis points.
Diluted cash earnings per share (cents)	up to	247.5	Diluted cash earnings per share increased by 16.3%.
Banking cost to income ratio	down	220 bps	The Group's banking cost to income ratio improved by 220 basis points to 43.7%.
Tier 1 capital ratio	up	79 bps	The Tier 1 capital ratio has increased to 9.70%. It remains above the Group's target.
Full time equivalent employees	down	553	Full time equivalent employees decreased to 44,645 driven by continued focus on efficiency programs partly offset by investment in key initiatives to support business growth.

<sup>(3)</sup> All growth rates are calculated on a cash earnings basis on the prior corresponding period.

A Glossary of Terms is included in Section 7.

A reference in this Appendix 4E to the 'Group' is a reference to the Company and its controlled entities. All currency amounts are expressed in Australian dollars unless otherwise stated. References in this document to the September 2011 year are references to the twelve months ended 30 September 2011.

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**ASX ANNOUNCEMENT**

Thursday, 27 October 2011

**NAB 2011 Full Year Results**  
**Good result and strong progress against NAB's strategic agenda**Key Points

- Group cash earnings increased by 19.2% to \$5.5 billion<sup>1</sup>. This was largely driven by revenue momentum in Business Banking and Personal Banking in Australia and an improved performance from Specialised Group Assets. New Zealand Banking, United Kingdom Banking and Great Western Bank also contributed.
- Revenue increased by 5.7% to \$17.6 billion mainly as a result of increases in Personal Banking and Business Banking and lower mark-to-market losses on the Synthetic Collateralised Debt Obligations (SCDO) risk mitigation trades.
- The Group charge for bad and doubtful debts fell by \$441 million to \$1.8 billion reflecting lower charges in Personal Banking, UK Banking, NZ Banking and Specialised Group Assets.
- The Group maintained positive jaws through disciplined expense management whilst managing continued sustainable investment. Expenses increased by 1.4% to \$8.0 billion.
- Consistent with the Group's objective of maintaining a strong capital position the Tier 1 capital ratio increased from 8.91% to 9.70%. The Core Tier 1 ratio also increased from 6.80% to 7.58%.
- Strong funding and liquidity positions were maintained. During the year to 30 September 2011, the Group raised \$31.6 billion of term wholesale funding.
- Statutory net profit attributable to owners of the company increased by 23.6% to \$5.2 billion for the year to 30 September 2011.
- Final dividend rose by 4 cents to 88 cents per share fully franked. The total dividend for 2011 was 172 cents, an increase of 20 cents per share fully franked.
- NAB's corporate responsibility strategy aligns its reputation and the delivery of long-term business value. It is committed to ensuring customers are at the heart of everything it does. It makes significant investments in the development of its people and in supporting a wide range of community initiatives. In this financial year the Group contributed over \$70 million to the community with a focus on education, inclusion and disaster relief, and was also the first major Australian corporate to be certified carbon neutral under the Federal Government's National Carbon Offset Standard.

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<sup>1</sup> Results for the 30 September 2011 full year are compared with 2010 full year results unless otherwise stated.

## Overview

“This is a good result which demonstrates that NAB has continued to strengthen its core banking businesses. It also represents strong progress against the strategic agenda NAB first outlined in early 2009,” National Australia Bank Group Chief Executive Officer Cameron Clyne said today.

“The 19.2% increase in Group cash earnings reflects the strength of both Business and Personal Banking in Australia, which are key areas of strategic focus, combined with a lower charge for bad and doubtful debts.

“Careful management of costs, while growing revenue and continuing to invest in the business, was another important feature of the result.

“Business Banking extended its market leading position. The increase in cash earnings was due to Business Banking’s strong relationship banking model and specialised business capabilities that enabled repricing to reflect current market conditions and drove lending volume growth in a subdued market.

“Higher cash earnings in Personal Banking were a result of strong growth in transaction account openings and mortgage lending growth at more than three times the market rate. Personal Banking continued to differentiate itself through a focus on customers with the fair value initiatives, which were well supported by the innovative “Break Up” advertising campaign and contributed to greater customer satisfaction.

“The reduction in cash earnings in Wholesale Banking and MLC & NAB Wealth was largely a result of weak and volatile markets.

“The sales of Wholesale Banking products and services across the wider Group customer base continued to increase and MLC & NAB Wealth continued to grow adviser numbers, launch new products and increase its customer base.

“NAB’s international businesses all contributed to the increase in cash earnings.

“Formed in 2009 to manage the risk associated with non-franchise assets, Specialised Group Assets delivered a significant turnaround in performance to record a profit in the 2011 financial year. The economic risk associated with four of six SCDO assets was exited during the year.

“Overall, NAB has delivered good growth in earnings and revenue and carefully managed costs. In a challenging environment, the balance sheet and capital positions have been strengthened,” he said.

## Business Unit Commentary

### **Business Banking**

Cash earnings were up 11.5% to \$2.4 billion, with growth in revenue well ahead of expenses. Lending growth was above the market average and Business Banking extended its market leading position<sup>2</sup>, which reflected the focus on relationship banking combined with capabilities in specialised business segments.

The growth in revenue was a result of increased lending and deposit volumes and further repricing. Net interest margin increased as a result. Other operating income increased, reflecting the focus on cross-sell.

The level of average retail deposits increased by \$7.1 billion or 9.1%.

Asset quality measures were broadly stable during the year, as was the loan loss provision. There was a small increase in the charge for bad and doubtful debts.

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<sup>2</sup> RBA Financial System/NAB August 2011.

## **Personal Banking**

Cash earnings increased by 25.4% to \$932 million, reflecting revenue gains largely from growing home lending volumes at more than three times the market rate<sup>3</sup>. A 13.3% reduction in the charge to provide for bad and doubtful debts also contributed.

NAB customer satisfaction levels are at a 15 year high with this year's improvement larger than that of any other major Australian bank<sup>4</sup>.

Net interest margin decreased by 12 basis points to 2.19%, due to changes in funding mix, as well as competition for deposits. Other operating income fell by 2.3% to \$590 million. This reflected initiatives such as the elimination of mortgage early exit fees, where NAB is leading the industry in fair value banking.

Asset quality remained sound with an improvement in the ratio of 90+ Days Past Due and gross impaired assets to gross loans and acceptances. The asset quality in the mortgage portfolio also continued to improve.

## **MLC & NAB Wealth**

Cash earnings fell 12.5% to \$533 million largely as a result of weak investment markets and lower earnings in the insurance business.

Insurance earnings decreased due to higher levels of claims and changes in the lapse mix.

Funds Under Management as at 30 September 2011 fell by 2.9% to \$112.7 billion as a result of deterioration in investment markets during the second half of the year and subdued discretionary flows across the industry. MLC & NAB Wealth was ranked first for funds under management in wholesale investments and second in retail superannuation<sup>5</sup>. Annual inforce insurance premiums increased by 4.2% to \$1.5 billion.

The business continued to invest, with adviser numbers up from 1,555 to 1,864.

## **Wholesale Banking**

Cash earnings decreased by 6.2% to \$661 million, primarily due to a fall in revenue in Fixed Income, Currencies & Commodities and Treasury as a result of volatile market conditions, particularly in the second half of the financial year. These factors were partially offset by increased cross-sell and a lower bad and doubtful debts charge.

Meanwhile, customer revenue from a combination of Corporate & Business Sales, Specialised Finance, Global Capital Markets, Asset Servicing and Financial Institutions Group, increased strongly.

NAB was Mandated Lead Arranger on a number of significant deals in 2011, including the \$2.6 billion Royal Adelaide Hospital Public Private Partnership, the \$1.2 billion acquisition of the Port of Brisbane by QPH consortium, and the \$745 million Single Living Environment and Accommodation Precinct Public Private Partnership.

## **NZ Banking**

Cash earnings in NZ Banking increased by 16.8% to NZ\$612 million, reflecting improved revenue through volume growth in variable rate housing products, repricing of the business lending portfolio to reflect current market conditions, and a lower bad and doubtful debts charge. Mortgage lending volumes increased with market share higher at 16.2%<sup>6</sup>.

BNZ has maintained its focus on retail deposits to further strengthen the bank's balance sheet. Retail deposits grew by 9.9% or NZ\$2.8 billion and market share rose accordingly, to 18.2%<sup>7</sup>.

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<sup>3</sup> RBA Financial System, August 2011

<sup>4</sup> Roy Morgan Research, September 2011 Aust MFIs, population aged 14+, six month moving average. Customer satisfaction is based on customers who answered very/fairly satisfied.

<sup>5</sup> Plan for Life Australian Retail & Wholesale Investments Market Share & Dynamics Report, June 2011.

<sup>6</sup> Reserve Bank of New Zealand, August 2011.

<sup>7</sup> Reserve Bank of New Zealand, August 2011.



Investment in the business continued, with transformation of more Retail stores and Partners business centres, complemented by on-going investment in product development. The cost to income ratio improved despite a small increase in operating expenses.

The charge for bad and doubtful debts decreased 19.3% to NZ\$151 million. This was largely driven by strong credit card collections, lower housing losses and an overall improvement in asset quality.

### **UK Banking**

UK Banking increased cash earnings by 55.1% to £183 million, although underlying profit was up only 4.3% reflecting the difficult economic conditions. The increase in cash earnings therefore reflected modest revenue growth and a lower charge for bad and doubtful debts.

Despite the subdued demand for credit, mortgage lending grew by 5.6% which was faster than the market growth rate<sup>8</sup>. UK Banking continued to actively manage down its exposure to commercial property and unsecured personal lending.

Operating expenses increased by 2.0% to £726 million, below the rate of inflation. The main components of the increase were investments in the business to improve the customer proposition, rationalise the operating model and satisfy ongoing regulatory requirements.

The charge to provide for bad and doubtful debts decreased by 14.7% to £296 million, primarily due to lower unsecured retail lending losses, an improvement in portfolio delinquency and a lower business lending impairment charge.

### **Great Western Bank**

GWB cash earnings increased by 34.3% to \$90 million, predominantly reflecting the full year effect of the TierOne asset and F&M Bank acquisitions. Lending remained fully deposit funded.

The charge to provide for bad and doubtful debts was up US\$10 million to US\$59 million, although the asset quality of the overall portfolio improved, reflecting the progress made in the workout of the non-core portfolio acquired from TierOne.

### **Specialised Group Assets**

Cash earnings were \$110 million, an improvement of \$372 million from the loss of \$262 million reported in the 2010 financial year. This was mainly due to higher revenues and a lower bad and doubtful debts charge as the portfolio is managed down.

Revenue was \$167 million, representing a turnaround of \$257 million on the prior year, primarily due to lower mark-to-market losses on the SCDO risk mitigation trades.

Risk weighted assets were down 26.8% to \$15.0 billion.

### Balance Sheet Commentary

#### **Capital**

The Group Tier 1 capital ratio was 9.70%, up from 8.91% as at 30 September 2010, consistent with the Group objective of maintaining a strong capital position as it transitions to Basel III.

#### **Funding and Liquidity**

The Group's funding profile was carefully managed, with solid asset growth being funded from stable sources. The Group raised \$31.6 billion of term funding during the year.

NAB maintained a strong liquid position of \$95 billion at 30 September 2011 up from \$72 billion at 30 September 2010. The Group also held \$21 billion of internal Residential Mortgage Backed Securities at 30 September 2011 as a source of contingent liquidity to supplement liquid asset holdings.

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<sup>8</sup> Bank of England. Lending secured on dwellings, August 2011

## **Asset Quality**

Asset quality indicators improved during the September 2011 full year. The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances improved from 1.88% to 1.77%.

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### **Disclaimer**

This announcement contains certain forward-looking statements. The words "anticipate", "believe", "expect", "project", "estimate", "likely", "intend", "should", "could", "may", "target", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Group, which may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements. Further information on important factors that could cause actual results to differ materially from those projected in such statements is contained in the Group's Annual Financial Report.

Unless otherwise stated, information in this document is presented on a cash earnings basis. "Cash earnings" is a key non-GAAP financial performance measure used by NAB, the investment community and NAB's Australian peers with a similar business portfolio. "Cash earnings" are calculated by excluding certain items which are otherwise included within the calculation of net profit attributable to owners of the company, in order to better reflect what NAB considers to be the underlying performance of the Group. A more detailed definition of cash earnings, and a full reconciliation of cash earnings to net profit, is included in Note 15 to Section 6 of the 2011 Full Year Results. Section 5 of the 2011 Full Year Results includes the Consolidated Income Statement of the Group, including net profit. The Group's audited financial statements, prepared in accordance with Corporations Act 2001 (Cth) and Australian Accounting Standards, will be published in its 2011 Annual Financial Report on 14 November 2011.

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## Group Performance

Cameron Clyne

### Strategic Highlights & Business Developments

The Group maintains its overall objective to deliver sustainable, satisfactory returns to shareholders. NAB continues to transform the way it does business through the strategic priorities announced in 2009, which are:

- Focusing on the strong Australian franchise and managing international businesses for value.
- Maintaining balance sheet strength.
- Reducing cost and complexity.
- Enhancing the Group's reputation.

The improvement seen in the Group's results during 2011 reflects the momentum in the Australian banking business as a result of continued investment in customer focused financial services and products. This has delivered strong growth in deposits and lending across Business and Personal Banking. Balance sheet strength was maintained with sound capital, funding and liquidity positions. Costs were also carefully managed across the Group. The program of initiatives to enhance NAB's reputation was supported by an award winning marketing campaign.

Significant progress on the Group's strategic agenda included:

#### Focusing on the Strong Australian Franchise and Managing International Businesses for Value

Both Business Banking and Personal Banking performed well during the year building on the momentum achieved during 2010.

Business Banking continued to focus on building deeper customer relationships and supporting customers in all market conditions. It continued to grow lending market share, which increased by 70 basis points<sup>(1)</sup>, and improved margins despite operating in a market where competitors are working hard to win back share. Cross-sell performance improved on the back of investments to enhance the capability of its bankers. Business Banking also made significant inroads into increasing customer satisfaction, achieving improved satisfaction scores in medium and large business banking<sup>(2)</sup>.

Personal Banking's focus on differentiating itself as a bank that offers fair value to customers continued to deliver strong results. Personal Banking's mortgage growth was 3.3x system<sup>(3)</sup>, improving NAB's market share by 110 basis points<sup>(3)</sup>. Momentum in net transaction account growth continued with over 295,000 accounts added during 2011, up 45.7% on last year. There was also strong growth in both retail deposit volumes, up 16.5% on last year and credit cards which increased market share. NAB's customer satisfaction continued to improve, now second of the majors at 78.5%, 0.3% above the average of peers<sup>(4)</sup>.

<sup>(1)</sup> RBA Financial System September 2010 to August 2011.

<sup>(2)</sup> DBM Consultants Pty Ltd - Business Financial Services Monitor September 2011.

<sup>(3)</sup> RBA Financial System/NAB including Wholesale Banking data September 2010 to August 2011.

<sup>(4)</sup> Roy Morgan Research Aust. MFIs - six month moving average.

<sup>(5)</sup> Thomson Reuters US Private Placement Review Full Year 2010.

<sup>(6)</sup> Dealogic Global Loan Review, 1H 2011.

During 2011, Wholesale Banking continued to drive value through the Group's core customer franchises by providing a wider range of financing and risk management solutions to more NAB customers in Business Banking, Personal Banking and Wealth. Strong progress was achieved in terms of cross-sell, particularly with sales of foreign exchange and interest rate risk management products to business customers. In addition, Wholesale Banking leveraged its market leading position in Asset Servicing and its strong Financial Institutions practice to increase cross-sell into the banking, superannuation and funds sectors. It continued to build on its position within the fast growing infrastructure and natural resources sectors through its strong advisory and project finance capabilities, with the business winning a series of strategic deals across the sector. NAB's debt capital raising and distribution capability was also strengthened through the period, with the business establishing itself as the leading Australian Bank in the US Private Placement market<sup>(5)</sup>, and number one ranking Syndicated Loan Bookrunner in Australia<sup>(6)</sup>.

MLC & NAB Wealth maintained its strong position in investments and insurance and continued to build a market-leading private wealth capability. MLC increased financial advisers by 309 during the year. MLC also launched MLC Wrap, a new full-wrap platform and has recently released a new insurance product with market leading functionality and options. The integration of Aviva continued through the delivery of product development, innovation and cost synergies for the Group. Further development of the strategic alliance with JBWere expanded capabilities in direct equities broking and research and underpinned growth in private wealth. The Group strengthened its presence in direct investment management through the acquisition of equity positions in a further three boutique investment firms globally and signed binding agreements for an additional one, which will take its total equity positions to 14. Bringing wealth products to more of NAB's client base remains a priority, with 23% of insurance sales and 34% of investment sales now generated through NAB Financial Planning.

The Group continues to maintain options in relation to its other offshore operations and to manage these businesses to maximise shareholder value.

Bank of New Zealand (BNZ) remains focused on improving its customer experience, growing and optimising its portfolio, and transforming its cost base through continuous improvement and implementation of new technologies.

The United Kingdom financial services market is undergoing a period of change. The Group would consider opportunities in the United Kingdom that are financially attractive. The United Kingdom retail banking business continues to focus on improving returns.

In the United States, the Group (through its United States subsidiary, Great Western Bank) is continuing to explore and selectively execute limited inorganic growth opportunities in areas of strategic interest and that are financially accretive to the Group.

# 2011

## Maintaining Balance Sheet Strength

During the year the Group further strengthened its capital, funding and liquidity positions through organic capital generation, risk weighted asset optimisation and diversity of funding sources.

At 30 September 2011, the Group's Tier 1 capital ratio was 9.70%. The increase in the Tier 1 ratio during the year was largely due to organic capital generation through cash earnings growth and risk weighted asset optimisation.

The Group continues to focus on balance sheet flexibility and strength. At 30 September 2011 the Group held \$95 billion of liquid assets. The Group's Stable Funding Index of 85% at 30 September 2011 was up slightly on September 2010, with asset growth being funded from stable sources. Term wholesale funding raised during the year was \$31.6 billion. This included \$2.3 billion of secured funding raised by BNZ in a covered bond format. The weighted average term to maturity of the funds raised since September 2010 was 4.5 years.

## Reducing Cost and Complexity

The Group maintains a disciplined approach to expense management and a focus on productivity and process simplification. During 2011, the Group continued to pursue its Kaizen@NAB agenda to reduce process complexity and enhance the NAB experience for its customers. The simplification of the Group's mortgage process saw significant improvements in the average time of processing mortgages.

Major progress was made against the multi-year program to transform the Group's IT operations environment. This program will enable the Group to reduce its operational risk, improve its cost efficiency and respond faster to customer needs, and focuses on enhancing infrastructure, application and processing capabilities.

## Enhancing the Group's Reputation

Throughout the year the Group continued to focus on getting the fundamentals right for its customers, investing in its people and addressing its broader responsibility to society.

NAB's focus on building its reputation through supporting customers and the community successfully differentiated it from its industry peers. The recent 'break-up' advertising campaign highlighted NAB's efforts over the last two years to build sustainable customer relationships through a range of measures.

NAB has led the market in moving away from commissions in wealth management, removing exception and dishonour fees, limiting account-keeping fees and eradicating mortgage early exit fees. These innovations and offerings have driven market share gains and contributed to improving sustainable returns for the Group. In addition, these initiatives have enhanced competition in the banking industry without government intervention.

NAB's continues to invest in its people by providing a range of development experiences including job rotations, formal training initiatives and community service initiatives. These programs contributed to the Group's achieving employee engagement results above the financial services norm in its annual survey this year.

NAB strongly promotes adherence to a set of behaviours that requires everybody in the Group to:

- Be authentic and respectful.
- Work together.
- Create value through excellence.

These behaviours underpin the Group's corporate responsibility program which protects and enhances its reputation and drives long-term shareholder value.

The Group strengthened its efforts to support community initiatives this year including microfinance programs, environmental programs, indigenous reconciliation, education, and the Schools First awards program. In 2011, the microfinance program wrote 15,000 loans and raised awareness about exploitative lending. The Group received the United Nations Association of Australia World Environment Day award for Sustainability Leadership (Large Organisation) and was also a top-ten sustainability leader in the Dow Jones Sustainability Index. NAB has now published its third Reconciliation Action Plan, which sets out 22 commitments for the year ahead. These achievements highlight the Group's commitment to supporting the communities in which it operates.

## Shareholder Returns

The Group's cash return on equity has improved by 200 basis points to 15.2% against the September 2010 full year, reflecting higher earnings. This was partly offset by higher levels of capital. The final dividend for September 2011 is 88 cents per share, 4 cents higher than the March 2011 half year. The full dividend for the September 2011 year is 172 cents per share, which is 20 cents higher than the September 2010 full year. This represents a dividend payout ratio of 68.8% for the September 2011 full year on a cash earnings basis. The dividend payment is 100% franked and will be paid on 19 December 2011. Shares will be quoted ex-dividend on 10 November 2011.

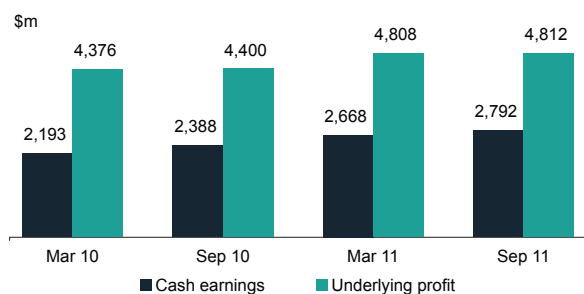
## Cash Earnings per Share

Basic **cash earnings per share** increased by 35.4 cents or 16.5% and diluted cash earnings per share increased by 34.7 cents or 16.3% on the September 2010 year. This reflects the Group's increase in cash earnings, partially offset by an increase in the weighted average number of ordinary shares.

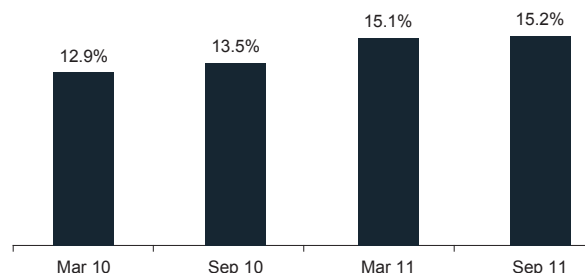
Basic **cash earnings per share** increased by 3.9 cents or 3.2% and diluted cash earnings per share increased by 3.6 cents or 2.9% on the March 2011 half year. This reflects the Group's increase in cash earnings, partially offset by an increase in the weighted average number of ordinary shares.

Key Performance Measures <sup>(1)</sup>

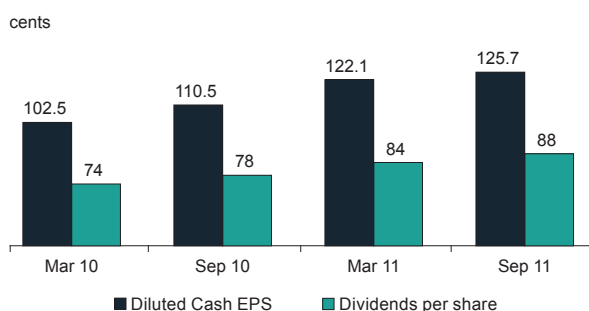
Cash Earnings and Underlying Profit - half year



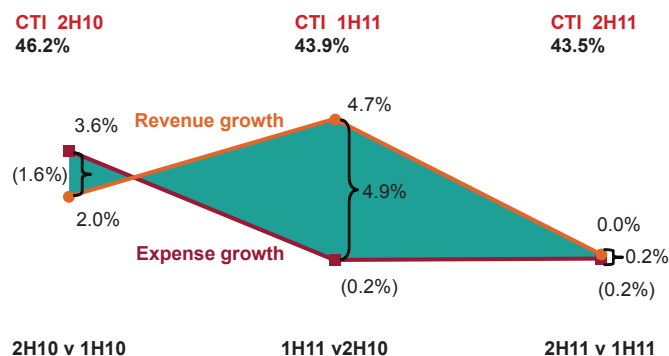
Cash Return on Equity (ROE) - half year



Diluted Cash EPS and Dividend per Share - half year



Half Yearly 'Jaws' and banking CTI momentum <sup>(2)</sup>



Group Performance Indicators <sup>(1)</sup>

Key Indicators	Year to		Half Year to	
	Sep 11	Sep 10	Sep 11	Mar 11
<b>Key Indicators</b>				
Cash earnings per share (cents)				
- basic	249.9	214.5	126.9	123.0
- diluted	247.5	212.8	125.7	122.1
Cash return on equity (ROE)	15.2%	13.2%	15.2%	15.1%
<b>Profitability, performance and efficiency measures</b>				
Dividend per share (cents)	172	152	88	84
Dividend payout ratio	68.8%	70.9%	69.3%	68.3%
Cash earnings on average assets	0.78%	0.69%	0.78%	0.78%
Cash earnings per average FTE (\$'000)	121	108	123	118
Banking cost to income ratio	43.7%	45.9%	43.5%	43.9%
Net interest margin:				
- Group	2.25%	2.25%	2.28%	2.23%
- Business Banking	2.62%	2.51%	2.66%	2.57%
- Personal Banking	2.19%	2.31%	2.17%	2.22%
- NZ Banking	2.30%	2.16%	2.35%	2.24%
- UK Banking	2.33%	2.34%	2.33%	2.33%
- Great Western Bank	4.19%	4.02%	3.99%	4.38%
<b>Capital</b>				
Tier 1 ratio	9.70%	8.91%	9.70%	9.19%
Total capital ratio	11.26%	11.36%	11.26%	11.33%
Risk weighted assets (\$bn) <sup>(4)</sup>	341.1	344.7	341.1	345.2
<b>Volumes (\$bn)</b>				
Gross loans and acceptances <sup>(3)(4)</sup>	482.1	448.0	482.1	459.2
Average interest earning assets	580.6	546.6	594.6	566.6
Total average assets	700.7	666.1	715.7	685.6
<b>Asset quality</b>				
Gross impaired assets to gross loans and acceptances	1.32%	1.35%	1.32%	1.37%
Collective provision to credit risk-weighted assets (ex. housing)	1.45%	1.48%	1.45%	1.46%
Specific provision to gross impaired assets	24.2%	25.2%	24.2%	22.6%
<b>Other</b>				
Funds under management and administration (\$bn) <sup>(5)</sup>	112.7	116.1	112.7	121.9
Annual inforce premiums (\$m)	1,466.3	1,406.7	1,466.3	1,435.9
Full Time Equivalent Employees (FTE) (spot)	44,645	45,198	44,645	45,293
Full Time Equivalent Employees (FTE) (average)	45,155	42,294	45,094	45,236

<sup>(1)</sup> All key performance measures and Group performance indicators are calculated on a cash earnings basis unless otherwise stated. A Glossary of Terms is included in Section 7.

<sup>(2)</sup> Revenue and expense growth is calculated over the previous half year.

<sup>(3)</sup> Spot balance at reporting date.

<sup>(4)</sup> Including loans and advances at fair value.

<sup>(5)</sup> Excludes Trustee and Cash Management within MLC & NAB Wealth.

## Group Results

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10%	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11%
Net interest income	13,092	12,288	6.5	6,788	6,304	7.7
Other operating income	3,016	2,838	6.3	1,291	1,725	(25.2)
MLC net operating income	1,486	1,512	(1.7)	716	770	(7.0)
<b>Net operating income</b>	<b>17,594</b>	<b>16,638</b>	<b>5.7</b>	<b>8,795</b>	<b>8,799</b>	<b>(0.0)</b>
Operating expenses	(7,974)	(7,862)	(1.4)	(3,983)	(3,991)	0.2
<b>Underlying profit</b>	<b>9,620</b>	<b>8,776</b>	<b>9.6</b>	<b>4,812</b>	<b>4,808</b>	<b>0.1</b>
Charge to provide for bad and doubtful debts	(1,822)	(2,263)	19.5	(834)	(988)	15.6
<b>Cash earnings before tax, IoRE, distributions and non-controlling interest</b>	<b>7,798</b>	<b>6,513</b>	<b>19.7</b>	<b>3,978</b>	<b>3,820</b>	<b>4.1</b>
Income tax expense	(2,142)	(1,777)	(20.5)	(1,076)	(1,066)	(0.9)
<b>Cash earnings before IoRE, distributions and non-controlling interest</b>	<b>5,656</b>	<b>4,736</b>	<b>19.4</b>	<b>2,902</b>	<b>2,754</b>	<b>5.4</b>
Net profit - non-controlling interest	(1)	(1)	-	-	(1)	large
IoRE	30	61	(50.8)	1	29	(96.6)
Distributions	(225)	(215)	(4.7)	(111)	(114)	2.6
<b>Cash earnings <sup>(1)</sup></b>	<b>5,460</b>	<b>4,581</b>	<b>19.2</b>	<b>2,792</b>	<b>2,668</b>	<b>4.6</b>
Non-cash earnings items	(241)	(357)	32.5	(1)	(240)	99.6
<b>Net profit attributable to owners of the Company</b>	<b>5,219</b>	<b>4,224</b>	<b>23.6</b>	<b>2,791</b>	<b>2,428</b>	<b>15.0</b>

<sup>(1)</sup> 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 Note 15 in Section 6. A Glossary of Terms is in Section 7.



## Divisional Performance

## Divisional Results

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10 %	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11 %
Business Banking	2,445	2,193	11.5	1,264	1,181	7.0
Personal Banking	932	743	25.4	500	432	15.7
Wholesale Banking	661	705	(6.2)	268	393	(31.8)
MLC & NAB Wealth (before IoRE and after non-controlling interest)	503	548	(8.2)	234	269	(13.0)
NZ Banking	469	416	12.7	254	215	18.1
UK Banking	288	204	41.2	166	122	36.1
Great Western Bank	88	74	18.9	41	47	(12.8)
Specialised Group Assets	110	(262)	large	33	77	(57.1)
Corporate Functions and Other	159	114	39.5	142	17	large
IoRE	30	61	(50.8)	1	29	(96.6)
Distributions	(225)	(215)	(4.7)	(111)	(114)	2.6
<b>Cash earnings</b>	<b>5,460</b>	<b>4,581</b>	<b>19.2</b>	<b>2,792</b>	<b>2,668</b>	<b>4.6</b>
Non-cash earnings items	(241)	(357)	32.5	(1)	(240)	99.6
<b>Net profit attributable to owners of the Company</b>	<b>5,219</b>	<b>4,224</b>	<b>23.6</b>	<b>2,791</b>	<b>2,428</b>	<b>15.0</b>

## Divisional Performance Indicators

	Year to			Half Year to		
	Sep 11	Sep 10	Sep 11 v Sep 10	Sep 11	Mar 11	Sep 11 v Mar 11
<b>Business Banking</b>						
Cash earnings (\$m)	2,445	2,193	11.5%	1,264	1,181	7.0%
Cash earnings on average assets	1.28%	1.19%	9 bps	1.31%	1.25%	6 bps
Net interest margin	2.62%	2.51%	11 bps	2.66%	2.57%	9 bps
Net operating income (\$m)	6,039	5,619	7.5%	3,101	2,938	5.5%
Cost to income ratio	29.2%	30.5%	130 bps	28.5%	29.9%	140 bps
<b>Personal Banking</b>						
Cash earnings (\$m)	932	743	25.4%	500	432	15.7%
Cash earnings on average assets	0.72%	0.68%	4 bps	0.74%	0.70%	4 bps
Net interest margin	2.19%	2.31%	(12 bps)	2.17%	2.22%	(5 bps)
Net operating income (\$m)	3,416	3,105	10.0%	1,747	1,669	4.7%
Cost to income ratio	52.4%	54.8%	240 bps	51.5%	53.4%	190 bps
<b>Wholesale Banking</b>						
Cash earnings (\$m)	661	705	(6.2%)	268	393	(31.8%)
Return on Risk-weighted assets	1.74%	2.14%	(40 bps)	1.41%	2.28%	(87 bps)
Net operating income (\$m)	1,856	1,928	(3.7%)	859	997	(13.8%)
Cost to income ratio	49.3%	47.4%	(190 bps)	53.4%	45.7%	(770 bps)
<b>MLC &amp; NAB Wealth</b>						
Cash earnings before IoRE and non-controlling interest (\$m)	504	549	(8.2%)	234	270	(13.3%)
Investment operating expenses to average FUM	63 bps	69 bps	6 bps	64 bps	62 bps	(2 bps)
Insurance cost to average inforce premium	16%	20%	400 bps	16%	17%	100 bps
<b>NZ Banking (NZD)</b>						
Cash earnings (\$NZm)	612	524	16.8%	329	283	16.3%
Cash earnings on average assets	1.05%	0.91%	14 bps	1.12%	0.98%	14 bps
Net interest margin	2.30%	2.16%	14 bps	2.35%	2.24%	11 bps
Net operating income (\$NZm)	1,775	1,675	6.0%	910	865	5.2%
Cost to income ratio	42.1%	43.7%	160 bps	41.5%	42.7%	120 bps
<b>UK Banking (£)</b>						
Cash earnings (£m)	183	118	55.1%	106	77	37.7%
Cash earnings on average assets	0.41%	0.27%	14 bps	0.47%	0.34%	13 bps
Net interest margin	2.33%	2.34%	(1 bps)	2.33%	2.33%	-
Net operating income (£m)	1,259	1,223	2.9%	644	615	4.7%
Cost to income ratio	57.7%	58.2%	50 bps	56.4%	59.0%	260 bps
<b>Great Western Bank (USD)</b>						
Cash earnings (\$USm)	90	67	34.3%	43	47	(8.5%)
Cash earnings on average assets <sup>(1)</sup>	1.17%	1.16%	1 bps	1.13%	1.22%	(9 bps)
Net interest margin	4.19%	4.02%	17 bps	3.99%	4.38%	(39 bps)
Net operating income (\$USm)	375	286	31.1%	182	193	(5.7%)
Cost to income ratio	48.3%	47.9%	(40 bps)	50.0%	46.6%	(340 bps)
<b>Specialised Group Assets</b>						
Cash earnings (\$m)	110	(262)	large	33	77	(57.1%)
Net operating income (\$m)	167	(90)	large	28	139	(79.9%)

<sup>(1)</sup> Average assets exclude goodwill.

**Section 3****Review of Operating Environment, Group Operations and Results**

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## Review of Group Operating Environment

Global economic growth is expected to slow to below 4% during 2011 and the differences in performance between the developed and emerging economies that were apparent in 2010 have persisted. The deteriorating sovereign debt position in the developed economies has become a major concern hanging over global financial markets and lowering the growth prospects for the big developed economies.

Some slowdown in the global economy was expected, given the exceptionally high growth rate of over 5% achieved during 2010. Nevertheless, growth in the developed economies has still proved disappointing with their pace of expansion slowing to under 2% in 2011, as economic policy shifted away from stimulus towards austerity in several key economies. Private demand has been particularly sluggish in many places due to volatile asset markets, continued de-leveraging, pressure on real household incomes and the prevailing mood of caution among consumers.

The slowdown in the big developed economies has led to a levelling out in world trade, which has curbed growth in Brazil and across such East Asian "Tiger" economies as South Korea and Taiwan.

By contrast, the biggest emerging economies continued to grow very rapidly in 2011, largely as a result of their expanding internal markets. China and India are now major drivers of global economic growth, contributing almost half of the world total in 2011.

In 2012 the world economy is forecast to expand by around 3.7%, with the disparity in performance between the developed and emerging market economies continuing.

The outlook for the big developed economies is for slow growth, especially given the magnitude of their 2008 to 2009 downturn and the amount of spare capacity in existence. The expected growth rate of around 2% in 2012 will not be sufficient to significantly reduce already high unemployment rates.

Sluggish growth is expected in both the US and the UK while growth could almost stall in the Euro-zone where fiscal austerity and the deteriorating sovereign debt position has eroded business confidence. Japanese growth is expected to be boosted by post-tsunami reconstruction.

The around-trend growth rate expected for the global economy in 2012 therefore owes much to continued rapid, albeit moderating, expansion in the emerging market economies, especially China and India.

### Australian Economy

This geographically uneven pattern of global growth has important consequences for the Australian economy. Continued solid rates of economic growth in the big emerging economies should support global commodity prices and keep Australia's terms of trade at high levels by historical standards.

The terms of trade has reached levels seldom achieved in the last century and while some decline seems likely, it should remain well above its long-term average as China and India continue to industrialise and urbanise. This outlook should support continued high levels of

profitability and activity in the Australian mining industry where a major expansion in capacity is now under way, driving much of the economy's growth over the next few years.

While activity and capacity are growing strongly in mining and across large parts of the service sector, other important sectors have been experiencing much tougher business conditions. This reflects a process of structural adjustment in the economy as high commodity prices drive up the exchange rate and erode the competitiveness of sectors like manufacturing, tourism and export-oriented education.

At the same time, many of the headwinds holding down growth in other developed economies are present in Australia – asset prices have recently been soft and volatile, households are saving more and are hesitant to borrow, which has been curbing growth in retail spending. Consequently, while overall economic conditions are buoyant – with economic growth of 3.2% expected in 2011 and 3.1% in 2012 and low unemployment by global standards – the divergence in trading conditions between sectors has been particularly marked.

### New Zealand Economy

There are many parallels between economic conditions in Australia and New Zealand. Commodity export prices have also been exceptionally high in New Zealand, lifting the terms of trade to levels last seen in the early 1970s and boosting exporter incomes. Slower global growth and rising supply should lower these prices but they look likely to remain buoyant by historical standards. High returns have already triggered increases in commodity supply in New Zealand, with the farming sector driving much of the recent economic growth.

Domestic demand has been soft for several years in New Zealand, with house prices and real retail sales per capita in mid-2011 remaining below their 2007 levels. This is part of a necessary re-balancing of the economy towards greater reliance on exports and away from the former pattern which depended heavily on consumer spending driven by asset price gains and household debt.

Strengthening of the household sector balance sheet via increased saving, modest new borrowing and increased household sector liquidity has slowed the pace of growth in the retail and housing industries in recent years but also established the foundations for more sustainable medium-term growth. There are now signs that the housing market and retailing are both starting to improve.

The Rugby World Cup and rebuilding after the Christchurch earthquake should boost New Zealand GDP through calendar 2011 and 2012. Recent business surveys have been generally positive, despite the turmoil on global financial markets, and are at levels consistent with quite strong growth through 2012. GDP is expected to rise by over 2% in 2011 and 3% in 2012 as domestic demand finally picks up after a long flat period, delivering low unemployment by international standards.

### United Kingdom Economy

The pace of the UK recovery from the deep recession it experienced in 2008 to 2009 has been sluggish and output is still well below its early 2008 level. The housing market is weak, with little movement in prices and low sales volumes. Consumer spending is soft with the retail sector experiencing only modest growth in sales. The combination of fiscal austerity, pressure on real household incomes, higher savings rates and constraints on new borrowing means that the growth in consumer spending is likely to remain soft through 2012.

Export growth has been boosted by the big improvement in UK competitiveness that stemmed from the depreciation in Sterling but trade flows are likely to be held down by the weakness of demand in key US and Euro-zone markets. Business investment has picked up from the levels seen in the recession and profitability has risen from the lows seen in the recession.

The UK Government strategy is to shift the long-term composition of growth toward exports and business investment, relying less on public spending, consumer spending and asset price inflation to support future demand. The boost to competitiveness from Sterling depreciation and the sharp cutbacks in public spending should encourage this re-balancing in the long term. The outlook is for a long gradual recovery in activity, with GDP expected to rise by 1% this year and by around 2% in 2012.

### Credit Growth

Differences in the economic environment are reflected in banking systems across the Group's key markets and there are notable differences in the rate of credit growth between markets. Australian system credit has generally remained stronger than other regions, reflecting its more buoyant national housing market. However, business credit has been surprisingly slow to grow, despite sustained growth in economic activity. System credit growth in Australia has been running at around 3% year-on-year, well below the double-digit rates that prevailed pre-crisis, but it is expected to accelerate through the next few years.

Trends in the UK and New Zealand have been less favourable, reflecting weaker demand for credit as their business sectors de-leverage and housing markets stay soft. System credit in New Zealand has been running at around 1% year-on-year, well below the double digit growth recorded prior to the financial crisis, but it should accelerate as domestic demand growth is expected to pick up in the next couple of years. UK system credit growth has been even slower, with falling business credit broadly offsetting slow growth in household lending, leaving the stock of credit reasonably stable over the last two years.

### Asset Quality

Trends in system asset quality also vary across the Group's key markets. Australia has seen the best asset quality outcomes among these markets, with a system impaired loan ratio of 1.1% in mid-2011. While above the 20 basis points seen prior to the crisis, this ratio remains low by historical standards and it is below the level recorded in early 2010.

Asset quality has deteriorated in New Zealand with the non-performing loan ratio for registered banks rising from around 20 basis points in 2007 to around 200 basis points in early-2011. As in Australia, the impaired loan ratio falls well short of the early 1990s experience.

System credit quality elsewhere is generally weaker. Business credit quality has worsened in the UK but, given the magnitude of its recession, the deterioration has not been as severe as might have been expected. Bank write-off ratios for corporate lending have risen and the corporate insolvency rate has climbed slightly, but both have remained well below the peaks of the 1990s recession. System mortgage lending write-offs have stayed remarkably low, given the scale of the downturn in the UK housing market, but system unsecured credit quality has deteriorated significantly since 2007.

### Outlook

The Australian and New Zealand economies are expected to perform well in 2012, both compared to other developed economies and given the environment of slowing global economic growth, considerable market volatility, economic uncertainty and sovereign credit risks. Continuing solid growth in the emerging economies of Asia, which buy more than half of all Australian exports, should support trade flows, global commodity prices and Australian national income. Recovery in coal exports from supply disruptions and the boom in mining investment are expected to provide a substantial amount of economic growth over 2012, even if other areas of the "patchwork" economy remain subdued. This should result in an upturn in system credit growth, although it is likely to remain below its pre-2007 pace.

The commodity-led upturn in New Zealand is forecast to gradually broaden out with signs of growth in consumer spending and a stabilisation in the housing market. This should also be reflected in slightly faster system credit growth, while a higher savings rate is expected to continue to underpin growth in deposits, limiting the need for increased external funding of the banking system.

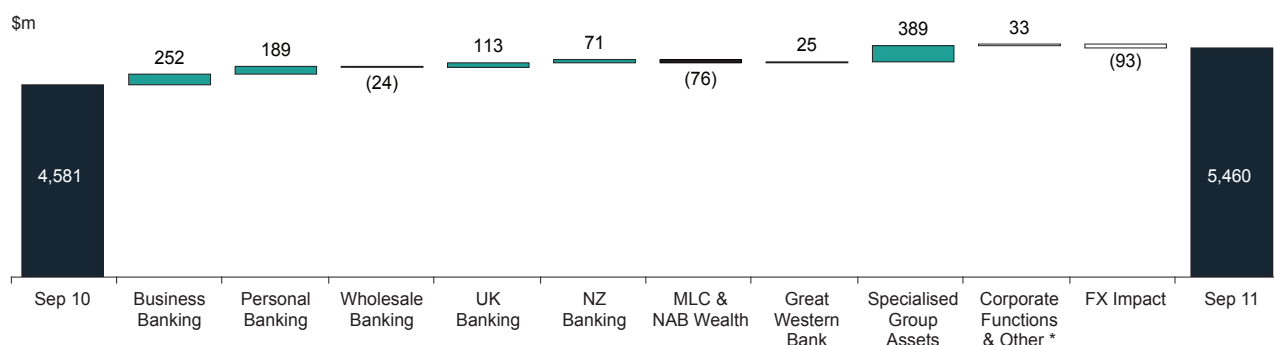
The UK faces the most difficult business environment, with sluggish upturn in private demand at a time when public sector austerity is still having an impact on demand. However, at the end of this gradual process of structural adjustment, the UK economy should be better placed to achieve sustainable growth based on exports and private sector domestic spending.

## Review of Group Operations and Results

Mark Joiner

## Group Results

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10 %	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11 %
Net interest income	13,092	12,288	6.5	6,788	6,304	7.7
Other operating income	3,016	2,838	6.3	1,291	1,725	(25.2)
MLC net operating income	1,486	1,512	(1.7)	716	770	(7.0)
<b>Net operating income</b>	<b>17,594</b>	<b>16,638</b>	<b>5.7</b>	<b>8,795</b>	<b>8,799</b>	<b>(0.0)</b>
Operating expenses	(7,974)	(7,862)	(1.4)	(3,983)	(3,991)	0.2
<b>Underlying profit</b>	<b>9,620</b>	<b>8,776</b>	<b>9.6</b>	<b>4,812</b>	<b>4,808</b>	<b>0.1</b>
Charge to provide for bad and doubtful debts	(1,822)	(2,263)	19.5	(834)	(988)	15.6
<b>Cash earnings before tax, IoRE, distributions and non-controlling interest</b>	<b>7,798</b>	<b>6,513</b>	<b>19.7</b>	<b>3,978</b>	<b>3,820</b>	<b>4.1</b>
Income tax expense	(2,142)	(1,777)	(20.5)	(1,076)	(1,066)	(0.9)
<b>Cash earnings before IoRE, distributions and non-controlling interest</b>	<b>5,656</b>	<b>4,736</b>	<b>19.4</b>	<b>2,902</b>	<b>2,754</b>	<b>5.4</b>
Net profit - non-controlling interest	(1)	(1)	-	-	(1)	large
IoRE	30	61	(50.8)	1	29	(96.6)
Distributions	(225)	(215)	(4.7)	(111)	(114)	2.6
<b>Cash earnings</b>	<b>5,460</b>	<b>4,581</b>	<b>19.2</b>	<b>2,792</b>	<b>2,668</b>	<b>4.6</b>
<i>Non-cash earnings items (after tax):</i>						
Distributions	225	215	4.7	111	114	(2.6)
Treasury shares	39	106	(63.2)	80	(41)	large
Fair value and hedge ineffectiveness	(181)	(353)	48.7	146	(327)	large
IoRE discount rate variation	26	34	(23.5)	48	(22)	large
UK Payment Protection Insurance provision	(117)	-	large	(117)	-	large
Hedging costs on SCDO assets	(127)	-	large	(127)	-	large
Efficiency, quality and service initiatives (EQS)	-	(237)	large	-	-	-
Litigation expense	(4)	(12)	66.7	(4)	-	large
Property revaluation	-	(4)	large	-	-	-
Provision for tax NZ structured finance transactions	-	128	large	-	-	-
MLC reinsurance dispute	-	(36)	large	-	-	-
Refund of tax on exchangeable capital units (ExCaps) settlement	142	-	large	-	142	large
Amortisation of acquired intangible assets	(82)	(73)	(12.3)	(41)	(41)	-
Due diligence, acquisition and integration costs	(162)	(125)	(29.6)	(97)	(65)	(49.2)
<b>Net profit attributable to owners of the Company</b>	<b>5,219</b>	<b>4,224</b>	<b>23.6</b>	<b>2,791</b>	<b>2,428</b>	<b>15.0</b>

Cash Earnings <sup>(1)</sup><sup>(1)</sup> At constant exchange rates.

\* Corporate Functions and Other includes Group Funding, Group Business Services, other supporting units and Asia Banking.

## Review of Group Operations and Results

### Financial Analysis

#### September 2011 v September 2010

**Cash earnings** increased by \$879 million or 19.2% over the September 2011 year. Excluding foreign exchange movements and Specialised Group Assets (SGA), cash earnings increased by \$583 million or 12.0%. This was largely driven by stronger performances in Business Banking, Personal Banking and UK Banking, partially offset by moderating results in Wholesale Banking and MLC & NAB Wealth affected by more challenging economic conditions. SGA cash earnings increased \$389 million (excluding foreign exchange movements) largely due to lower mark-to-market losses on the Synthetic Collateralised Debt Obligation (SCDO) risk mitigation trades and lower bad and doubtful debts.

**Net interest income** increased by \$804 million or 6.5%. Excluding foreign exchange rate movements, SGA and Wholesale Banking, net interest income increased by \$1,076 million or 9.9%. This was largely driven by repricing in Business Banking for current market conditions and growth in volumes, combined with above system mortgage growth and repricing for market conditions in Personal Banking, and increased earnings from higher levels of capital. This increase was partially offset by rising funding and deposit costs, as average term funding costs increased and competition for deposits remained high. SGA net interest income decreased by \$42 million or 23.6% (excluding foreign exchange movements) largely as a result of facilities being repaid as the portfolio is being actively managed down. Wholesale Banking net interest income increased by \$98 million or 8.2% (excluding foreign exchange) driven by a higher level of liquid assets combined with changes in funding mix (which have been partially offset by losses on economically hedged positions in other operating income).

**Other operating income** increased by \$178 million or 6.3%. Excluding foreign exchange rate movements, SGA and Wholesale Banking, other operating income grew by \$56 million or 2.4%, with improved performance in Business Banking. SGA other operating income increased by \$335 million (excluding foreign exchange movements) due to lower mark-to-market losses on the SCDO risk mitigation trades. Inclusive of foreign exchange movements, the mark-to-market movement in SCDO risk mitigation trades was a loss of \$25 million in the September 2011 year, compared with a loss of \$229 million in the September 2010 year. Wholesale Banking other operating income decreased by \$118 million or 16.0% (excluding foreign exchange movements), driven by more difficult trading conditions following European sovereign debt concerns, combined with losses on economically hedged positions (which have been partially offset in net interest income). This decline was offset in part by increased customer income reflecting the Franchise Focus strategy.

**MLC net operating income** decreased by \$26 million or 1.7% largely as a result of continued unfavourable claims experience and weaker equity markets.

**Operating expenses** increased by \$112 million or 1.4%. Excluding foreign exchange rate movements, operating expenses increased by \$318 million or 4.0%. This uplift mainly reflects the cost of continued investment in key strategic initiatives including additional frontline FTEs in Personal Banking and Business Banking. The full year contribution of TierOne assets and F&M Bank purchased by Great Western Bank also contributed to the increase.

The **charge to provide for bad and doubtful debts** decreased by \$441 million or 19.5%. Excluding foreign exchange rate movements and SGA, the decrease was \$152 million or 7.6%. This decrease was primarily driven by UK Banking, due to an improved delinquency profile for unsecured personal lending and a lower business lending impairment charge. Personal Banking also had lower bad and doubtful debt charges as asset quality continued to improve. SGA's charge decreased \$216 million or 80.6% (excluding foreign exchange movements) as facilities were cancelled or repaid.

#### September 2011 v March 2011

**Cash earnings** increased by \$124 million or 4.6% against the March 2011 half year. Excluding foreign exchange movements and Specialised Group Assets (SGA), cash earnings increased by \$175 million or 6.8%, driven by uplifts in Business Banking, Personal Banking and UK Banking, partially offset by lower earnings in Wholesale Banking and MLC & NAB Wealth. SGA cash earnings decreased by \$39 million or 50.6% (excluding foreign exchange movements) largely due to unfavourable mark-to-market movements on the SCDO risk mitigation trades as credit spreads widened in the latter part of the September 2011 year.

**Net interest income** increased by \$484 million or 7.7%. Excluding foreign exchange rate movements, SGA and Wholesale Banking, net interest income increased by \$342 million or 6.0%, largely due to repricing in Business Banking and Personal Banking for current market conditions, as well as above system mortgage growth in Personal Banking. SGA net interest income decreased by \$4 million or 6.2% (excluding foreign exchange movements) as facilities were repaid. Wholesale Banking net interest income increased by \$197 million or 37.7% (excluding foreign exchange) driven by sub-benchmark funding opportunities (partially offset by losses on economically hedged positions in other operating income).

**Other operating income** decreased by \$434 million or 25.2%. Excluding foreign exchange rate movements, SGA and Wholesale Banking, other operating income increased by \$3 million or 0.3%. SGA other operating income decreased by \$99 million (excluding foreign exchange movements) due to unfavourable mark-to-market movements on the SCDO risk mitigation trades, as credit spreads widened in the September 2011 half year. Inclusive of foreign exchange movements, the mark-to-market movement in SCDO risk mitigation trades was a loss of \$84 million in the September 2011 half year, compared with a gain of \$59 million in the March 2011 half year. Wholesale Banking decreased \$326 million or 68.6% (excluding foreign exchange movements) primarily

due to lower trading income which was affected by European sovereign debt concerns, combined with losses on economically hedged positions (which have been partially offset by in net interest income). This decrease was in part offset by improved customer income.

**MLC net operating income** decreased by \$54 million or 7.0% largely due to continued unfavourable claims experience and weaker equity markets.

**Operating expenses** decreased by \$8 million or 0.2%. Excluding foreign exchange rate movements, operating expenses increased by \$24 million or 0.6%. This reflects disciplined cost management across all lines of business, while continuing to invest in key strategic initiatives.

The **charge to provide for bad and doubtful debts** decreased by \$154 million or 15.6%. Excluding foreign exchange rate movements and SGA the decrease was \$142 million or 14.7%. This decrease reflects improvements in Personal Banking due to lower delinquency rates and seasonal influences in unsecured lending, and the affect of the overlay taken for the Queensland and Victoria floods in the March 2011 half year. Lower charges in NZ Banking was also a factor, as the March 2011 half year included provisioning following the two Christchurch earthquakes. This decrease was partially offset by higher charges related primarily to the SME segment and a recovery of a previously written-off exposure in the March 2011 half year that did not recur. The SGA bad and doubtful debt charge increased by \$1 million or 4.8% (excluding foreign exchange movements).

#### Impact of Foreign Exchange Rates Movements

Excluding foreign exchange rate movements, cash earnings increased by \$972 million or 21.2% on the September 2010 full year and increased by \$136 million or 5.1% on the March 2011 half year. Foreign exchange movements have had an adverse affect on both the September 2011 full year result (\$93 million) and the September 2011 half year result (\$12 million).

See page 149 to 150 for the September 2011 full year and September 2011 half year divisional performance summaries excluding foreign exchange rate movements.

## Net Interest Income

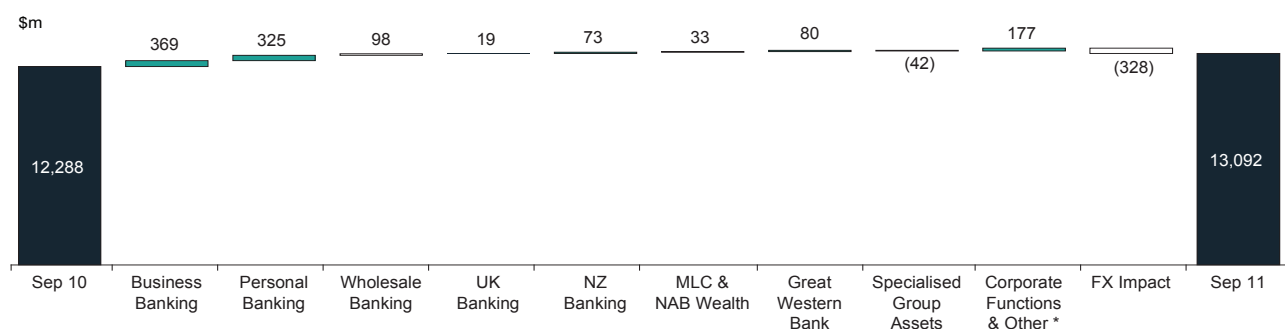
	Year to			Half Year to		
	Sep 11	Sep 10	Sep 11 v Sep 10 %	Sep 11	Mar 11	Sep 11 v Mar 11 %
Net interest income (\$m)	13,092	12,288	6.5%	6,788	6,304	7.7%
Average interest earning assets (\$bn)	580.6	546.6	6.2%	594.6	566.6	4.9%
Net interest margin (%)	2.25	2.25	-	2.28	2.23	5 bps

### Composition of Net Interest Income

	Sep 11	Sep 10	Sep 11 v Sep 10 %	Sep 11	Mar 11	Sep 11 v Mar 11 %
Banking	11,739	10,921	7.5%	6,022	5,717	5.3%
Wholesale Banking	1,230	1,189	3.4%	708	522	35.6%
Specialised Group Assets	123	178	(30.9%)	58	65	(10.8%)
<b>Net interest income</b>	<b>13,092</b>	<b>12,288</b>	<b>6.5%</b>	<b>6,788</b>	<b>6,304</b>	<b>7.7%</b>

Net interest income and margin management are key areas of focus for the divisions. Group net interest margins represent an amalgam of the individual business outcomes and the analysis below is based on divisional drivers.

### Net Interest Income - Contribution to Net Increase <sup>(1)</sup>



<sup>(1)</sup> At constant exchange rates.

\* Corporate Functions and Other includes Group Funding, Group Business Services, other supporting units and Asia Banking.

### September 2011 v September 2010

**Net interest income** increased by \$804 million or 6.5% over the September 2011 year (\$1,132 million or 9.2% excluding foreign exchange).

**Banking net interest income** increased by \$818 million or 7.5% (\$1,076 million or 9.9% excluding foreign exchange). The key contributing factors were:

- Housing lending growth in Personal Banking and Business Banking.
- Repricing of the lending portfolio for current market conditions.
- Favourable mix impacts in New Zealand as customers moved from fixed rate mortgage products to higher margin variable products.
- Higher net interest income in Great Western Bank primarily driven by movements in the value of the TierOne portfolio.
- Increased earnings from higher levels of capital.

The increase was partially offset by:

- An increase in term funding costs to fund increased lending volumes and a higher average cost of funds.
- Higher deposit costs from strong competition for deposits.

**Wholesale Banking's** net interest income increased by \$41 million or 3.4% (\$98 million or 8.2% excluding foreign exchange) driven by a higher level of liquid assets combined with changes in funding mix (which have been partially offset by losses on economically hedged positions in other operating income).

**Specialised Group Assets'** net interest income decreased by \$55 million or 30.9% (\$42 million or 23.6% excluding foreign exchange) as a result of the run-down of the lending portfolio.

### September 2011 v March 2011

**Net interest income** increased by \$484 million or 7.7% over the half year (an increase of \$535 million or 8.5% excluding foreign exchange).

**Banking net interest income** increased by \$305 million or 5.3% (an increase of \$342 million or 6.0% excluding foreign exchange). The key contributing factor was:

- Repricing for current market conditions combined with housing lending growth in Business Banking, Personal Banking and New Zealand Banking.

**Wholesale Banking's** net interest income increased by \$186 million or 35.6% (an increase of \$197 million or 37.7% excluding foreign exchange) driven by sub-benchmark funding opportunities (partially offset by losses on economically hedged positions in other operating income).

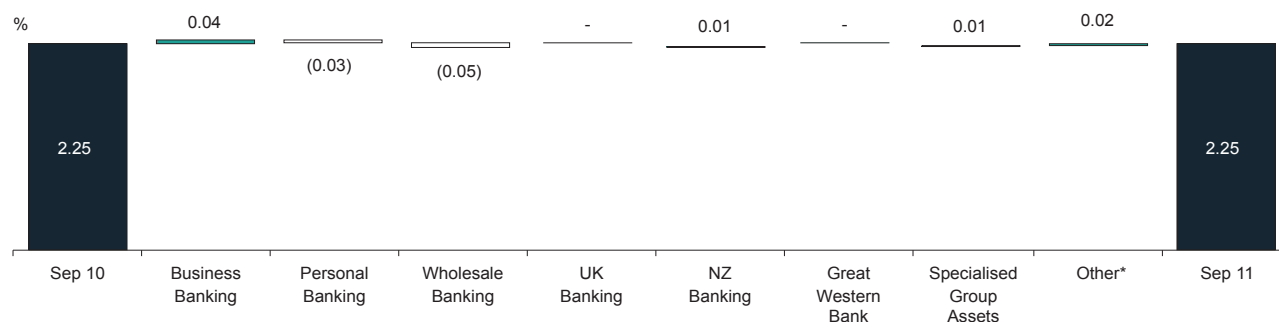
**Specialised Group Assets'** net interest income decreased by \$7 million or 10.8% (\$4 million or 6.2% excluding foreign exchange) resulting from the run-down of the lending portfolio.



## Net Interest Margin

	Year to			Half Year to		
	Sep 11 %	Sep 10 %	Sep 11 v Sep 10	Sep 11 %	Mar 11 %	Sep 11 v Mar 11
Business Banking	2.62	2.51	11 bps	2.66	2.57	9 bps
Personal Banking	2.19	2.31	(12 bps)	2.17	2.22	(5 bps)
NZ Banking	2.30	2.16	14 bps	2.35	2.24	11 bps
UK Banking	2.33	2.34	(1 bps)	2.33	2.33	-
Great Western Bank	4.19	4.02	17 bps	3.99	4.38	(39 bps)
<b>Group net interest margin</b>	<b>2.25</b>	<b>2.25</b>	<b>-</b>	<b>2.28</b>	<b>2.23</b>	<b>5 bps</b>

## Net interest margin



\* Includes MLC & NAB Wealth, Group Funding and other supporting units.

## September 2011 v September 2010

The Group's **net interest margin** has remained flat from the September 2010 year. Key movements in the Group net interest margin were:

- A four basis point increase from Business Banking, attributable to repricing of the lending portfolio to reflect current market conditions, partly offset by lower deposit margins.
- A three basis point decrease from Personal Banking, mainly reflective of changes in funding mix together with increased deposit costs.
- A five basis point decrease from Wholesale Banking driven by an increase in liquid assets, which are at a lower margin than the Group average.
- A one basis point increase from NZ Banking. This was driven by a favourable lending product mix due to growth in variable rate mortgage products and repricing of the lending portfolio, partially offset by higher funding costs.
- A one basis point increase from SGA as this lower margin portfolio reduces in size.
- A two basis point increase from Group Funding mainly due to increased earnings on capital.

## September 2011 v March 2011

The Group's **net interest margin** has increased by five basis points over the September 2011 half year. Key contributions to the Group net interest margin movements were:

- A three basis point increase from Business Banking attributable to repricing of the lending portfolio to reflect current market conditions.
- A one basis point decrease from Personal Banking due to changes in funding mix.
- A one basis point increase from NZ Banking driven by a favourable lending product mix and repricing of the lending portfolio to reflect current market conditions, partially offset by lower deposit margins due to increased competition for deposits.
- A one basis point decrease from Great Western Bank resulting from a decrease in the value of the TierOne acquired loan portfolio.
- A two basis point increase from Group Funding driven by increased earnings on capital.

## Other Operating Income

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10 %	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11 %
Fees and commissions	2,507	2,587	(3.1)	1,222	1,285	(4.9)
Trading income	234	100	large	(107)	341	large
Other	275	151	82.1	176	99	77.8
<b>Other operating income</b>	<b>3,016</b>	<b>2,838</b>	<b>6.3</b>	<b>1,291</b>	<b>1,725</b>	<b>(25.2)</b>

### Composition of Trading Income <sup>(1)</sup>

Wholesale Banking	265	423	(37.4)	(24)	289	large
Specialised Group Assets	(8)	(299)	97.3	(73)	65	large
Group Funding	(100)	(96)	(4.2)	(49)	(51)	3.9
Other	77	72	6.9	39	38	2.6
<b>Trading income</b>	<b>234</b>	<b>100</b>	<b>large</b>	<b>(107)</b>	<b>341</b>	<b>large</b>

<sup>(1)</sup> Excluding internal funding transactions.

## Other Operating Income - Contribution to Net Increase <sup>(1)</sup>



<sup>(1)</sup> At constant exchange rates.

\* Corporate Functions and Other includes Group Funding, Group Business Services, other supporting units and Asia Banking.

**September 2011 v September 2010**

**Other operating income** increased by \$178 million or 6.3% from September 2010 (\$273 million or 9.6% excluding foreign exchange).

**Fees and commissions** decreased by \$80 million or 3.1%. Excluding foreign exchange fees and commissions decreased by only \$2 million or 0.1%.

**Trading income** increased by \$134 million (\$148 million excluding foreign exchange).

*Wholesale Banking's* <sup>(1)</sup> contribution to trading income decreased by \$158 million or 37.4% (\$171 million or 40.4% excluding foreign exchange). This decrease was driven by more difficult trading conditions following European sovereign debt concerns, combined with losses on economically hedged positions (which have been partially offset in net interest income). This decline was offset in part by increased customer income reflecting the Franchise Focus strategy.

*Specialised Group Assets'* contribution increased by \$291 million or 97.3% (\$310 million excluding foreign exchange) largely due to lower mark-to-market losses on the SCDO risk mitigation trades.

**Other income** increased by \$124 million or 82.1% (\$127 million excluding foreign exchange or 84.1%) driven by the gain on sale of an equity investment held as a prior restructure of debt in Specialised Group Assets, increased underwriting fees in Wholesale Banking and the gain on sale of the Flybuys investment in Personal Banking.

**September 2011 v March 2011**

**Other operating income** decreased by \$434 million or 25.2% (\$422 million or 24.5% excluding foreign exchange) from March 2011.

**Fees and commissions** decreased by \$63 million or 4.9% (\$53 million or 4.1% excluding foreign exchange). This decrease was driven by lower income in Wholesale Banking.

**Trading income** decreased by \$448 million (\$447 million excluding foreign exchange).

*Wholesale Banking's* <sup>(1)</sup> contribution to trading income decreased by \$313 million (\$316 million excluding foreign exchange). This decrease was driven by lower trading income which was affected by European sovereign debt concerns, combined with losses on economically hedged positions (which have been partially offset in net interest income). This decrease was in part offset by improved customer income.

*Specialised Group Assets'* contribution decreased by \$138 million (\$134 million excluding foreign exchange). The decrease was mainly due to unfavourable mark-to-market movements on the SCDO risk mitigation trades, as credit spreads widened in the latter part of the year.

**Other income** increased by \$77 million or 77.8% (\$78 million or 78.8% excluding foreign exchange) driven by lower Payment Protection Insurance refunds which were not repeated in the September 2011 half year as these costs were met by the raising of a provision in non-cash earnings during the September 2011 half year.

<sup>(1)</sup> Excluding internal funding transactions.

## MLC Net Operating Income

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10 %	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11 %
Investments net operating income	999	1,008	(0.9)	498	501	(0.6)
Insurance net operating income	487	504	(3.4)	218	269	(19.0)
<b>MLC net operating income</b>	<b>1,486</b>	<b>1,512</b>	<b>(1.7)</b>	<b>716</b>	<b>770</b>	<b>(7.0)</b>

## September 2011 v September 2010

**Investments net operating income** decreased by \$9 million or 0.9% against September 2010, due to a shift in business mix towards lower margin wholesale business and weaker equity markets, partially offset by growth in average funds under management of 9%.

**Insurance net operating income** decreased by \$17 million or 3.4%, largely due to changes in the lapse mix and unfavourable group and lump sum claims experience, partially offset by growth in inforce premiums of 4.2%.

## September 2011 v March 2011

**Investments net operating income** remained broadly flat against March 2011. Average funds under management remained stable over the half year to September 2011, with strong wholesale net flows offset by weaker equity markets and retail net outflows.

**Insurance net operating income** decreased by \$51 million or 19.0% due to the full year affect of changes in lapse mix and unfavourable group and lump sum claims experience.

## Operating Expenses

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10 %	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11 %
Personnel expenses	4,036	3,996	(1.0)	1,978	2,058	3.9
Occupancy related expenses	712	695	(2.4)	345	367	6.0
General expenses	2,245	2,184	(2.8)	1,167	1,078	(8.3)
MLC operating expenses <sup>(1)</sup>	981	987	0.6	493	488	(1.0)
<b>Total operating expenses</b>	<b>7,974</b>	<b>7,862</b>	<b>(1.4)</b>	<b>3,983</b>	<b>3,991</b>	<b>0.2</b>

<sup>(1)</sup> Excludes banking related activities, which are included in the personnel, occupancy and general expenses categories.

Operating Expenses - Contribution to Net Increase <sup>(1)</sup>

<sup>(1)</sup> At constant exchange rates.

\* Corporate Functions and Other includes Group Funding, Group Business Services, other supporting units and Asia Banking.

**September 2011 v September 2010**

**Operating expenses** increased by \$112 million or 1.4% against September 2010 (an increase of \$318 million or 4.0% excluding foreign exchange). The Group continues to tightly manage expenses, whilst supporting sustainable business growth.

**Personnel expenses** increased by \$40 million or 1.0% (an increase of \$149 million or 3.7% excluding foreign exchange). This was primarily due to additional resources mainly in frontline roles and on key strategic projects to support revenue growth initiatives. The full year impact of the acquisition of F&M Bank and TierOne assets and liabilities by Great Western Bank also contributed to the increase.

**Occupancy related expenses** increased by \$17 million or 2.4% (an increase of \$39 million or 5.6% excluding foreign exchange) driven by ongoing refurbishment in the retail outlets of Personal Banking.

**General expenses** increased by \$61 million or 2.8% (an increase of \$136 million or 6.2% excluding foreign exchange) mainly due to continued investment on key strategic projects.

**MLC operating expenses** decreased by \$6 million or 0.6% mainly due to an ongoing focus on cost control and synergies resulting from the integration of the Aviva business.

**September 2011 v March 2011**

**Operating expenses** decreased by \$8 million or 0.2% against March 2011 (an increase of \$24 million or 0.6% excluding foreign exchange).

**Personnel expenses** decreased by \$80 million or 3.9% (a decrease of \$63 million or 3.1% excluding foreign exchange) primarily due to a continued focus on efficiency initiatives across the Group and lower performance-based compensation.

**Occupancy related expenses** decreased by \$22 million or 6.0% (a decrease of \$19 million or 5.2% excluding foreign exchange) due to increased expenses in the March 2011 half year.

**General expenses** increased by \$89 million or 8.3% (an increase of \$101 million or 9.4% excluding foreign exchange) mainly due to continued investment in key strategic projects and the timing of marketing campaigns.

**MLC operating expenses** increased by \$5 million or 1.0% to support adviser growth, the development of new products, an increase in the number of clients, and the seasonality of superannuation end of financial year activities. Cost synergies from the integration of the Aviva business partially offset this increase.

**Full Time Equivalent Employees <sup>(1)</sup>**

	As at			Sep 11 v Sep 10%	Sep 11 v Mar 11%
	30 Sep 11	31 Mar 11	30 Sep 10		
Business Banking	5,427	5,493	5,482	1.0	1.2
Personal Banking	8,705	8,826	9,052	3.8	1.4
Wholesale Banking	2,889	3,005	3,166	8.7	3.9
MLC & NAB Wealth	5,909	5,924	5,714	(3.4)	0.3
NZ Banking	4,641	4,578	4,551	(2.0)	(1.4)
UK Banking	8,351	8,684	8,730	4.3	3.8
Great Western Bank	1,492	1,515	1,596	6.5	1.5
Specialised Group Assets	41	42	47	12.8	2.4
Corporate Functions and Other					
Group Business Services	5,065	5,093	4,983	(1.6)	0.5
Other <sup>(2)</sup>	2,125	2,133	1,877	(13.2)	0.4
<b>Total full time equivalent employees (FTEs)</b>	<b>44,645</b>	<b>45,293</b>	<b>45,198</b>	<b>1.2</b>	<b>1.4</b>
<b>Average half year FTEs</b>	<b>45,094</b>	<b>45,236</b>	<b>43,921</b>	<b>(2.7)</b>	<b>0.3</b>

<sup>(1)</sup> September 2010 FTE numbers have been restated mainly in NZ Banking and UK Banking to reflect a refinement of the definition of FTEs for reporting purposes made in the March 2011 half year.

<sup>(2)</sup> Other includes Group Funding, other supporting units and Asia Banking.

**September 2011 v September 2010**

Total FTEs have decreased by 553 on the September 2010 year. The decrease has been driven by a continued focus on efficiency programs and the outsourcing of some Technology functions to IBM. This was partially offset by investment in key initiatives to support business growth, improvement in the quality of service and customer satisfaction.

Convergence activity has been implemented across the lines of business. As a result, a new operating model has been implemented that requires functions to be focused on improving the quality, efficiency and capabilities of the organisation to enhance the customer experience.

Key FTE movements in each business during the year are as follows:

- Business Banking reduced FTEs by 55 mainly due to convergence activity and a reduction in project demand. This was partially offset by an increase in front line bankers.
- Personal Banking FTEs decreased by 347, driven by convergence activity and process improvements. This was partially offset by an increase in sales and service staff.
- Wholesale Banking FTEs decreased by 277 primarily due to convergence activity, lower technology project activity and process efficiency gains.
- MLC & NAB Wealth increased FTEs by 195. These comprised additional advisors and support staff to aid new business initiatives and increased volumes, insurance staff to improve claims management and retention, and additional JBWere staff due to the transition of functions previously performed by Goldman Sachs.
- NZ Banking increased FTEs by 90 mainly due to growth in the BNZ Partners support centre and increased support for strategic projects designed to further enhance customer engagement.
- UK Banking decreased FTEs by 379 mainly due to ongoing efficiency initiatives and tight management of FTEs.
- Great Western Bank decreased FTEs by 104 mainly due to synergies arising from the integration of recent acquisitions.
- Group Business Services increased FTEs by 82 predominantly to support service delivery and also as a result of convergence activity. This was partially offset by the outsourcing of some technology functions to IBM.
- Other supporting units increased FTEs by 248 mainly due to convergence activity across the Group, together with expansion activities in Asia and increased project activity.

**September 2011 v March 2011**

Total FTEs have decreased by 648 on the March 2011 half year:

- Business Banking decreased FTEs by 66 due to a reduction in project demand and convergence activity.
- Personal Banking decreased FTEs by 121 mainly due to operating efficiencies and the completion of a number of key initiatives. Partially offset by additional front line bankers to support long-term growth.
- Wholesale Banking FTEs fell by 116 due to process efficiency gains and lower technology project activity.
- NZ Banking increased FTEs by 63 due to growth in the BNZ Partners support centre and increased strategic projects to further enhance customer engagement.
- UK Banking decreased FTEs by 333 mainly due to efficiency initiatives and tight management of FTEs.

## Investment Spend

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10 %	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11 %
Infrastructure	719	461	56.0	414	305	35.7
Compliance / Operational Risk	119	103	15.5	53	66	(19.7)
Efficiency and Sustainable Revenue	288	352	(18.2)	158	130	21.5
Other	34	39	(12.8)	13	21	(38.1)
<b>Total</b>	<b>1,160</b>	<b>955</b>	<b>21.5</b>	<b>638</b>	<b>522</b>	<b>22.2</b>

Investment spend increased by \$205 million or 21.5% on the September 2010 year and grew by \$116 million or 22.2% on the March 2011 half year. The Group remains committed to investing in initiatives that support its strategic objectives.

Investment in infrastructure projects has increased by \$258 million or 56.0% since the September 2010 year, reflecting the continued focus on improving the quality, consistency and capabilities of the organisation to significantly enhance the customer experience. Most of this investment was made in the Group's Next Generation Banking IT Platform (NGP) and convergence of key technology and operational infrastructure. NGP is an enterprise-led, business enabled initiative that will support the transformation of the Australian businesses, replacing many of the Bank's legacy applications and processes. Other key investment activities include large-scale upgrades to technology infrastructure and the ongoing refurbishment and relocation of stores and partner sites in Australia and New Zealand.

Spend on compliance and operational risk has increased by \$16 million or 15.5% since the September 2010 year. Initiatives include activities to support the Financial Services Compensation Scheme in the UK, the National Consumer Credit Protection Act and the Personal Property Securities Act in Australia, and Financial Advisors Act and Anti-Money Laundering legislation in New Zealand.

Investment in efficiency and sustainable revenue has decreased by \$64 million or 18.2% since the September 2010 year. The Group continues to identify opportunities to better service its customers. Business banking activities include continued improvements in nabConnect to improve customer offerings in online channels. Personal Banking activities include improvements to mortgage and collection processes, simplification of the complaint handling process for customers, and in conjunction with Business Banking, improving the service proposition and customer experience for the small and emerging business segment. Activities in Wholesale Banking include the continued development of software platforms to assist in achieving cross-sell. UK Banking activities include the consolidation of mailing services and the development of online channels offering loan services for personal customers. NZ Banking activities include the development of internet banking services and improvements to NZ Partners products and services.

## Taxation

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11
Income tax expense (\$m)	2,142	1,777	(20.5%)	1,076	1,066	(0.9%)
Effective tax rate (%)	27.5	27.3	(20 bps)	27.0	27.9	90 bps

## September 2011 v September 2010

**Income tax expense** for the year was \$365 million or 20.5% higher than the September 2010 year, mainly due to an increase in cash earnings before tax. Excluding foreign exchange rate movements, the income tax expense for the year was \$399 million or 22.5% higher than the September 2010 year.

The **effective income tax rate** for the September 2011 year of 27.5% is comparable to the effective income tax rate of September 2010 of 27.3%.

## September 2011 v March 2011

**Income tax expense** for the September 2011 half year was \$10 million or 0.9% higher than the March 2011 half year, driven by an increase in cash earnings before tax. Excluding foreign exchange rate movements, the income tax expense for the half year was \$13 million or 1.2% lower than the March 2011 half year.

The **effective income tax rate** for the September 2011 half year of 27.0% has decreased from the effective income tax rate of the March 2011 half year of 27.9%, due to the timing of recognition of tax benefits, a change in mix across tax jurisdictions where cash earnings is derived and a change in tax rates in the UK and New Zealand.

## Non-cash Earnings Items

### Distributions

Distributions relating to hybrid equity instruments are treated as an expense for cash earnings purposes and as a reduction in equity (dividend) for statutory purposes. The hybrid equity instruments are National Income Securities, Trust Preferred Securities, Trust Preferred Securities II and National Capital Instruments.

### Treasury Shares

For statutory reporting purposes, the Group eliminates the effect on net profit of the Group's life insurance business investment in National Australia Bank Limited shares. The elimination includes unrealised mark-to-market movements arising from changes in National Australia Bank Limited's share price, dividend income and realised profits and losses on the disposal of shares. Included in the Group's life insurance business in the September 2011 year was a net loss of \$48 million (\$39 million after tax) attributable to these adjustments.

### Fair Value and Hedge Ineffectiveness

Fair Value and hedge ineffectiveness cause volatility in statutory profit, which is excluded from cash earnings as it is income neutral over the full-term of transactions. This arises from: fair value movements relating to trading derivatives for risk management purposes; fair value movements relating to assets, liabilities and derivatives designated in hedge relationships; and fair value movements relating to assets and liabilities designated at fair value.

In the September 2011 year there was a reduction in statutory profit of \$266 million (\$181 million after tax) from fair value and hedge ineffectiveness. This was largely due to the change in the fair value of derivatives used to manage long-term funding from movements in spreads between Australian and overseas interest rates.

### IoRE Discount Rate Variation

The IoRE discount rate variation represents the impact on earnings of the change in value of deferred acquisition costs (net of reinsurance) included in insurance policy liabilities resulting from a movement in the inflation adjusted risk free discount rate. The weighted average discount rate applied has increased, resulting in a pre-tax loss of \$37 million (\$26 million after tax).

### UK Payment Protection Insurance Provision

On 19 May 2011, the Group announced an additional provision relating to Payment Protection Insurance (PPI) in the UK. The provision reflects an assessment of future PPI claims based upon estimates, statistical analysis and assumptions in relation to a wide range of uncertain factors, including how many PPI claims will be made against Clydesdale Bank PLC, for what value, and the prospects of mis-selling being established in relation to those claims.

This additional PPI provision of £100 million was treated as a non-cash earnings item in the September 2011 year.

### Litigation Expense

The Group recognised \$7 million (\$4 million after tax) in non-recurring litigation expenses during the 2011 financial year.

### Hedging Costs on SCDO Assets

During the second half of the 2011 financial year, NAB entered into transactions to remove the economic risk on four of the Group's six Synthetic Collateralised Debt Obligation (SCDO) assets. As previously disclosed, the recognition of hedging costs relating to the exited SCDO risk mitigation trades have been accelerated by expensing the carrying value of these hedge costs to non-cash earnings. During the September 2011 year, \$219 million (\$127 million after tax) of such costs were recognised. Should an opportunity arise to exit the economic risk relating to the remaining two SCDO risk mitigation trades, we would also accelerate the expensing of the remaining hedge costs, which as at 30 September 2011 was approximately \$141 million.

### Amortisation of Acquired Intangible Assets

The amortisation of acquired intangibles represents the amortisation of intangible assets acquired through business combinations such as core deposit intangibles, mortgage servicing rights, brand names and value of business and contracts in force.

### Due Diligence, Acquisition and Integration Costs

Acquisition and integration costs represent expenses associated with integrating acquisitions within the NAB operating model and reporting platforms, as well as costs associated with acquisitions.

The Aviva acquisition was completed on 1 October 2009. The integration of Aviva's insurance operations, its discretionary investment platform, Navigator, and Business Super continues in line with expectations. The total integration costs recognised for the September 2011 year amounted to \$123 million.

The strategic alliance with Goldman Sachs JBWere (GSJBW) was completed on 1 November 2009 after MLC & NAB Wealth acquired 80.1% of GSJBW's private wealth management business in Australia and New Zealand, which was branded JBWere. The total integration costs recognised for the September 2011 year were \$59 million.

The Challenger Mortgage Management acquisition, now branded Advantedge, was completed on 30 October 2009. This integration is now largely complete, with \$29 million of expenditure recognised in the year to September 2011.

The GWB integration costs of \$3 million for the September 2011 year represent the integration of prior period acquisitions.

Due diligence costs of \$15 million were incurred during the September 2011 year.

	Year ended		Half year ended	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
Aviva	123	69	74	49
JBWere	59	47	43	16
Advantedge	29	17	6	23
Great Western Bank	3	17	-	3
Due diligence costs	15	31	10	5
<b>Pre-tax total</b>	<b>229</b>	<b>181</b>	<b>133</b>	<b>96</b>



## Lending

	As at			Sep 11 v Sep 10 %	Sep 11 v Mar 11 %
	30 Sep 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m		
<b>Housing</b>					
Business Banking	60,215	58,908	56,648	6.3	2.2
Personal Banking	130,465	120,223	109,539	19.1	8.5
Wholesale Banking	487	578	689	(29.3)	(15.7)
MLC & NAB Wealth	16,104	15,610	15,121	6.5	3.2
NZ Banking	21,535	19,783	20,101	7.1	8.9
UK Banking	22,306	20,464	20,941	6.5	9.0
Great Western Bank	615	586	772	(20.3)	4.9
Corporate Functions and Other	1,337	1,160	1,089	22.8	15.3
Total housing	253,064	237,312	224,900	12.5	6.6
<b>Non-housing</b>					
Business Banking	135,856	133,847	132,293	2.7	1.5
Personal Banking	9,086	8,950	8,666	4.8	1.5
Wholesale Banking	15,464	13,226	12,773	21.1	16.9
MLC & NAB Wealth	2,757	2,817	2,765	(0.3)	(2.1)
UK Banking	31,481	30,611	32,730	(3.8)	2.8
NZ Banking	23,057	21,455	21,941	5.1	7.5
Great Western Bank	4,728	4,453	4,833	(2.2)	6.2
Specialised Group Assets	4,863	5,284	6,352	(23.4)	(8.0)
Corporate Functions and Other	1,769	1,291	728	large	37.0
Total non-housing	229,061	221,934	223,081	2.7	3.2
<b>Gross loans and advances including acceptances</b>	<b>482,125</b>	<b>459,246</b>	<b>447,981</b>	<b>7.6</b>	<b>5.0</b>
<i>Represented by:</i>					
Loans at fair value	50,472	41,567	36,700	37.5	21.4
Loans at amortised cost	388,636	371,744	361,603	7.5	4.5
Acceptances	43,017	45,935	49,678	(13.4)	(6.4)
<b>Gross loans and advances including acceptances</b>	<b>482,125</b>	<b>459,246</b>	<b>447,981</b>	<b>7.6</b>	<b>5.0</b>

## September 2011 v September 2010

**Lending** (gross loans and advances including acceptances) increased by \$34.1 billion or 7.6% on September 2010. Excluding foreign exchange, lending increased by \$34.6 billion or 7.7%. This increase was primarily due to continuing momentum in housing lending.

**Housing lending** increased by \$28.2 billion or 12.5%. Excluding foreign exchange the increase was \$28.1 billion or 12.5%. This growth was due to the Group's strategy to remain competitive in this sector. Growth in market share was achieved in Australia, the UK and New Zealand as a result of the effective execution of this strategy.

**Non-housing lending** increased by \$6.0 billion or 2.7%. Excluding foreign exchange the increase was \$6.5 billion or 2.9%. This growth was mainly due to:

- An increase of \$3.6 billion or 2.7% in Business Banking, despite a challenging operating environment. The SME and specialised business segments were key contributors to this growth.
- An increase of \$2.8 billion or 21.8% in Wholesale Banking, reflecting growth in warehouse facilities in the Global Capital Markets business.
- An increase in Corporate Functions and Other of \$1.0 billion due to growth in Asia Banking. This was mainly in the Corporate Loan Portfolio.
- Growth of \$0.5 billion or 2.0% in NZ Banking, despite weak demand for business credit. NZ Banking increased its market share in key segments, including agribusiness by 131 basis points to 20.5%.
- A decline of \$1.3 billion or 21.4% in Specialised Group Assets (SGA) due to the repayment of loans as the business is being managed down.

- A decline of \$0.4 billion or 1.2% in UK Banking due to subdued demand for credit, together with a focus on managing down commercial property and unsecured personal lending exposures.

## September 2011 v March 2011

**Lending** increased by \$22.9 billion or 5.0% on March 2011. Excluding foreign exchange lending increased by \$18.3 billion or 3.9% from March 2011. This growth was due to:

- **Housing lending** increasing by \$15.8 billion or 6.6%. Excluding foreign exchange the increase was \$13.9 billion or 5.8%. Growth was achieved through continued momentum in Personal Banking, Business Banking and MLC & NAB Wealth. Modest growth was also achieved in both UK Banking and NZ Banking as demand for credit remains subdued.
- **Non-housing lending** increasing by \$7.1 billion or 3.2%. Excluding foreign exchange the increase was \$4.4 billion or 2.0%, reflecting growth in Business Banking and Wholesale Banking, partly offset by a decline in SGA. The increase in Business Banking reflected growth in the SME and specialised business segments. The growth in Wholesale Banking was due to the growth of warehouse facilities in the Global Capital Markets business. The decline in SGA was due to the continued efforts to manage down the business.

### Goodwill and Other Intangible Assets

*Goodwill* increased by \$21 million, or 0.4% from September 2010. The increase in goodwill from September 2010 was largely due to the \$22 million acquisition of Meritum and the \$4 million final instalment payment for the assets of TierOne Bank, partially offset by a decline of \$5 million due to the effect of foreign exchange.

*Intangible assets* comprise capitalised software and other intangible assets. Intangible assets increased by \$164 million from September 2010 and by \$115 million from March 2011. The increase from September 2010 was mainly due to investment in internally generated software, partially offset by amortisation.

The Group continues to invest in software to support its strategic objectives. Major investments currently undertaken by the Group are:

- In Australia, investment of \$205 million during the year in software related to the Next Generation Banking IT Platform (NGP).
- In the UK, projects include a new platform for document printing, mailing and scanning, outsourcing of Automated Teller Machines and point-of-sale facilities, and an enhanced Direct Banking offering. In addition, UK Banking continues to invest in software to support regulatory and compliance initiatives.

- In Wholesale Banking, continued focus on efficiency and revenue generating projects, including the continued development of software platforms for Global Markets and Treasury, investment in systems to improve credit risk management information, and investment in Asset Servicing platforms. In addition, investments were made in compliance and operational risk initiatives.
- In New Zealand, additional spend on projects over the last two years to support the implementation of the BNZ strategic plan. These include a new Credit Decision engine, an Asset Finance platform, and a new on-line capability.

The movement in capitalised software is as follows:

	Year ended		Half year ended	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
Balance at beginning of year	998	934	1,106	998
Additions from business combinations	-	44	-	-
Additions	544	330	280	264
Disposals and write-offs	(18)	(8)	(11)	(7)
Amortisation	(258)	(266)	(129)	(129)
Foreign currency translation adjustments	(14)	(36)	6	(20)
<b>Capitalised software</b>	<b>1,252</b>	<b>998</b>	<b>1,252</b>	<b>1,106</b>

## Retail Deposits

	As at			Sep 11 v Sep 10 %	Sep 11 v Mar 11 %
	30 Sep 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m		
<b>Retail deposits</b>					
Business Banking	89,777	84,889	78,881	13.8	5.8
Personal Banking	75,408	70,375	64,737	16.5	7.2
MLC & NAB Wealth	10,238	10,119	9,410	8.8	1.2
NZ Banking	24,977	23,072	22,204	12.5	8.3
UK Banking	37,738	35,619	38,528	(2.1)	5.9
Great Western Bank	6,425	6,241	6,651	(3.4)	2.9
Corporate Functions and Other	4,420	5,126	5,087	(13.1)	(13.8)
<b>Total retail deposits</b>	<b>248,983</b>	<b>235,441</b>	<b>225,498</b>	<b>10.4</b>	<b>5.8</b>

**September 2011 v September 2010**

Retail deposits have increased by \$23.5 billion or 10.4% since September 2010. Excluding foreign exchange, retail deposits have increased by \$24.0 billion or 10.6%, driven by the Group's strategy to focus on quality and sustainable customer deposits as a source of funding to strengthen the balance sheet. This growth was mainly due to:

- An increase of \$10.9 billion or 13.8% in Business Banking, driven by growth in term deposits and on-demand savings deposits.
- An increase of \$10.7 billion or 16.5% in Personal Banking due to growth in both UBank and in the proprietary network.
- An increase of \$2.1 billion or 9.2% in NZ Banking, mainly driven by growth in term deposits.

**September 2011 v March 2011**

Retail deposits have increased by \$13.5 billion or 5.8% since March 2011. Excluding foreign exchange, retail deposits have increased by \$10.5 billion or 4.4%. This growth was mainly attributable to:

- An increase of \$5.0 billion or 7.2% in Personal Banking through growth in online savings and term deposit products, and continued momentum in UBank.
- An increase of \$4.9 billion or 5.8% in Business Banking, reflecting the continued focus on increasing deposits.
- An increase of \$1.3 billion or 3.5% in UK Banking, through growth in on-demand and short-term deposits.

## Asset Quality

Asset quality indicators improved during the September 2011 full year. The ratio of the Group's 90+ days past due and gross impaired assets to gross loans and acceptances decreased.

The total charge for bad and doubtful debts for the September 2011 half year was lower than in the March 2011 half year, and the charge for the full year continued the downward trend since September 2009.

## Bad and Doubtful Debt Charge

	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
Specific charge to provide for bad and doubtful debts	2,127	2,235	1,123	1,004
Collective (write back)/charge to provide for bad and doubtful debts	(332)	1	(297)	(35)
Total charge on investments - held to maturity	27	555	8	19
Recovery from SCDO risk mitigation trades	-	(528)	-	-
<b>Total charge to provide for bad and doubtful debts</b>	<b>1,822</b>	<b>2,263</b>	<b>834</b>	<b>988</b>

	Year to		Half Year to	
	Sep 11	Sep 10	Sep 11	Mar 11
Bad and doubtful debts charge to gross loans and acceptances (annualised)	0.38%	0.51%	0.35%	0.43%
Net write-offs to gross loans and acceptances (annualised)	0.41%	0.50%	0.40%	0.45%

The total charge to provide for bad and doubtful debts for the September 2011 full year was \$1,822 million, a decrease of \$441 million when compared to the September 2010 full year.

The bad and doubtful debt charge for the September 2011 half year was \$834 million, a decrease of \$154 million when compared to the March 2011 half year and a decrease of \$199 million when compared to the September 2010 half year.

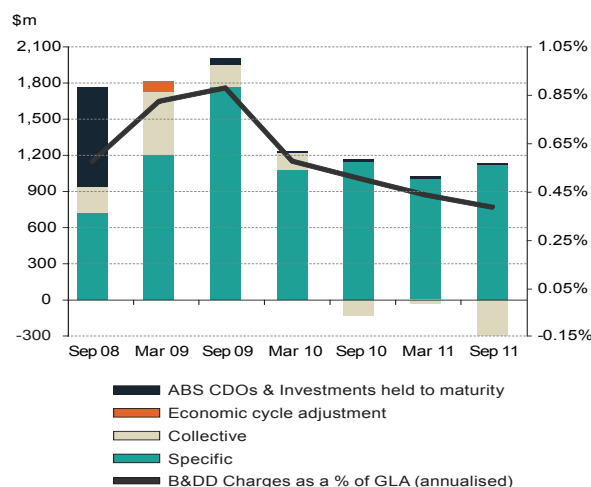
The decrease in the total charge for bad and doubtful debts for the September 2011 full year was mainly due to a collective provision reduction of \$332 million, although specific provision charges were also lower by \$108 million. The collective provision write-back reflects the migration of particular Specialised Group Assets (SGA) customers and Business Banking customers to impaired status, an improvement in the delinquency profile in the unsecured retail portfolio for Personal Banking and UK Banking, and the continued reduction in the SGA portfolio. There was no adjustment made to the Group's economic cycle adjustment of \$300 million.

The specific provision charge for the September 2011 full year was \$2,127 million, compared to the September 2010 full year charge of \$2,235 million. The decrease reflects lower specific provision charges across most divisions, particularly Wholesale Banking, SGA and UK Banking. In Business Banking, the specific provision full year charge was slightly higher when compared to the 2010 full year and higher for the September 2011 half year compared to the March 2011 half year. This is reflective of the economic conditions in Australia.

With respect to the Synthetic Collateralised Debt Obligations (SCDO), there were no credit events that created any losses during the September 2011 full year. The economic risk associated with four SCDO assets was exited during the September 2011 full year, and the Group continues to explore opportunities to exit the

economic risk associated with the remaining two of the original six SCDO assets.

## Half Yearly Total Bad and Doubtful Debt Charge



The ratio of the total charge for bad and doubtful debts to gross loans and acceptances for the September 2011 full year decreased from 0.51% at September 2010 to 0.43% (annualised) at March 2011, then to 0.38% at September 2011. The decrease in the ratio was a reflection of improved economic and market conditions during the year, however conditions remained challenging in some sectors, particularly commercial property in Australia and UK. The decrease in the ratio was also due to growth in gross loans and acceptances.

## Provisioning Coverage

Provisions for doubtful debts	As at		
	Sep 11 \$m	Mar 11 \$m	Sep 10 \$m
Collective provision on loans at amortised cost	2,505	2,781	2,865
Collective provision on loans and derivatives at fair value	893	707	705
Collective provision for doubtful debts	3,398	3,488	3,570
Specific provision on loans at amortised cost	1,475	1,299	1,409
Specific provision on loans at fair value	71	120	115
Specific provision for doubtful debts	1,546	1,419	1,524
<b>Total provision for doubtful debts <sup>(1)</sup></b>	<b>4,944</b>	<b>4,907</b>	<b>5,094</b>

<sup>(1)</sup> Not included in total provisions for doubtful debts are provisions on investments - held to maturity of \$204 million (March 2011 \$187 million, September 2010 \$181 million).

	As at		
	Sep 11	Mar 11	Sep 10
Total provision to gross loans and acceptances	1.03%	1.07%	1.14%
Specific provision to gross impaired assets	24.2%	22.6%	25.2%
Collective provision to credit risk-weighted assets (excluding housing)	1.45%	1.46%	1.48%
Collective provision including GRCL (top-up) to credit risk-weighted assets (excluding housing)	1.86%	1.88%	1.88%

Total provisions decreased by \$150 million, from \$5,094 million at September 2010 to \$4,944 million at September 2011. This decrease was a reflection of, amongst other factors, improved economic and market conditions during the year, the reduction of the SGA portfolio, and the foreign currency translation effect from the strengthening of the Australian dollar.

The Group's collective provision at September and March 2011 includes a NZ\$60 million overlay for potential credit losses arising from the major New Zealand earthquakes.

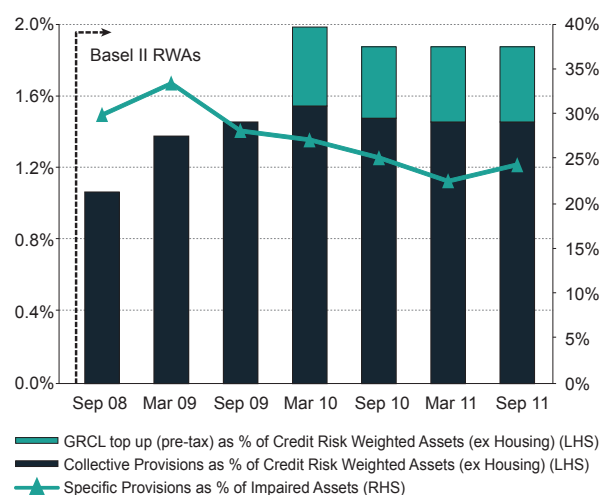
The ratio of specific provisions to gross impaired assets increased marginally from 22.6% at March 2011 to 24.2% at September 2011, and is lower when compared to September 2010.

The Group's collective provision to credit risk-weighted assets (excluding housing) ratio decreased slightly by 3 basis points to 1.45% at September 2011, when compared to September 2010, and was stable to the March 2011 coverage ratio.

The General Reserve for Credit Losses (GRCL) top-up decreased from \$751 million at March 2011 to \$716 million (\$954 million on pre-tax basis) at September 2011.

When this general reserve is added to the Group's ratio of collective provision to credit risk-weighted assets (excluding housing), the ratio increases from 1.45% to 1.86% as at September 2011, and is marginally lower when compared to March 2011.

## Provision Coverage



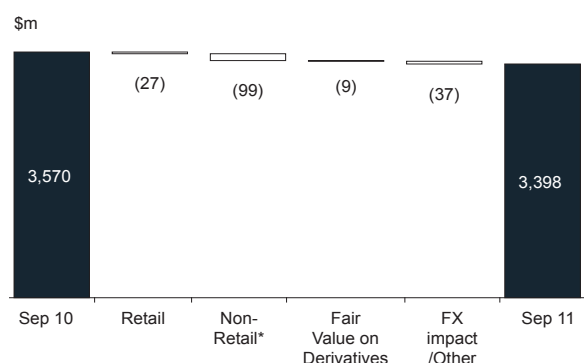
## Specific Provisions

The specific provision balance (including specific provisions on impaired assets at fair value) has increased slightly to \$1,546 million as at September 2011, compared with \$1,524 million at September 2010. Specific provision charges of \$2,127 million were almost offset by net write-offs of impaired assets and the foreign currency translation effect from the strengthening of the Australian dollar.

## Collective Provisions

The collective provision balance (including collective provisions on assets at fair value) decreased to \$3,398 million as at September 2011, from \$3,570 million at September 2010. The decrease of \$172 million is attributable as follows:

### Collective Provision Attribution Analysis



\* Non-Retail includes loans at amortised cost and loans at fair value, including overlays for the natural disaster in New Zealand.

#### Retail

Collective provision on the retail portfolio has decreased by \$27 million since September 2010, mainly due to the unsecured retail portfolio in UK Banking and Australia recording improvements in their delinquency profile and the reduction in the size of the UK Banking unsecured retail portfolio. This decrease was partly offset by an increase in Australia, from the strong growth in mortgages.

#### Non-Retail (including Loans at Fair Value and Natural Disaster Overlays)

Collective provision on the non-retail portfolio decreased by \$99 million since September 2010. The write-back reflects the migration of particular SGA customers and Business Banking customers to impaired status, and the continued reduction in the SGA portfolio. This decrease was partially offset by an increase in the natural disaster overlay in New Zealand.

#### Derivatives at Fair Value

Collective provision on derivatives at fair value has decreased by \$9 million since September 2010, mainly due to the reduction in the credit exposure on derivatives.

#### Economic Cycle Adjustment

There has been no change to the economic cycle adjustment since September 2010, which stands at \$300 million as at September 2011.

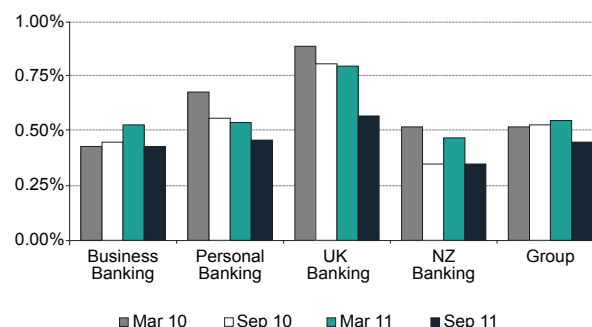
#### Asset Quality

	As at		
	Sep 11	Mar 11	Sep 10
90+ days past due loans (\$m)	2,150	2,541	2,366
Gross impaired assets (\$m)	6,386	6,275	6,048
<b>90+ days past due and gross impaired assets (\$m)</b>	<b>8,536</b>	<b>8,816</b>	<b>8,414</b>

	As at		
	Sep 11	Mar 11	Sep 10
90+ days past due loans to gross loans and acceptances	0.45%	0.55%	0.53%
Gross impaired assets to gross loans and acceptances	1.32%	1.37%	1.35%
90+ days past due and gross impaired assets to gross loans and acceptances	1.77%	1.92%	1.88%

### Non-Impaired Assets 90+ Days Past Due

#### Non-Impaired Assets 90+ Days Past Due as % of Gross Loans and Acceptances



The **Group** ratio of non-impaired 90+ days past due (90+ DPD) loans to gross loans and acceptances (90+ DPD ratio) decreased by eight basis points from 0.53% at September 2010 to 0.45% at September 2011, and was ten basis points lower when compared to March 2011. There was a decrease in the 90+ DPD volumes during the September 2011 half year across most divisions.

The **Business Banking** 90+ DPD ratio decreased by ten basis points from 0.53% at March 2011 to 0.43% at September 2011, mainly due to business exposures migrating to impaired status. There were no new single large names categorised as 90+ DPD during the September 2011 half year.

The **Personal Banking** 90+ DPD ratio continued to improve during the September 2011 half year, with the ratio of 90+ DPD decreasing by eight basis points from 0.54% at March 2011 to 0.46% at September 2011. The decrease was mainly due to the fall in the 90+ DPD volumes across mortgages and unsecured portfolio managed facilities, combined with an increase in mortgage volumes during the September 2011 half year.

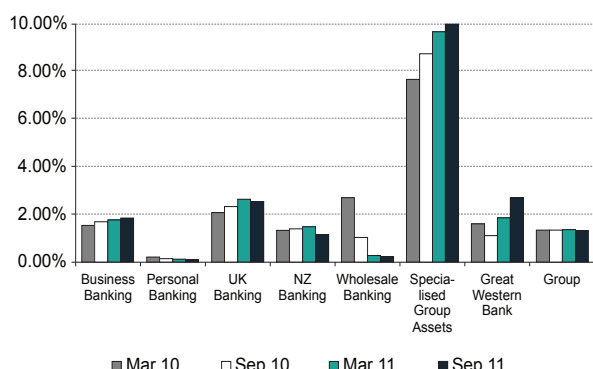
The **UK Banking** 90+ DPD ratio decreased by 23 basis points from 0.80% at March 2011 to 0.57% at September 2011, reflecting a decrease in 90+ DPD volumes driven by business loan and mortgage arrears migrating to impaired status, improvement in the unsecured retail portfolio, and growth in UK Banking gross loans and acceptances. The volume of new 90+ DPD loans was less than the volume of loans migrating to impaired status.

The **NZ Banking** 90+ DPD ratio decreased by 12 basis points from 0.47% at March 2011 to 0.35% at September 2011. This was largely due to a decrease in the 90+ DPD volumes across business loans and mortgages, and growth in the NZ Banking gross loans and acceptances, mainly from mortgages during the September 2011 half year.

The **Great Western Bank** 90+ DPD ratio decreased by 166 basis points from 3.77% at March 2011 to 2.11% at September 2011, largely as a result of the work-out strategies in this portfolio. The majority of the 90+ DPD loans relate to the acquired TierOne assets and these are covered by the loss share agreement with the Federal Deposit Insurance Corporation (FDIC). Excluding loans relating to TierOne assets, the volume of 90+ DPD loans at September 2011 is negligible.

**Impaired Assets**

**Gross Impaired Assets as % of Gross Loans and Acceptances - ex Investments Held to Maturity**



The **Group** ratio of gross impaired assets to gross loans and acceptances (impaired asset ratio) decreased by three basis points from 1.35% at September 2010 to 1.32% at September 2011, and was five basis points lower when compared to March 2011. Whilst the impaired asset ratio improved during the September 2011 half year, gross impaired assets remained at relatively high levels. In Business Banking and UK Banking, commercial property exposures continued to migrate into impaired status, while Personal Banking impaired volumes (mainly mortgages) continued to trend down.

For **Business Banking**, the impaired asset ratio increased by seven basis points from 1.78% at March 2011 to 1.85% at September 2011. The increase was due to single large exposures in the commercial property sector and smaller exposures in the SME sector, mainly in Queensland. The level of new impaired assets in the September 2011 half year was broadly stable to the March 2011 half year, although impaired volumes remained at elevated levels, reflective of the economic adjustment underway in Australia.

The **Personal Banking** impaired asset ratio continued to improve at a steady rate, down two basis points from 0.12% at March 2011 to 0.10% at September 2011. The decrease was mainly due to the fall in impaired assets in the mortgage portfolio and growth in mortgage volumes.

The **UK Banking** impaired asset ratio decreased by ten basis points from 2.65% at March 2011 to 2.55% at September 2011. The decrease was due to growth in the UK Banking gross loans and acceptances. The volume of impaired assets remained broadly stable compared to March 2011. Commercial property exposures continued to migrate to impaired status, which, combined with a continued difficult market for disposing commercial property assets, has resulted in impaired asset volumes in the commercial property sector continuing to dominate the UK Banking impaired portfolio.

The **NZ Banking** impaired asset ratio decreased by 33 basis points from 1.49% at March 2011 to 1.16% at September 2011. The decrease was mainly due to new impaired assets being offset to a greater extent by existing impaired assets returning to performing or being repaid during the September 2011 half year. Growth in the NZ Banking gross loans and acceptances also had an effect.

The **Wholesale Banking** impaired asset ratio decreased by three basis points from 0.28% at March 2011 to 0.25% at September 2011. The decrease was due to the growth in Wholesale Banking gross loans and acceptances. During the September 2011 half year, impaired volumes were broadly stable with no significant impairments over the period.

In **SGA**, the level of impaired assets decreased by \$25 million during the September 2011 half year to \$488 million. The decrease was mainly driven by existing impaired assets returning to performing or being repaid, partly offset by the impairment of one exposure. The impaired ratio increased by 32 basis points from 9.71% at March 2011 to 10.03% at September 2011, as the SGA gross loans and acceptances continued to reduce.

The **Great Western Bank** impaired asset ratio increased by 83 basis points from 1.87% at March 2011 to 2.70% at September 2011. The increase was mainly due to the impairment of a small number of non-retail exposures of Great Western Bank legacy loans with a high level of collateral and no significant losses expected. There are currently no impaired assets relating to TierOne assets as at September 2011.

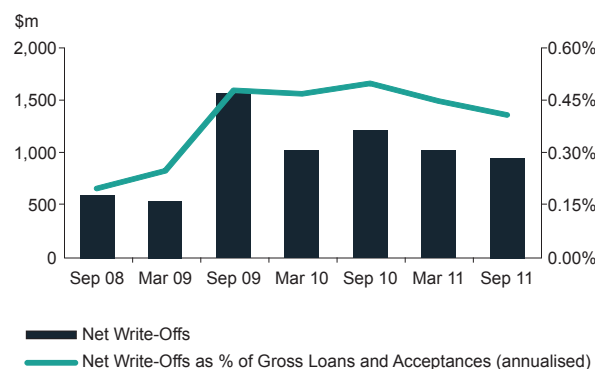
**Net Write-Offs**

Net write-offs decreased by 7% from \$1,030 million for the March 2011 half year to \$959 million for the September 2011 half year. The Group continues to manage bad debt write-offs to maintain a clean balance sheet. The ratio of net write-offs as a proportion of gross loans and acceptances (annualised) has decreased by four basis points from 0.45% at March 2011 half year to 0.41% at September 2011.

The gross 12 months rolling write-off rate for the Group's retail portfolio decreased by four basis points from 0.25% at March 2011 to 0.21% at September 2011, with the mortgage gross write-off rate steady at 0.06% at September 2011, when compared to March 2011.

The total provisions to net write-offs (annualised) ratio is broadly stable at 249% as at September 2011, as compared to the March 2011 level of 238%.

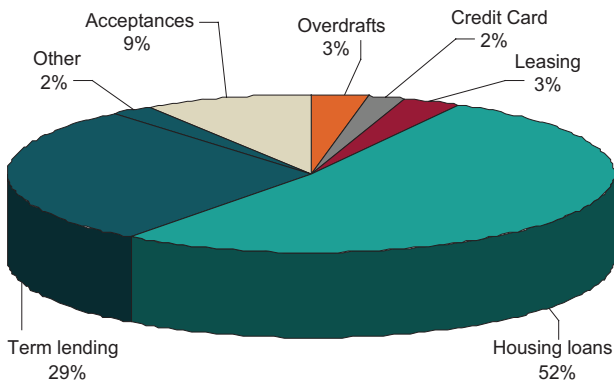
**Group Half Yearly Net Write-Offs as a % of Gross Loans and Acceptances**



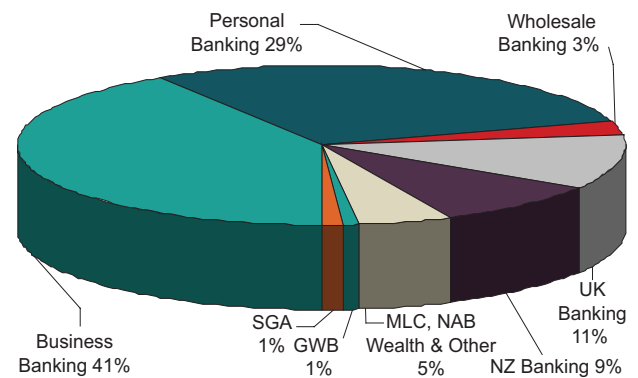
**Portfolio Composition**

The Group's lending portfolio is diversified by both product and geography.

**Group Gross Loans and Acceptances by Product**



**Group Gross Loans and Acceptances by Division**



**Commercial Property Portfolio**

The Group's commercial property portfolio totals \$60.9 billion<sup>(1)</sup>. This has marginally increased by \$0.7 billion since March 2011, mainly due to the foreign currency translation effect. The portfolio represents 12.6% of the Group's gross loans and acceptances (13.1% at March 2011), mainly reflecting the Group's relative size in Australian Business Banking and the previous iFS growth strategy in the UK.

The **Business Banking** commercial property portfolio was broadly stable when compared to March 2011. At September 2011, the portfolio totalled \$42.9 billion, and has decreased to 11.7% of gross loans and acceptances in the Australian geography.

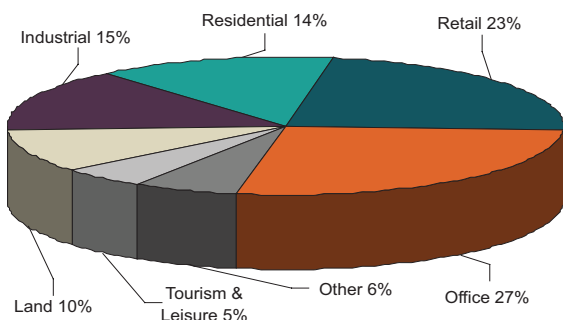
<sup>(1)</sup> Measured as balances outstanding at September 2011 per APRA Commercial Property Return ARF230.

The **UK Banking** commercial property portfolio totals £6.2 billion as at September 2011, marginally lower when compared to March 2011, representing 18.4% of the division's gross loans and acceptances. The asset quality of the commercial property portfolio continued to be challenged by economic conditions in the UK. Whilst there has been some stabilisation in commercial property prices, the market for disposing of these assets was still operating below normal levels. This has resulted in assets remaining in the impaired asset category longer than has been experienced previously.

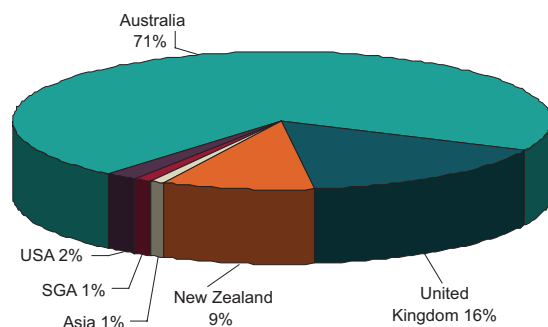
The **NZ Banking** commercial property portfolio reported for September 2011 was steady at NZ\$7.0 billion when compared to March 2011, although it decreased to 12.2% of the division's gross loans and acceptances.

The **SGA** commercial property portfolio remained steady at \$0.8 billion when compared to March 2011.

**Group Commercial Property by Type**



**Group Commercial Property by Geography**





## Capital Management and Funding

### Balance Sheet Management Overview

During the September 2011 year, market conditions worsened, although there were periods where the Group was able to readily access term wholesale funding markets.

The Group remains vigilant in its evaluation of economic and market conditions, and continues to ensure the balance sheet remains strong. The Group is also cognisant of the need to balance growth and regulatory change, while being sensitive to the potential for market disruptions.

### Regulatory Reform

#### Basel Regulatory Reforms

The Basel Committee has released its reform package for both capital and liquidity (Basel III).

In September 2011, APRA released a discussion paper outlining its proposed implementation of the Basel III capital reforms. The proposals may be subject to amendment prior to final implementation. As currently drafted, the reforms are estimated to have an unfavourable net impact on the Group's Basel II Core Tier 1 position of approximately 45 basis points. APRA proposes to implement changes to market risk and securitisation on 1 January 2012, phasing in other changes and regulatory minimums from 1 January 2013.

The material changes contained in the proposed reforms include:

- Most items currently deducted 50% from Tier 1 Capital and 50% from Tier 2 Capital are to be deducted 100% from Core Tier 1 Capital. This includes the Group's investment in Wealth Management net tangible assets.
- Removal of the dividend and Dividend Reinvestment Plan (DRP) accrual provisions.
- Additional securitisation risk weighted assets (RWAs) and 1,250% risk weighting of the current 50% Tier 1 and 50% Tier 2 Capital deduction.

- Additional RWAs for market risk, although APRA has not yet finalised its proposals for increased RWAs associated with market risk (in particular counterparty credit risk).

#### Liquidity Reforms

The implementation of the Basel III liquidity reforms remains subject to clarification by APRA. APRA has indicated it will release discussion papers on liquidity reforms by the end of 2011, as part of an ongoing consultation process.

The Group will gradually transition to the new Basel III metrics, including the Liquidity Coverage Ratio (LCR) by January 2015 and the Net Stable Funding Ratio (NSFR) by January 2018. In order to transition to Basel III, the Group will increasingly focus on the quality of liquidity and stability of the funding that underpins the LCR measure.

During the period, APRA and the RBA announced that Authorised Deposit-taking Institutions (ADIs) will be able to establish a committed, secured liquidity facility with the RBA to facilitate compliance with the liquidity proposals.

#### Other Reform Proposals

In addition to the Basel Committee reforms, the Group remains focused on other areas of regulatory change. Key reform proposals that may affect the Group's capital and funding include:

- APRA's Level 3 Conglomerate Supervision proposals, which considers capital requirements for the consolidated Banking and Wealth Management Group.
- APRA's proposed changes to capital adequacy for life and general insurance businesses.
- The potential impacts of the US Dodd-Frank bill on NAB's US operations and businesses with US connections.
- The UK Independent Commission on Banking which may impact the amount of capital held in the UK business.

### Capital ratios

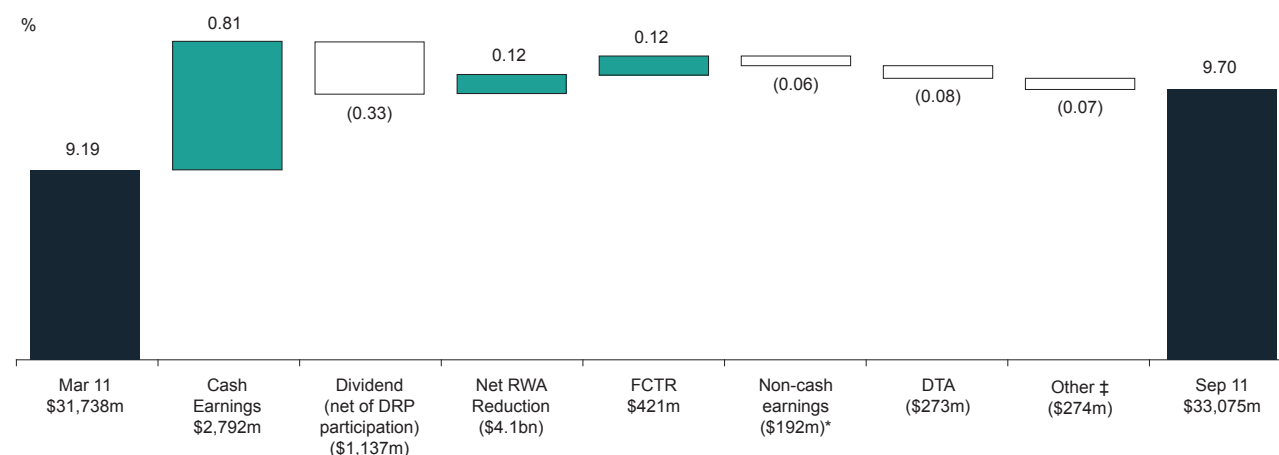
Capital ratios and risk-weighted assets are set out below:

	Target Ratio %	As at			Sep 11 v Sep 10	Sep 11 v Mar 11
		30 Sep 11 %	31 Mar 11 %	30 Sep 10 %		
Core Tier 1 ratio <sup>(1)</sup>		7.58	7.12	6.80	78 bps	46 bps
Tier 1 ratio	above 8.00%	9.70	9.19	8.91	79 bps	51 bps
Total capital ratio		11.26	11.33	11.36	(10 bps)	(7 bps)

<sup>(1)</sup> Core Tier 1 ratio equals Total Tier 1 Capital less Tier 1 Hybrids.

	As at			Sep 11 v Sep 10%	Sep 11 v Mar 11%
	30 Sep 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m		
Risk-weighted assets - credit risk	308,648	311,625	312,345	(1.2)	(1.0)
Risk-weighted assets - market risk	2,968	3,159	3,079	(3.6)	(6.0)
Risk-weighted assets - operational risk	22,255	21,862	22,234	0.1	1.8
Risk-weighted assets - interest rate risk in the banking book	7,198	8,565	7,000	2.8	(16.0)
<b>Total risk-weighted assets</b>	<b>341,069</b>	<b>345,211</b>	<b>344,658</b>	<b>(1.0)</b>	<b>(1.2)</b>

## Movement in Tier 1 Ratio



\* Non-cash earnings impact after adjusting for Distributions and Treasury Shares.

‡ Other consists primarily of Wealth Management adjustment (-2 basis points) and other immaterial movements.

## Capital Management

The Group's capital management strategy is focused on adequacy, efficiency and flexibility. The capital adequacy objective focuses on holding capital in excess of the internal risk-based assessment of required capital, meeting regulatory requirements, maintaining capital consistent with the Group's Balance Sheet risk appetite, and ensuring investors' expectations are met. This approach is consistent across the Group's subsidiaries.

The Board approved Tier 1 target is above 8%. A target of above 8% reflects the Group's desire to maintain strong balance sheet settings and is consistent with the risk appetite of investors and the global regulatory direction. The Group continues to operate above this target and is migrating capital ratios higher, in line with APRA's proposed Basel III regulatory requirements. Board approved targets will be recalibrated when the regulatory environment becomes clearer.

The Group remains committed to maintaining the efficiency of the capital base as existing hybrid securities are scheduled for redemption or conversion.

## Capital Movements During the Period

The Group's Tier 1 ratio of 9.70% at 30 September 2011 is consistent with the Group's objective of maintaining a strong capital position.

The key movements in capital in the September 2011 half year were:

- Earnings less dividend net of DRP participation (48 basis points).
- Reduction in RWAs (12 basis points).
- Unfavourable non-cash earnings (six basis points).
- Increase in the net deferred tax asset (eight basis points).

The 12 basis points movement in the foreign currency translation reserve is largely offset by the foreign exchange impact on RWAs.

Total RWAs fell by \$4.1 billion over the September 2011 half year. This was primarily as a result of optimisation and an improvement in credit quality, partially offset by volume growth and foreign exchange rate movements.

Redemption of \$2.2 billion of subordinated debt reduced the Total Capital ratio by 64 basis points.

## Dividend and Dividend Reinvestment Plan

The final dividend has been increased by four cents to 88 cents and the DRP settings have been maintained with a 1.5% discount and no participation limit. The final dividend accrual has been reduced by an amount equal to 41.3% of the final dividend to reflect assumed DRP participation.

## UK Defined Benefit Superannuation Plan

The Group's UK operations operate a defined benefit superannuation plan ("the Plan"). During the September 2011 half year, the Plan's deficit was impacted by UK market weakness, increasing to £180 million from £112 million at March 2011. The pension position is influenced by four key factors:

- Movement in the discount rate used to calculate the net present value of the liability.
- Movement in the long-term inflation assumption.
- Changes in the value of the investment portfolio.
- Changes in the liability profile resulting from the Triennial Review which is currently underway.

In September 2011, Clydesdale Bank PLC and National Australia Bank Limited announced that they will be entering into a 60 day consultation period with members of the Plan over a package of reforms. The proposed reforms include:

- Co-contribution by Plan members, reducing the costs of running the Plan to the employer.
- Annual increases of benefits accrued in line with Consumer Prices Index rather than the Retail Prices Index for future benefits earned.
- Withdrawal from active participation in the Plan by National Australia Bank Limited.

These reforms, if implemented, are likely to have a positive impact on the Plan funding in the future.

## Pillar 3 Disclosures

Further disclosures with respect to capital adequacy and risk management will be made in the Risk and Capital Report, as required by APS 330.

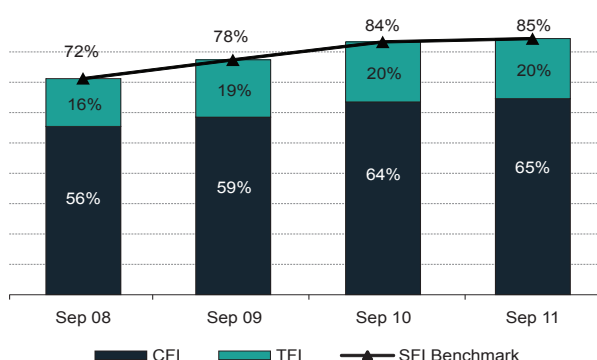
## Funding

### Funding Indices

The Group employs a range of internal Board approved metrics to set its risk appetite and measure balance sheet strength. A key measure used is the Stable Funding Index (SFI), which is made up of the Customer Funding Index (CFI) and Term Funding Index (TFI). The CFI represents the proportion of the Group's core assets that are funded by customer deposits. Similarly, the TFI represents the proportion of the Group's core assets that are funded by term wholesale funding with a remaining maturity greater than one year.

The Group SFI as at September 2011 has increased to 85%, with solid asset growth being funded from stable sources.

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



### Customer Funding

The Group has continued its focus on customer deposits, with a view to employing a proactive approach to the Basel III transition. Basel III differentiates deposits by their perceived stability in a crisis, and accordingly the Group has undertaken to better align its deposit portfolio to this profile.

The structural changes taking place to improve the quality of the Group's deposit mix are designed to move towards compliance with the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

### Term Wholesale Funding

Global term funding markets experienced periods of relative stability in the 2011 financial year, although market conditions deteriorated in the last quarter due to increased European and global macroeconomic concerns. During this recent period of volatility, opportunities for global banks to issue senior unsecured funding were limited. Nevertheless, the Group's proactive approach to raising term wholesale funding earlier in the year meant that balance sheet settings remained strong at 30 September 2011.

The Group raised \$31.6 billion of term wholesale funding (including secured funding) in the 2011 financial year. National Australia Bank Limited raised \$28.0 billion (including \$2.3 billion of Residential Mortgage Backed Securities). Bank of New Zealand (BNZ) raised \$3.4 billion (including \$2.3 billion of covered bonds), and National Wealth Management Holdings Limited raised \$0.2 billion.

The weighted average maturity of term wholesale funding raised by the Group over the 2011 financial year was approximately 4.5 years to first call, compared to 5.1 years in the prior financial year. The weighted average remaining maturity of the Group's senior and subordinated term wholesale portfolio funding is 2.9 years (3.5 years for TFI qualifying debt, which includes debt with more than 12 months remaining term to maturity).

The average cost of term wholesale funding issued by National Australia Bank Limited (including the cost of being swapped back to Australian dollars) during the 2011 financial year was approximately 120 basis points over the Bank Bill Swap Rate (BBSW), compared to an average cost of 132 basis points over BBSW in the 2010 financial year. The average cost of the National Australia Bank Limited outstanding term funding portfolio for the 2011 financial year was 124 basis points over BBSW compared to 107 basis points over BBSW for the 2010 financial year. In the last quarter of the 2011 financial year, credit spreads widened significantly due to weakness in the global term wholesale funding markets.

The Group remains committed to exploring opportunities to enhance and add diversity to its funding sources. In the 2011 financial year, the Group raised \$4.6 billion in secured funding. The Group did not raise any secured funding in the 2010 financial year.

During the 2011 financial year, National Australia Bank Ltd repurchased and retired \$2.9 billion of Government guaranteed debt. The Group has a total of \$16.8 billion of Government guaranteed wholesale funding outstanding. Of this, 39% matures in 2012 and the remainder by 2014.

### Short-term Wholesale Funding

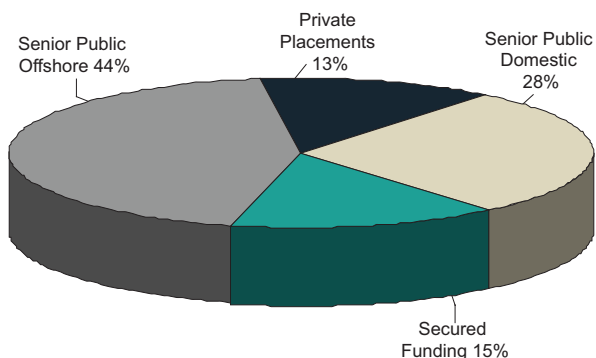
The Group continued to access international and domestic short-term wholesale markets without difficulty over the year, despite global volatility. The focus has been on maintaining the longer average duration of the short-term book to support the Group's liquidity position.

### Liquid Asset Portfolio

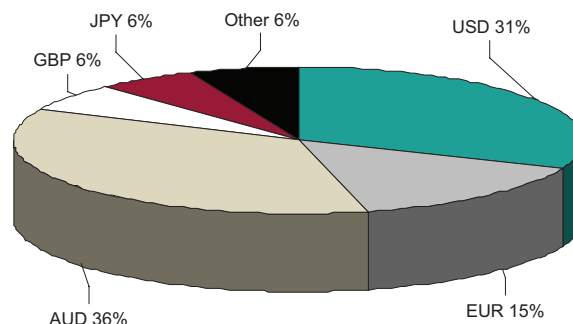
The Group maintains well diversified and high quality liquid asset portfolios to support regulatory and internal requirements in the various countries in which it operates. Total liquid assets held at 30 September 2011 were \$95 billion, a \$23 billion increase from 31 March 2011. The portfolio level increase reflects an additional buffer of liquid assets being held against current market volatility, planned regulatory transition requirements, and currency movements. Liquidity holdings will be continually reassessed as the effects of proposed regulatory changes become clearer.

In addition to these liquid assets, the Group holds internal securitisation pools of Residential Mortgage Backed Securities (RMBS) as a source of contingent liquidity to further support its liquid asset holdings.

**Full year 2011 Wholesale Funding by Deal Type (\$31.6 billion)**



**Full year 2011 Wholesale Funding by Currency (\$31.6 billion)**



**Credit Ratings**

The Group's current long-term debt ratings are: National Australia Bank Limited AA/Aa2/AA (S&P/Moody's/Fitch); BNZ AA/Aa3/AA; Clydesdale Bank PLC A+/A2/A+; and National Wealth Management Holdings Limited AA- (S&P).

Rating agencies periodically review the various banking sectors in which the Group operates. The Group monitors rating agency developments closely and communicates with them as appropriate.

In May 2011, Moody's announced a one notch systemic downgrade to the long-term, senior unsecured debt ratings of National Australia Bank Limited from Aa1 to Aa2 and to the subordinated debt ratings from Aa2 to Aa3. At the same time, BNZ's ratings were downgraded as follows: long-term, senior unsecured debt and deposit ratings from Aa2 to Aa3; subordinated debt ratings from Aa3 to A2; and preferred stock ratings from A3(hyb) to Baa1(hyb). These changes were consistent with downgrades to the ratings of all major Australian and New Zealand banks. Short-term ratings were unchanged. The outlook for these ratings is stable.

In September 2011, Moody's downgraded Clydesdale Bank PLC's senior long term credit rating from A1 to A2, attributing it to a perceived reduction in the level of parental support following press speculation about the long term future ownership of Clydesdale Bank. National Australia Bank Limited confirmed that the nature of the Group's support for the Clydesdale Bank has not changed and that the primary focus in the United Kingdom has been, and remains, organic growth.

In September 2011, Fitch also downgraded Clydesdale Bank PLC's senior long term issuer default rating from AA- to A+ in response to lower perceived parental support. Clydesdale Bank PLC's short term rating was also downgraded from F1+ to F1. The outlook for both is stable.

On 7 October 2011, Moody's concluded its reassessment of systemic support for 13 UK financial institutions, resulting in the downgrade of the senior debt and deposit ratings of 12 of these institutions. Clydesdale Bank PLC was included in this review but was not downgraded.

Fitch affirmed the long and short-term ratings of National Australia Bank Limited (on 14 April 2011) and BNZ (on 17 April 2011) at AA and F1+ respectively. The outlook for all ratings is stable.

In January 2011, Standard and Poors (S&P) released its proposals titled, "Banks: Rating Methodology", which outlined proposed changes to its methodology of assessing global bank ratings. S&P continues to consult with the global banking industry and at this time the impact on Australian bank ratings, if any, remains unclear, although a possible outcome is a downgrade in credit ratings. S&P has advised that the results of the methodology on ratings will be published in fourth-quarter 2011.

## Other Matters

### Corporate Responsibility

Corporate Responsibility (CR) is about doing the right thing for our customers, our people and our communities.

NAB's approach to CR is also based on the principle of shared value – creating economic value through our role as a financial institution whilst also creating value for society by understanding and addressing key social needs and challenges.

We articulate our CR approach across three core areas: getting the fundamentals right with our customers; being a good employer; and addressing our broader responsibility to society.

Full CR reporting and disclosures are available on the Group website with 2011 reporting available from 14 November.

Overall highlights during the 2011 year include:

- Awarded United Nations Association of Australia World Environment Day award for Sustainability Leadership (Large Organisation).
- Included in the Dow Jones Sustainability Index (World Index and the Asia Pacific Index top-ten leaders) and the Carbon Disclosure Project Performance Indices.
- Established a CR Council comprised of the CEO and Group Executive members to direct, review and approve NAB's overall strategic approach to CR.
- The Carbon Disclosure Project listing and FTSE4Good.
- Became a signatory of the United Nations Global Compact.

### Initiatives to Support Customers

July 2011 was the second anniversary of delivering fair value to customers. During 2011 some key customer highlights included:

- Welcoming 450,000 new customers to NAB who were encouraged by the new 'break-up' campaign and the Fair Value philosophy.
- Streamlining the fee structure for NAB Broker customers by removing or standardising fees to make banking simpler for customers.
- Continuing to offer the lowest standard variable mortgage rate of the major Australian banks and winning Money magazine's Home Lender of the Year award for 2011.
- Continuing commitment to inclusion and financial literacy, writing over 15,000 microfinance loans this year, with \$130 million committed to helping Australians on low incomes or who have little access to affordable business credit.
- Removing mortgage early exit fees and simplifying the fee structure for mortgage customers through the abolition or reduction of a number of fees in March 2011.
- Launching 'Online Help and Education' features on NAB websites to support improved financial literacy.
- Changing NAB credit card payment arrangements so payments are now applied against balances that attract a higher interest rate.
- Launching our MLC Wrap platform with a simple, competitive and transparent pricing structure across superannuation, investments and self managed super products.

- Marking one year of our best doctors advice service for MLC insurance clients, extending the program to include some Group Insurance clients.
- Ongoing product rationalisation in MLC & NAB Wealth to improve the customer experience.

### Initiatives to Support Employees

- Continuing to focus on differentiating NAB through leadership and culture.
- Improved employee engagement results across the Group.
- Setting measurable gender targets for the number of women in senior executive positions, subsidiary boards and core talent development programs.
- Recognised for the 5th consecutive year as an Employer of Choice for Women by the Equal Opportunity for Women in the Workplace Agency.
- Awarded the Australian Finance Industry award for Best Career Development Program for the NAB 'Academy' program.
- Approved new Enterprise Agreements for Australia.

### Initiatives to Support Communities

- Contributing \$70 million in communities, or 0.90% of cash earnings before tax. Key initiatives included over \$20 million in disaster relief assistance and the establishment of an assistance fund up to \$15 million to provide ex-gratia payments to assist NAB Home Insurance customers who were not covered for losses experienced during the Queensland floods.
- Became the first Australian bank to gain certification under the Australian Government's National Carbon Offset Standard for our business operations.
- Updating the Group Climate Change Strategy and released 'Beyond Carbon Neutral' targets. These outlined commitments to reduce environmental impacts per FTE in areas such as greenhouse gas emissions, paper, water use and waste by 2013.
- Recognised as the largest Fair Trade accredited workplace in the world and have 144 suppliers in Australia compliant with our Supplier Sustainability Principles.
- Achieving Australian staff participation in volunteering of 15,839 days during the September 2011 year. Skilled volunteering made up 8.4% of this and maintaining or increasing this proportion remains a focus in our wider volunteering strategy.
- Deepening understanding of financial exclusion in Australia with the release of a Financial Exclusion Indicator.
- Publishing our third Reconciliation Action Plan, setting out 22 commitments for the year ahead. Key areas of focus continue to be financial inclusion, employment opportunities and cultural awareness.
- Delivering the third round of NAB Schools First partnerships and committed to a further three years. The program has provided \$15 million to over 310 schools and engaged approximately 1,800 NAB staff.
- In August 2011, NAB and Jesuit Social Services "African-Australian Inclusion Program" won a Melbourne Award for its contribution to the community.

**Section 4****Review of Divisional Operations and Results**

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## Divisional Performance Summary

Year ended 30 September 2011	Business Banking \$m	Personal Banking \$m	Wholesale Banking \$m	MLC & NAB Wealth \$m	NZ Banking \$m	UK Banking \$m	GWB \$m	Specialised Group Assets \$m	Corporate Functions & Other <sup>(1)</sup> \$m	Distributions & Eliminations \$m	Group Cash Earnings \$m
Net interest income	5,033	2,826	1,230	328	1,015	1,522	285	123	730	-	13,092
Fees and commissions	843	556	259	34	295	447	61	13	(1)	-	2,507
Trading income	83	2	265	2	(2)	(2)	-	(8)	(106)	-	234
Other	80	32	102	(1)	52	3	20	39	29	(81)	275
Other operating income	1,006	590	626	35	345	448	81	44	(78)	(81)	3,016
MLC net operating income	-	-	-	1,486	-	-	-	-	-	-	1,486
Net operating income	6,039	3,416	1,856	1,849	1,360	1,970	366	167	652	(81)	17,594
Operating expenses	(1,764)	(1,791)	(915)	(1,128)	(572)	(1,136)	(177)	(49)	(523)	81	(7,974)
Underlying profit	4,275	1,625	941	721	788	834	189	118	129	-	9,620
Charge to provide for bad and doubtful debts	(802)	(301)	(21)	(18)	(116)	(462)	(57)	(41)	(4)	-	(1,822)
<b>Cash earnings before tax, IoRE, distributions and non-controlling interest</b>	3,473	1,324	920	703	672	372	132	77	125	-	7,798
Income tax (expense)/benefit	(1,028)	(392)	(259)	(199)	(203)	(84)	(44)	33	34	-	(2,142)
<b>Cash earnings before IoRE, distributions and non-controlling interest</b>	2,445	932	661	504	469	288	88	110	159	-	5,656
Net profit - non-controlling interest	-	-	-	(1)	-	-	-	-	-	-	(1)
IoRE	-	-	-	30	-	-	-	-	-	-	30
Distributions	-	-	-	-	-	-	-	-	-	(225)	(225)
<b>Cash earnings</b>	2,445	932	661	533	469	288	88	110	159	(225)	5,460
<b>Key balance sheet items (\$bn)</b>											<b>Total</b>
Gross loans and acceptances (average)	192.9	128.9	14.3	18.4	42.9	51.5	5.1	5.4	2.6	-	462.0
Retail deposits (average)	84.7	70.0	-	9.9	23.8	36.5	6.3	-	5.1	-	236.3
Total risk-weighted assets (spot)	141.4	40.5	38.0	6.9	31.2	51.9	6.3	15.0	9.9	-	341.1

<sup>(1)</sup> Corporate Functions & Other includes Group Funding, Group Business Services, other supporting units and Asia Banking.  
Note: The Divisional Performance Summary excluding foreign exchange rate movements on pages 149 to 150.

Divisional Performance Summary

Year ended 30 September 2010	Business Banking \$m	Personal Banking \$m	Wholesale Banking \$m	MLC & NAB Wealth \$m	NZ Banking \$m	UK Banking \$m	GWB \$m	Specialised Group Assets \$m	Corporate Functions & Other <sup>(1)</sup> \$m	Distributions & Eliminations \$m	Group Cash Earnings \$m
Net interest income	4,664	2,501	1,189	295	978	1,665	245	178	573	-	12,288
Fees and commissions	821	593	234	34	305	459	54	24	63	-	2,587
Trading income	64	3	423	1	(3)	3	-	(299)	(92)	-	100
Other	70	8	82	(1)	49	(10)	18	7	45	(117)	151
Other operating income	955	604	739	34	351	452	72	(268)	16	(117)	2,838
MLC net operating income	-	-	-	1,512	-	-	-	-	-	-	1,512
Net operating income	5,619	3,105	1,928	1,841	1,329	2,117	317	(90)	589	(117)	16,638
Operating expenses	(1,714)	(1,700)	(914)	(1,114)	(581)	(1,232)	(152)	(51)	(521)	117	(7,862)
Underlying profit	3,905	1,405	1,014	727	748	885	165	(141)	68	-	8,776
Charge to provide for bad and doubtful debts	(791)	(347)	(45)	(9)	(148)	(601)	(54)	(268)	-	-	(2,263)
<b>Cash earnings before tax, IoRE, distributions and non-controlling interest</b>	3,114	1,058	969	718	600	284	111	(409)	68	-	6,513
Income tax (expense)/benefit	(921)	(315)	(264)	(169)	(184)	(80)	(37)	147	46	-	(1,777)
<b>Cash earnings before IoRE, distributions and non-controlling interest</b>	2,193	743	705	549	416	204	74	(262)	114	-	4,736
Net profit - non-controlling interest	-	-	-	(1)	-	-	-	-	-	-	(1)
IoRE	-	-	-	61	-	-	-	-	-	-	61
Distributions	-	-	-	-	-	-	-	-	-	(215)	(215)
<b>Cash earnings</b>	2,193	743	705	609	416	204	74	(262)	114	(215)	4,581
<b>Key balance sheet items (\$bn)</b>											<b>Total</b>
Gross loans and acceptances (average)	186.6	108.4	13.1	17.1	43.6	56.9	4.6	7.9	2.5	-	440.7
Retail deposits (average)	77.6	60.0	-	9.3	22.4	40.0	5.4	-	4.9	-	219.6
Total risk-weighted assets (spot)	144.9	38.6	32.9	6.7	29.1	55.3	6.4	20.5	10.3	-	344.7

<sup>(1)</sup> Corporate Functions & Other includes Group Funding, Group Business Services, other supporting units and Asia Banking.



## Divisional Performance Summary

Half year ended 30 September 2011	Business Banking \$m	Personal Banking \$m	Wholesale Banking \$m	MLC & NAB Wealth \$m	NZ Banking \$m	UK Banking \$m	GWB \$m	Specialised Group Assets \$m	Corporate Functions & Other <sup>(1)</sup> \$m	Distributions & Eliminations \$m	Group Cash Earnings \$m
Net interest income	2,587	1,458	708	168	528	754	130	58	397	-	6,788
Fees and commissions	420	279	115	18	146	220	31	5	(12)	-	1,222
Trading income	49	3	(24)	1	-	(4)	-	(73)	(59)	-	(107)
Other	45	7	60	(3)	28	18	12	38	18	(47)	176
Other operating income	514	289	151	16	174	234	43	(30)	(53)	(47)	1,291
MLC net operating income	-	-	-	716	-	-	-	-	-	-	716
Net operating income	3,101	1,747	859	900	702	988	173	28	344	(47)	8,795
Operating expenses	(885)	(900)	(459)	(567)	(291)	(556)	(87)	(25)	(260)	47	(3,983)
Underlying profit	2,216	847	400	333	411	432	86	3	84	-	4,812
(Charge to provide for)/benefit from bad and doubtful debts	(417)	(138)	(33)	(7)	(44)	(221)	(25)	(20)	71	-	(834)
<b>Cash earnings before tax, IoRE, distributions and non-controlling interest</b>	1,799	709	367	326	367	211	61	(17)	155	-	3,978
Income tax (expense)/benefit	(535)	(209)	(99)	(92)	(113)	(45)	(20)	50	(13)	-	(1,076)
<b>Cash earnings before IoRE, distributions and non-controlling interest</b>	1,264	500	268	234	254	166	41	33	142	-	2,902
Net profit - non-controlling interest	-	-	-	-	-	-	-	-	-	-	-
IoRE	-	-	-	1	-	-	-	-	-	-	1
Distributions	-	-	-	-	-	-	-	-	-	(111)	(111)
<b>Cash earnings</b>	1,264	500	268	235	254	166	41	33	142	(111)	2,792
<b>Key balance sheet items (\$bn)</b>											<b>Total</b>
Gross loans and acceptances (average)	194.7	134.2	15.0	18.6	43.5	50.9	4.9	5.2	2.7	-	469.7
Retail deposits (average)	85.8	72.4	-	9.9	24.5	35.7	6.0	-	4.8	-	239.1
Total risk-weighted assets (spot)	141.4	40.5	38.0	6.9	31.2	51.9	6.3	15.0	9.9	-	341.1

<sup>(1)</sup> Corporate Functions & Other includes Group Funding, Group Business Services, other supporting units and Asia Banking.  
Note: The Divisional Performance Summary excluding foreign exchange rate movements on pages 149 to 150.

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## Business Banking

Joseph Healy

As Australia's leading business bank based on market share, Business Banking provides a diverse range of commercial banking services to business customers ranging from small businesses through to Australia's largest institutions, including many of the ASX Top 200 listed companies. Business Banking also provides specialist industry expertise in the Agribusiness, Property, Healthcare, Natural Resources, Education and Government sectors.

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10 %	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11 %
Net interest income	5,033	4,664	7.9	2,587	2,446	5.8
Other operating income	1,006	955	5.3	514	492	4.5
<b>Net operating income</b>	<b>6,039</b>	<b>5,619</b>	<b>7.5</b>	<b>3,101</b>	<b>2,938</b>	<b>5.5</b>
Operating expenses	(1,764)	(1,714)	(2.9)	(885)	(879)	(0.7)
<b>Underlying profit</b>	<b>4,275</b>	<b>3,905</b>	<b>9.5</b>	<b>2,216</b>	<b>2,059</b>	<b>7.6</b>
Charge to provide for bad and doubtful debts	(802)	(791)	(1.4)	(417)	(385)	(8.3)
<b>Cash earnings before tax</b>	<b>3,473</b>	<b>3,114</b>	<b>11.5</b>	<b>1,799</b>	<b>1,674</b>	<b>7.5</b>
Income tax expense	(1,028)	(921)	(11.6)	(535)	(493)	(8.5)
<b>Cash earnings</b>	<b>2,445</b>	<b>2,193</b>	<b>11.5</b>	<b>1,264</b>	<b>1,181</b>	<b>7.0</b>

**Average Volumes (\$bn)**

Gross loans and acceptances	192.9	186.6	3.4	194.7	191.3	1.8
Interest earning assets	192.3	186.1	3.3	194.0	190.6	1.8
Total assets	190.6	184.1	3.5	192.3	188.8	1.9
Retail deposits	84.7	77.6	9.1	85.8	83.7	2.5

**Capital (\$bn)**

Risk-weighted assets - credit risk (spot)	138.4	142.3	(2.7)	138.4	144.9	(4.5)
Total risk-weighted assets (spot)	141.4	144.9	(2.4)	141.4	147.6	(4.2)

**Performance Measures**

Cash earnings on average assets	1.28%	1.19%	9 bps	1.31%	1.25%	6 bps
Net interest margin	2.62%	2.51%	11 bps	2.66%	2.57%	9 bps
Cost to income ratio	29.2%	30.5%	130 bps	28.5%	29.9%	140 bps
'Jaws'	4.6%	3.4%	120 bps	4.8%	2.7%	210 bps
Cash earnings per average FTE (\$'000s)	446	417	7.0	462	431	7.2
FTEs (spot)	5,427	5,482	1.0	5,427	5,493	1.2

Market Share	As at		
	Aug 11	Mar 11	Sep 10
Business lending APRA <sup>(1)</sup>	24.4%	23.8%	22.8%
Business lending RBA <sup>(2)</sup>	22.8%	22.2%	22.1%
Business deposits <sup>(1)</sup>	20.5%	21.4%	21.5%

<sup>(1)</sup> Source: APRA Banking System.<sup>(2)</sup> Source: RBA Financial System.

## Business Banking

## Financial Analysis

**September 2011 v September 2010**

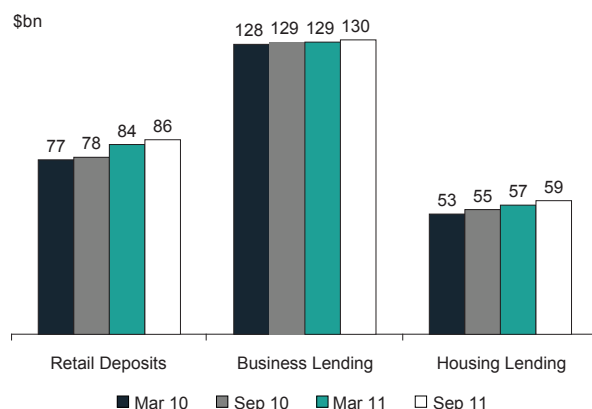
**Cash earnings** increased by \$252 million or 11.5% against the September 2010 year, driven by strong underlying profit growth of 9.5% and partially offset by a small increase in the bad and doubtful debts charge.

**Cash earnings on average assets** improved by nine basis points, largely as a result of revenue growth from a strong commitment to relationship banking with a focus on 'AND' – growing market share AND managing risk/reward AND maximising relationship potential.

**Net interest income** increased by \$369 million or 7.9% compared to the September 2010 year due to growth in both lending and deposit volumes, together with repricing for current market conditions.

**Average interest earning assets** grew by \$6.2 billion or 3.3%, despite negative system growth, reflecting the strong business model and reputation. Key contributors to this growth were the SME and specialised business segments.

**Average retail deposits** increased by \$7.1 billion or 9.1%, in line with Business Banking's priority to grow deposits and reduce the reliance on wholesale funding.

**Business Banking Average Volumes**

**Net interest margin** increased by 11 basis points over the September 2010 year due to the repricing of the lending portfolio to reflect current market conditions. Deposit margins declined, as the competition for customer deposits intensified over the year.

**Other operating income** was \$51 million or 5.3% higher, driven by higher money transfer fees and higher lending related fees from growth in volumes. The greater demand for risk management products sold to business customers also contributed to the result, as the appetite for these products increased with market volatility.

**Operating expenses** increased by \$50 million or 2.9%, reflecting the balance between disciplined expense management and sustained momentum on important strategic initiatives, resulting in a cost to income ratio of 29.2%. This included the full year impact of the 2010 investment in frontline bankers and the continued investment in compliance, efficiency and revenue generating projects.

The **charge to provide for bad and doubtful debts** increased by \$11 million compared to the September 2010 year. The credit quality of the portfolio remains broadly stable.

**September 2011 v March 2011**

**Cash earnings** increased by \$83 million or 7.0% on the March 2011 half year, largely as a result of 7.6% growth in underlying profit that was partially offset by a higher bad and doubtful debts charge.

**Cash earnings on average assets** increased by six basis points, reflecting the growth in cash earnings.

**Net interest income** increased by \$141 million or 5.8% compared to the March 2011 half year, due to the repricing for current market conditions, together with growth in volumes across the lending and deposit portfolio.

**Average interest earning assets** grew by \$3.4 billion or 1.8%, due to growth across most segments.

**Average retail deposits** grew by \$2.1 billion or 2.5%, reflecting Business Banking's strategic priority to reduce its reliance on wholesale funding.

**Net interest margin** increased by nine basis points on the March 2011 half year, due to repricing for current market conditions.

**Other operating income** increased by \$22 million or 4.5% due to higher money transfer fees and greater demand for risk management products sold to business customers.

**Operating expenses** increased by \$6 million or 0.7%, reflecting effective management of expenses and ongoing investment in key strategic initiatives.

The **charge to provide for bad and doubtful debts** increased by \$32 million largely within the SME segment as the current challenging credit cycle remains persistent.

**Other Items****Asset Quality**

	As at		
	Sep 11	Mar 11	Sep 10
Specific provision for doubtful debts (\$m)	872	788	909
Collective provision for doubtful debts (\$m)	984	1,096	1,091
Collective provision on loans at fair value (\$m)	207	147	129
90+ DPD assets (\$m)	852	1,017	859
Gross impaired assets (\$m)	3,629	3,438	3,215
90+ DPD plus gross impaired assets to gross loans and acceptances	2.29%	2.31%	2.16%
Specific provision to gross impaired assets	24.0%	22.9%	28.3%
Net write-offs to gross loans and acceptances (annualised)	0.48%	0.52%	0.46%
Total provision as a percentage of net write-offs	219%	202%	244%
Total provision to gross loans and acceptances	1.05%	1.05%	1.13%
Bad and doubtful debt charge to credit risk weighted assets	0.58%	0.53%	0.56%

During the September 2011 half year, the bad and doubtful debts charge increased by 8.3% to \$417 million, mainly within the SME portfolio which has faced tough trading conditions in some sectors. Over the September 2011 full year, the bad and doubtful debts charge increased slightly, with the level of provisioning required for large corporations remaining steady.

The 90+ DPD plus gross impaired assets ratio improved by two basis points to 2.29% despite the volume of impaired assets increasing by 5.6% with the business requiring a longer period of time to work with impaired clients who were affected by the recent deterioration in the property market, especially in Queensland. The volume of new impaired assets recorded was broadly stable relative to the March 2011 half year, while the number of new customers referred to management has slowed. Overall, customers under management are at the lowest level since September 2009, with the focus now on longer dated problem loans and 'work outs'.

The ratio of net write-off to gross loans and acceptances fell by four basis points to 0.48% in the September 2011 half year but increased slightly on a full year basis. Loan loss provision coverage was stable and the increase in specific provision was a result of deteriorating market conditions for long-standing impaired customers.

The collective provision for doubtful debts, including loans at fair value, has remained stable over the September 2011 half year.

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## Personal Banking

Lisa Gray

Personal Banking provides quality products and services to 4.5 million retail and small business customers. These products and services are delivered through a range of distribution channels and brands including NAB, Homeside, UBank and a variety of broker and 'mortgage manager' brands operated by the Advantedge business.

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10 %	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11 %
Net interest income	2,826	2,501	13.0	1,458	1,368	6.6
Other operating income	590	604	(2.3)	289	301	(4.0)
<b>Net operating income</b>	<b>3,416</b>	<b>3,105</b>	<b>10.0</b>	<b>1,747</b>	<b>1,669</b>	<b>4.7</b>
Operating expenses	(1,791)	(1,700)	(5.4)	(900)	(891)	(1.0)
<b>Underlying profit</b>	<b>1,625</b>	<b>1,405</b>	<b>15.7</b>	<b>847</b>	<b>778</b>	<b>8.9</b>
Charge to provide for bad and doubtful debts	(301)	(347)	13.3	(138)	(163)	15.3
<b>Cash earnings before tax</b>	<b>1,324</b>	<b>1,058</b>	<b>25.1</b>	<b>709</b>	<b>615</b>	<b>15.3</b>
Income tax expense	(392)	(315)	(24.4)	(209)	(183)	(14.2)
<b>Cash earnings</b>	<b>932</b>	<b>743</b>	<b>25.4</b>	<b>500</b>	<b>432</b>	<b>15.7</b>
<b>Average Volumes (\$bn)</b>						
Gross loans and acceptances	128.9	108.4	18.9	134.2	123.5	8.7
Interest earning assets	129.0	108.5	18.9	134.2	123.8	8.4
Total assets	129.4	109.0	18.7	134.6	124.2	8.4
Retail deposits	70.0	60.0	16.7	72.4	67.6	7.1
<b>Spot Volumes (\$bn)</b>						
Housing lending	130.5	109.5	19.2	130.5	120.1	8.7
Other personal lending	9.1	7.6	19.7	9.1	7.9	15.2
Retail deposits	75.4	64.7	16.5	75.4	70.4	7.1
<b>Capital (\$bn)</b>						
Risk-weighted assets - credit risk (spot)	37.2	35.1	6.0	37.2	37.3	(0.3)
Total risk-weighted assets (spot)	40.5	38.6	4.9	40.5	40.7	(0.5)
<b>Performance Measures</b>						
Cash earnings on average assets	0.72%	0.68%	4 bps	0.74%	0.70%	4 bps
Net interest margin	2.19%	2.31%	(12 bps)	2.17%	2.22%	(5 bps)
Cost to income ratio	52.4%	54.8%	240 bps	51.5%	53.4%	190 bps
'Jaws' <sup>(1)</sup>	4.6%	(13.4%)	large	3.7%	2.1%	160 bps
Cash earnings per average FTE (\$'000s)	105	89	18.0	113	97	16.5
FTEs (spot)	8,705	9,052	3.8	8,705	8,826	1.4

<sup>(1)</sup> The 'Jaws' for September 2010 excludes the impact of the acquisition of Advantedge.

Market Share	As at		
	Aug 11	Mar 11	Sep 10
Housing lending <sup>(1)</sup>	14.4%	13.8%	13.3%
Household deposits <sup>(2)</sup>	14.2%	14.1%	13.6%

<sup>(1)</sup> RBA Financial System / NAB including Wholesale Banking data.

<sup>(2)</sup> APRA Banking System / NAB including Wholesale Banking data.

Distribution	As at		
	Sep 11	Mar 11	Sep 10
Number of retail outlets <sup>(1)</sup>	783	784	773
Number of ATMs	3,363	3,395	3,154
Number of internet banking customers (million)	2.07	1.87	1.70

<sup>(1)</sup> Retail outlets include both branches and kiosks.

## Personal Banking

## Financial Analysis

**September 2011 v September 2010**

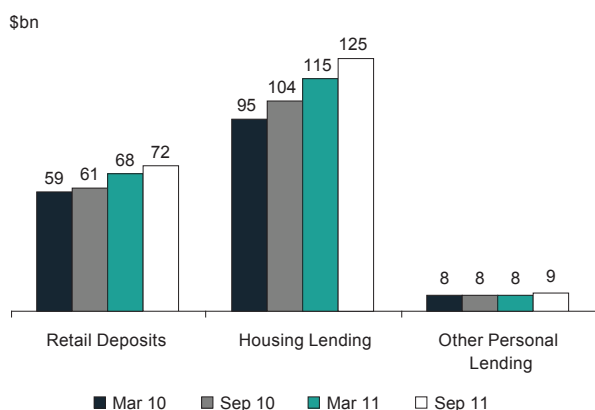
**Cash earnings** increased by \$189 million or 25.4% compared to September 2010, driven by higher revenue mainly from increased home lending volumes together with lower bad and doubtful debt charges, partially offset by increased expenses.

**Cash earnings on average assets** increased by four basis points due to strong growth in underlying profit, and improvements in both risk settings and collection practices, which resulted in lower bad and doubtful debt charges.

**Net interest income** increased by \$325 million or 13.0% compared to September 2010, predominantly as a result of higher volumes and repricing, partially offset by increases in funding and deposit costs.

**Average interest earning assets** grew by \$20.5 billion or 18.9%, due to above-system growth across all sales channels in mortgages.

**Average retail deposits** increased by \$10.0 billion or 16.7%, due to steady growth in the proprietary network from continued focus on broadening and deepening customer relationships, and as a result of UBank's strong growth.

**Personal Banking Average Volumes**

**Net interest margin** decreased by 12 basis points compared to September 2010 mainly due to continuing changes in funding mix together with increases in deposit costs.

**Other operating income** decreased by \$14 million or 2.3%. This was due to initiatives designed to improve NAB's reputation, including early adoption of the government mortgage early exit fee policy, resulting in lower fees. This was partially offset by increased credit card income driven by higher spending and the profit from the sale of NAB's interest in Flybuys.

**Operating expenses** increased by \$91 million or 5.4% due to continued investment in frontline staff to improve the NAB customer experience and grow sales.

The **charge to provide for bad and doubtful debts** decreased by \$46 million or 13.3%. Improvements in asset quality and delinquency management have more than offset the effect from increased volumes.

**September 2011 v March 2011**

**Cash earnings** increased by \$68 million or 15.7%, on the March 2011 half year due to higher revenue from increased home lending volumes together with lower bad and doubtful debt charges in line with seasonal expectations.

**Cash earnings on average assets** increased by four basis points, driven by strong revenue growth and lower bad and doubtful debt charges.

**Net interest income** increased by \$90 million or 6.6% due to growth in volumes and repricing, partially offset by higher funding and deposit costs.

**Average interest earning assets** grew by \$10.4 billion or 8.4%, due to above-system mortgage growth in all channels.

**Average retail deposits** grew by \$4.8 billion or 7.1%, due to continuing solid growth in online savings and term deposit products and continued momentum in UBank.

**Net interest margin** decreased by five basis points over the half year mainly due to continuing changes in funding mix.

**Other operating income** decreased by \$12 million or 4.0%. The main driver was the profit recognised in the March 2011 half year from the sale of NAB's interest in Flybuys, combined with the full impact during the half year of the removal of mortgage fees.

**Operating expenses** increased by \$9 million or 1.0%, due to continued reinvestment in frontline staff.

The **charge to provide for bad and doubtful debts** decreased by \$25 million or 15.3% on the March 2011 half year, due to the seasonal impact of retail spending in the credit card portfolio in the March 2011 half year and continued improvements in delinquency management.



**Other Items****Asset Quality**

	As at		
	Sep 11	Mar 11	Sep 10
Specific provision for doubtful debts (\$m)	45	41	46
Collective provision for doubtful debts (\$m)	407	444	416
90+ DPD assets (\$m)	646	698	667
Gross impaired assets (\$m)	143	153	169
90+ DPD plus gross impaired assets to gross loans and acceptances	0.57%	0.66%	0.71%
Specific provision to gross impaired assets	31.5%	26.8%	27.2%
Net write-offs to gross loans and acceptances (annualised)	0.22%	0.22%	0.29%
Total provision as a percentage of net write-offs	144%	173%	133%
Total provision to gross loans and acceptances	0.32%	0.38%	0.39%
Bad and doubtful debt charge to credit risk weighted assets	0.81%	0.88%	0.99%

Although economic indicators remain relatively subdued with both business conditions and confidence low, employment has remained broadly resilient through the period, sustaining a sound position for 90+ DPD balances plus gross impaired assets. The 90+ DPD balances plus gross impaired assets to gross loans and acceptances ratio improved during the period, falling by nine basis points on the March 2011 half year. Total provisions as a percentage of net write-offs decreased in line with the seasonal reduction in delinquencies.

Mortgage delinquency rates continued to improve despite the deterioration experienced early in the September 2011 half year driven by the initial impact of the natural disasters which occurred in the March 2011 half year. Additionally, the reduction in delinquency rates is reflective of the significantly improved asset quality of loans originated since the latter half of 2010.

Applications for hardship assistance received by NABCare have returned to normal levels following the high demand generated by the natural disasters. Asset quality in unsecured lending remains sound with delinquency rates improving compared to September 2010 and March 2011.

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## Wholesale Banking

Rick Sawers

Wholesale Banking has seven key lines of business: Corporate & Business Sales<sup>(1)</sup>, Fixed Interest, Currencies and Commodities (FICC)<sup>(2)</sup>, Global Capital Markets<sup>(3)</sup>, Treasury, Asset Servicing, Specialised Finance and the Financial Institutions Group. Operating as a global business, Wholesale Banking has approximately 2,900 employees in Australia, New Zealand, Asia, the UK and the US.

Results presented at actual exchange rates.

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10 %	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11 %
Net interest income	1,230	1,189	3.4	708	522	35.6
Other operating income	626	739	(15.3)	151	475	(68.2)
<b>Net operating income</b>	<b>1,856</b>	<b>1,928</b>	<b>(3.7)</b>	<b>859</b>	<b>997</b>	<b>(13.8)</b>
Operating expenses	(915)	(914)	(0.1)	(459)	(456)	(0.7)
<b>Underlying profit</b>	<b>941</b>	<b>1,014</b>	<b>(7.2)</b>	<b>400</b>	<b>541</b>	<b>(26.1)</b>
(Charge to provide for)/benefit from bad and doubtful debts	(21)	(45)	53.3	(33)	12	large
<b>Cash earnings before tax</b>	<b>920</b>	<b>969</b>	<b>(5.1)</b>	<b>367</b>	<b>553</b>	<b>(33.6)</b>
Income tax expense	(259)	(264)	1.9	(99)	(160)	38.1
<b>Cash earnings</b>	<b>661</b>	<b>705</b>	<b>(6.2)</b>	<b>268</b>	<b>393</b>	<b>(31.8)</b>
<b>Average Volumes (\$bn)</b>						
Gross loans and acceptances	14.3	13.1	9.2	15.0	13.6	10.3
Interest earning assets	164.4	144.8	13.5	175.3	153.5	14.2
Total assets	201.4	185.4	8.6	213.9	188.8	13.3
<b>Capital (\$bn)</b>						
Risk-weighted assets - credit risk (spot)	26.0	20.8	25.0	26.0	21.3	22.1
Total risk-weighted assets (spot)	38.0	32.9	15.5	38.0	34.6	9.8
<b>Performance Measures</b>						
Cost to income ratio	49.3%	47.4%	(190 bps)	53.4%	45.7%	(770 bps)
'Jaws'	(3.8%)	(34.0%)	large	(14.5%)	13.8%	large
Cash earnings per average FTE (\$'000s)	221	229	(3.5)	182	258	(29.5)
FTEs (spot)	2,889	3,166	8.7	2,889	3,005	3.9

## Impact of foreign exchange rate movements

Favourable (unfavourable) September 11	Year since Sep 10		Half year since Mar 11	
	Sep 11 v Sep 10 \$m	Sep 11 v Sep 10 Ex FX %	Sep 11 v Mar 11 \$m	Sep 11 v Mar 11 Ex FX %
Net interest income	(57)	8.2	(11)	37.7
Other operating income	5	(16.0)	2	(68.6)
Total income	(52)	(1.0)	(9)	(12.9)
Operating expenses	25	(2.8)	5	(1.8)
Charge to provide for bad and doubtful debts	-	53.3	-	large
Income tax expense	7	(0.8)	1	37.5
Cash earnings	(20)	(3.4)	(3)	(31.0)

<sup>(1)</sup> Formerly part of Global Markets Sales.

<sup>(2)</sup> Formerly part of Global Markets Trading.

<sup>(3)</sup> Formerly part of Global Markets.

## Wholesale Banking

### Financial Analysis

#### September 2011 v September 2010

**Cash earnings** decreased by \$44 million or 6.2% to \$661 million during the September 2011 year. Excluding foreign exchange rate movements, cash earnings were down by 3.4% through lower revenue in the Risk businesses (FICC and Treasury) particularly in the September 2011 half year, coupled with a higher effective tax charge. These effects were partially offset by a lower bad and doubtful debt charge.

**Net operating income** decreased by \$72 million or 3.7% to \$1,856 million. Excluding foreign exchange rate movements, income decreased by \$20 million.

Customer income (Sales, Asset Servicing, Specialised Finance and Financial Institutions Group) improved by \$107 million to \$1,256 million during the year, primarily through higher sales delivery of Wholesale Banking products and services to the Group's customers, reflecting the Franchise Focus strategy. Specialised Finance income also improved from strong deal flows in Infrastructure and Energy & Utilities, particularly in the September 2011 half year.

Risk income (FICC and Treasury) decreased by \$179 million to \$600 million, due to a difficult market environment following European sovereign debt concerns and a sharp deterioration in the overseas economic environment and, more recently the domestic environment. The March 2011 half year was characterised by benign markets and low growth, with the second half presenting sovereign credit concerns, economic downgrades and falling yield curves.

**Operating expenses** increased by \$1 million or 0.1% to \$915 million. Excluding foreign exchange rate movements, the increase was \$26 million or 2.8%. This was largely due to the UK Bank Levy and increased FTEs in client facing roles. This effect was offset by lower performance based compensation, reflecting mainly lower FICC performance together with operational efficiencies, from reducing FTEs largely in support roles.

The **charge to provide for bad and doubtful debts** decreased by \$24 million on the September 2010 year. The reduction was due to continued stable economic conditions with no significant impairments incurred over the period.

**Average interest earning assets** increased by \$19.6 billion or 13.5%, to \$164.4 billion. Excluding the foreign exchange impact, the increase was \$29.1 billion or 20.1%, which was mainly due to an increase in marketable debt securities to support Group liquidity during the period.

#### September 2011 v March 2011

**Cash earnings** decreased by \$125 million on the March 2011 half year. Excluding foreign exchange rate movements, cash earnings decreased by \$122 million. The decrease was mainly due to lower revenue generated in Risk businesses and an increased charge for bad and doubtful debts.

**Net operating income** decreased by \$138 million or 13.8%. Excluding foreign exchange rate movements, the decrease was \$129 million or 12.9%.

Customer income increased by \$114 million, primarily from improved performance in the Corporate & Business Sales business, through increased delivery of products to the Group's customers.

Risk income decreased by \$252 million to \$174 million due to the falling yield curves, re-emergence of Euro-zone sovereign credit concerns and the deterioration in the economic environment.

**Operating expenses** increased by \$3 million or 0.7% against the March 2011 half year. Excluding foreign exchange rate movements, the increase was \$8 million or 1.8%, mainly due to the UK Bank Levy and investment in the customer facing functions. This was partially offset by lower performance based compensation reflecting lower FICC performance and continued operational efficiencies from reducing FTEs.

The **charge to provide for bad and doubtful debts** increased by \$45 million against the March 2011 half year, mainly due to a partial recovery of a previously written-off exposure in the March 2011 half year.

**Average interest earning assets** increased by \$21.8 billion or 14.2%. Excluding foreign exchange movements, the increase was \$24.9 billion or 16.2% and was mainly due to an increase in marketable debt securities to support Group liquidity during the period.

## Other Items

## Asset Quality

	As at		
	Sep 11	Mar 11	Sep 10
Specific provision for doubtful debts (\$m)	29	16	61
Collective provision for doubtful debts (\$m)	72	60	64
Collective provision on loans at fair value (\$m)	1	1	1
Collective provision on derivatives at fair value (\$m)	149	98	144
Gross impaired assets (\$m)	40	38	140
Gross impaired assets to gross loans and acceptances	0.25%	0.28%	1.04%
Specific provision to gross impaired assets	72.5%	42.1%	43.6%
Net write-offs to gross loans and acceptances (annualised)	0.26%	0.48%	0.85%

Asset quality remains sound. Charges for bad and doubtful debts have remained at low levels, whilst provisioning coverage ratios continue to be appropriate. Uncertainty associated with European sovereign credit markets has to date been managed effectively with minimal impact on direct lending exposures. This will continue to be monitored.

The ratio of gross impaired assets to gross loans and acceptances decreased from 1.04% at September 2010 to 0.25% at September 2011. This reduction was largely due to a more stable credit environment.

Investment grade equivalent exposures also remained stable and represent greater than 90% of the Wholesale Banking portfolio.

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## MLC &amp; NAB Wealth

Steve Tucker

MLC & NAB Wealth provides superannuation, investments, insurance and private wealth solutions to retail, corporate and institutional clients. MLC & NAB Wealth operates one of the largest networks of retail financial advisers in Australia.

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10 %	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11 %
Net interest income	328	295	11.2	168	160	5.0
Other operating income	35	34	2.9	16	19	(15.8)
MLC net operating income	1,486	1,512	(1.7)	716	770	(7.0)
<b>Net income</b>	<b>1,849</b>	<b>1,841</b>	<b>0.4</b>	<b>900</b>	<b>949</b>	<b>(5.2)</b>
Operating expenses	(1,128)	(1,114)	(1.3)	(567)	(561)	(1.1)
<b>Underlying profit</b>	<b>721</b>	<b>727</b>	<b>(0.8)</b>	<b>333</b>	<b>388</b>	<b>(14.2)</b>
Charge to provide for bad and doubtful debts	(18)	(9)	(100.0)	(7)	(11)	36.4
<b>Cash earnings before tax</b>	<b>703</b>	<b>718</b>	<b>(2.1)</b>	<b>326</b>	<b>377</b>	<b>(13.5)</b>
Income tax expense	(199)	(169)	(17.8)	(92)	(107)	14.0
<b>Cash earnings before IoRE and non-controlling interest</b>	<b>504</b>	<b>549</b>	<b>(8.2)</b>	<b>234</b>	<b>270</b>	<b>(13.3)</b>
Net profit - non-controlling interest	(1)	(1)	-	-	(1)	large
IoRE <sup>(1)</sup>	30	61	(50.8)	1	29	(96.6)
<b>Cash earnings</b>	<b>533</b>	<b>609</b>	<b>(12.5)</b>	<b>235</b>	<b>298</b>	<b>(21.1)</b>

<sup>(1)</sup> The impact of changes in the IoRE discount rate variation has been excluded from cash earnings, as noted in Section 7 – Glossary of Terms.

Represented by:

Investments & Private Bank	324	352	(8.0)	162	162	-
Insurance	180	197	(8.6)	72	108	(33.3)
<b>Cash earnings before IoRE and non-controlling interest</b>	<b>504</b>	<b>549</b>	<b>(8.2)</b>	<b>234</b>	<b>270</b>	<b>(13.3)</b>

**Capital (\$bn)**

Risk-weighted assets - credit risk (spot)	6.6	6.4	3.1	6.6	6.1	8.2
Total risk-weighted assets (spot)	6.9	6.7	3.0	6.9	6.4	7.8

**Performance Measures**

Cost to income ratio (%)	61.0%	60.5%	(50 bps)	63.0%	59.1%	(390 bps)
'Jaws' <sup>(1)</sup>	(0.9%)	3.1%	(400 bps)	(6.3%)	3.8%	large
Cash earnings before IoRE and non-controlling interest per average FTE (\$'000s)	86	104	(17.3)	77	94	(18.1)
BAU FTEs	4,695	4,555	(3.1)	4,695	4,632	(1.4)
Project FTEs	385	440	12.5	385	534	27.9
Salaried planners FTEs	829	719	(15.3)	829	758	(9.4)
FTEs (spot)	5,909	5,714	(3.4)	5,909	5,924	0.3
Financial advisers - salaried channels <sup>(2)</sup>	850	726	17.1	850	765	11.1
Financial advisers - aligned channels <sup>(2)</sup>	1,014	829	22.3	1,014	962	5.4

<sup>(1)</sup> The 'Jaws' for September 2010 excludes the impact of the acquisition of JBWere and Aviva.

<sup>(2)</sup> Financial advisers - salaried and aligned channels are based on headcount.

IoRE by Asset Class	Year to					
	Sep 11			Sep 10		
	Actual Earnings \$m	Weighted Asset Balance \$m	Earnings Rate %	Actual Earnings \$m	Weighted Asset Balance \$m	Earnings Rate %
Equity	(10)	193	(5.3%)	2	148	1.7%
Fixed interest	17	218	7.9%	5	86	5.8%
Cash and others <sup>(1)</sup>	110	2,089	5.3%	127	1,467	8.7%
Debt	(67)	1,109	(6.1%)	(44)	811	(5.4%)
Income tax	(20)			(29)		
<b>IoRE</b>	<b>30</b>			<b>61</b>		

IoRE by Asset Class	Half Year to					
	Sep 11			Mar 11		
	Actual Earnings \$m	Weighted Asset Balance \$m	Earnings Rate <sup>(2)</sup> %	Actual Earnings \$m	Weighted Asset Balance \$m	Earnings Rate <sup>(2)</sup> %
Equity	(23)	195	(23.6%)	13	191	13.6%
Fixed interest	13	218	11.9%	4	218	3.7%
Cash and others	57	2,130	5.4%	53	2,048	5.2%
Debt	(35)	1,205	(5.8%)	(32)	1,013	(6.3%)
Income tax	(11)			(9)		
<b>IoRE</b>	<b>1</b>			<b>29</b>		

<sup>(1)</sup> Cash and others includes Aviva IoRE earnings for the September 2010 financial year. For the September 2011 financial year Aviva has been integrated into the IoRE calculation.

<sup>(2)</sup> The earnings rate is an annualised rate for allowing simple interest.

## MLC & NAB Wealth

### Financial Highlights

#### September 2011 v September 2010

**Cash earnings before IoRE** and non-controlling interest of \$504 million decreased by \$45 million or 8.2% compared to September 2010.

Cash earnings before tax and IoRE of \$703 million decreased by \$15 million or 2.1%. This result is due to an increase in insurance claims, changes in the lapse mix and profile of the retail insurance book, higher bad and doubtful debts and weak investment markets.

**Net interest income** grew by \$33 million or 11.2% due to higher home lending volumes and margin expansion. Volumes have benefited from strong improvements in retention and a focus on meeting more of the needs of existing clients.

**MLC net operating income** decreased by \$26 million or 1.7% as a result of an increase in group and personal lump sum insurance claims, changes in the mix of both the insurance and investments business, and weaker equity markets.

**Funds under management (FUM)** as at 30 September 2011 of \$112.7 billion fell by \$3.4 billion, or 2.9% over the year as a result of deterioration in investment market performance over the September 2011 half year. Discretionary flows across the industry have been subdued. However MLC outperformed the Retail Super market<sup>(1)</sup> in FUM growth over the year to June 2011.

**Inforce premiums** as at 30 September 2011 of \$1.5 billion grew by \$59.6 million or 4.2% over the prior year.

**Operating Expenses** increased by \$14 million or 1.3% to support adviser growth, the development of new products and an increase in the number of clients. Cost synergies

from the integration of the Aviva business partially offset the increase in operating expenses.

#### September 2011 v March 2011

**Cash earnings before IoRE** and non-controlling interest of \$234 million decreased by \$36 million or 13.3% compared to the March 2011 half year. This result was due to an increase in claims, the full year impact of changes in the lapse mix and profile of the retail insurance book and a flat earnings result for the Investments business reflecting weak market conditions in the last quarter.

**Net interest income** grew by \$8 million, or 5.0% mainly due to margin expansion.

**MLC net operating income** decreased by \$54 million or 7.0% as a result of an increase in insurance claims and the impact of changes in the lapse mix and profile of the retail insurance book, and weaker equity markets.

Whilst spot **FUM** was down 7.6% due to investment markets, average FUM remained flat with strong wholesale net flows offset by investment market movements and subdued discretionary retail flows, although margins were stable.

**Inforce premiums** as at 30 September 2011 of \$1.5 billion grew by \$30.4 million or 2.1% over the March 2011 half year.

**Operating Expenses** increased by \$6 million or 1.1% to support adviser growth, the development of new products, an increase in the number of clients, and the seasonality of superannuation end of financial year activities. Cost synergies from the integration of the Aviva business partially offset the increase in operating expenses.

<sup>(1)</sup> Plan for Life Australian Retail and Unitised Investments Market Share and Dynamics Report - June 2011.



## MLC &amp; NAB Wealth - Investments inclusive of Private Wealth

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10 %	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11 %
Net interest income	328	295	11.2	168	160	5.0
Other operating income	35	34	2.9	16	19	(15.8)
Gross income	1,543	1,556	(0.8)	771	772	(0.1)
Volume related expenses	(544)	(548)	0.7	(273)	(271)	(0.7)
<b>Net income</b>	<b>1,362</b>	<b>1,337</b>	<b>1.9</b>	<b>682</b>	<b>680</b>	<b>0.3</b>
Operating expenses	(895)	(878)	(1.9)	(452)	(443)	(2.0)
<b>Underlying profit</b>	<b>467</b>	<b>459</b>	<b>1.7</b>	<b>230</b>	<b>237</b>	<b>(3.0)</b>
Charge to provide for bad and doubtful debts	(18)	(9)	(100.0)	(7)	(11)	36.4
<b>Cash earnings before tax</b>	<b>449</b>	<b>450</b>	<b>(0.2)</b>	<b>223</b>	<b>226</b>	<b>(1.3)</b>
Income tax expense	(125)	(98)	(27.6)	(61)	(64)	4.7
<b>Cash earnings before IoRE</b>	<b>324</b>	<b>352</b>	<b>(8.0)</b>	<b>162</b>	<b>162</b>	<b>-</b>

## Average Volumes - Private Bank (\$bn)

Gross loans and acceptances	18.4	17.1	7.6	18.6	18.1	2.8
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Performance Measures <sup>(1)</sup>

Funds under management (spot) (\$m)	112,705	116,079	(2.9)	112,705	121,933	(7.6)
Funds under management (average) (\$m)	119,220	109,386	9.0	119,060	119,381	(0.3)
Net funds flow (\$m)	(563)	7,228	large	(62)	(501)	87.6
Net interest margin - Private Bank & Equity Lending	1.78%	1.73%	5 bps	1.82%	1.73%	9 bps
Cost to income ratio	65.7%	65.7%	-	66.3%	65.1%	(120 bps)
Investment operating expenses to average FUM (bps)	63	69	6 bps	64	62	(2 bps)
Investment income to average FUM (bps)	84	92	(8 bps)	83	84	(1 bps)

<sup>(1)</sup> MLC FUM excludes Trustee and Cash Management.

Funds Under Management <sup>(1)</sup>

	Jun 11		Dec 10		Jun 10	
	Rank	Market Share %	Rank	Market Share %	Rank	Market Share %
Retail (excl. Cash)	2	16.1%	2	16.1%	2	16.0%
Total Retail Superannuation	2	20.9%	2	20.8%	2	20.6%
Total Wholesale	1	10.7%	2	10.3%	2	9.2%

Source: Plan for life Australian Retail & Wholesale Investments Market Share & Dynamics Report - June 2011.

<sup>(1)</sup> Prior periods have been restated by Plan for Life for a competitors' acquisition in the current period. As a result, MLC's prior period rankings differ to results previously reported.

## 2011

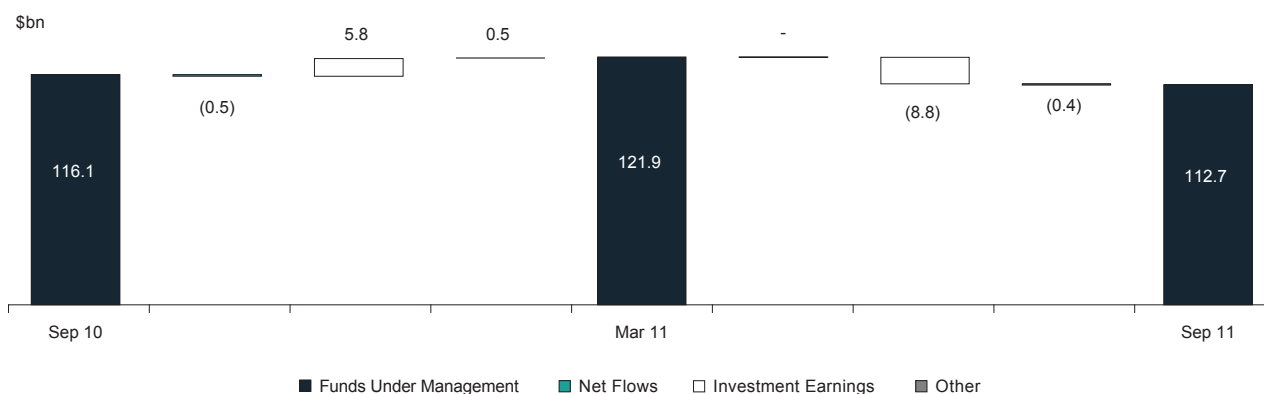
## Funds Under Management

Movement in Funds under Management and administration (\$m)	As at Sep 10	Inflows	Outflows	Investment earnings	Other <sup>(1)</sup>	As at Sep 11
Master Funds (Platforms)	78,725	11,199	(12,796)	(2,289)	(127)	74,712
Other Retail	4,702	59	(429)	17	(205)	4,144
<b>Total Retail Funds (Excl. Cash)</b>	<b>83,427</b>	<b>11,258</b>	<b>(13,225)</b>	<b>(2,272)</b>	<b>(332)</b>	<b>78,856</b>
Wholesale	32,652	5,519	(4,115)	(724)	517	33,849
<b>Total MLC ex Trustee and Cash Management</b>	<b>116,079</b>	<b>16,777</b>	<b>(17,340)</b>	<b>(2,996)</b>	<b>185</b>	<b>112,705</b>
Trustee	7,093	2,664	(2,032)	-	(1,286)	6,439

Movement in Funds under Management and administration (\$m)	As at Mar 11	Inflows	Outflows	Investment earnings	Other <sup>(1)</sup>	As at Sep 11
Master Funds (Platforms)	81,473	6,424	(7,069)	(6,035)	(81)	74,712
Other Retail	4,758	33	(222)	(137)	(288)	4,144
<b>Total Retail Funds (Excl. Cash)</b>	<b>86,231</b>	<b>6,457</b>	<b>(7,291)</b>	<b>(6,172)</b>	<b>(369)</b>	<b>78,856</b>
Wholesale	35,702	2,810	(2,038)	(2,625)	-	33,849
<b>Total MLC ex Trustee and Cash Management</b>	<b>121,933</b>	<b>9,267</b>	<b>(9,329)</b>	<b>(8,797)</b>	<b>(369)</b>	<b>112,705</b>
Trustee	6,155	1,688	(1,406)	-	2	6,439

<sup>(1)</sup> Other includes trust distributions.

## Funds Under Management



FUM by Asset Class	As at		
	Sep 11	Mar 11	Sep 10
Australian equities	31%	33%	33%
International equities	25%	27%	26%
Australian fixed interest	20%	18%	19%
International fixed interest	8%	8%	9%
Australian cash	8%	7%	6%
International direct property	4%	3%	3%
International listed property	2%	2%	2%
Australian listed property	2%	2%	2%

## MLC &amp; NAB Wealth - Investments and Private Wealth

## Financial Analysis

**September 2011 v September 2010**

**Cash earnings before loRE** fell by \$28 million or 8.0% compared to September 2010, predominantly due to a higher effective tax rate.

Cash earnings before tax were relatively flat compared to the prior year.

**Net interest income** grew by \$33 million or 11.2% due to higher home lending volumes and lending margin expansion. Volumes have benefited from strong improvements in retention and a focus on meeting more of the needs of existing clients.

**Gross income** decreased by \$13 million, or 0.8% as the growth in average FUM was offset by changes in business mix, which included an increase in the proportion of lower margin wholesale business, combined with weaker equity markets.

**FUM** as at 30 September 2011 of \$112.7 billion fell by \$3.4 billion, or 2.9% over the year as a result of deterioration in investment markets. Discretionary flows across the industry have been subdued. However, MLC has outperformed the Retail Super market in FUM growth over the year to June 2011.

**Volume related expenses** include commission payments and investment costs. These costs moved in line with gross income.

**Operating expenses** increased by \$17 million, or 1.9% to support adviser growth, the development of new products and an increase in the number of clients. Cost synergies from the integration of the Aviva business partially offset the increase in operating expenses.

The charge to provide for **bad and doubtful debts** increased by \$9 million predominantly as a result of a single specific provision.

**September 2011 v March 2011**

**Cash earnings before loRE** remained flat compared to March 2011 reflecting weak market conditions in the last quarter.

**Net interest income** grew by \$8 million, or 5.0% mainly due to margin expansion.

**Gross income** and **volume related** expenses remained flat in line with stable average FUM and margins, combined with weaker equity markets.

**Average FUM** remained stable over the half year to September 2011, with strong wholesale net flows, offset by investment market movements and subdued discretionary retail flows.

**Operating expenses** increased by \$9 million or 2.0% to support adviser growth, the development of new products, an increase in the number of clients, and the seasonality of superannuation end of financial year activities. Cost synergies from the integration of the Aviva business partially offset the increase in operating expenses.

## Other Items

## Asset Quality

	As at		
	Sep 11	Mar 11	Sep 10
Specific provision for doubtful debts (\$m)	19	20	7
Collective provision for doubtful debts (\$m)	17	15	17
90+ DPD assets (\$m)	50	34	29
Gross impaired assets (\$m)	54	70	57
90+ DPD plus gross impaired assets to gross loans and acceptances	0.55%	0.56%	0.48%
Specific provision to gross impaired assets	35.2%	28.6%	12.3%
Net write-offs to gross loans and acceptances (annualised)	0.03%	(0.01%)	0.07%
Total provision as a percentage of net write-offs	720%	(1,745%)	185%
Total provision to gross loans and acceptances	0.19%	0.19%	0.13%
Bad and doubtful debt charge to credit risk weighted assets	0.27%	0.35%	0.14%

Asset quality measures across MLC & NAB Wealth have been relatively stable in the September 2011 half year with the ratio of 90+ DPD plus gross impaired assets to gross loans and acceptances improving one basis point in the period.

Total provisions to gross loans and acceptances have remained steady since March 2011.

## MLC &amp; NAB Wealth - Insurance

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10 %	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11 %
Gross income	1,564	1,480	5.7	784	780	0.5
Volume related expenses	(1,077)	(976)	(10.3)	(566)	(511)	(10.8)
<b>Net operating income</b>	<b>487</b>	<b>504</b>	<b>(3.4)</b>	<b>218</b>	<b>269</b>	<b>(19.0)</b>
Operating expenses	(233)	(236)	1.3	(115)	(118)	2.5
<b>Cash earnings before tax and IoRE</b>	<b>254</b>	<b>268</b>	<b>(5.2)</b>	<b>103</b>	<b>151</b>	<b>(31.8)</b>
Income tax expense	(74)	(71)	(4.2)	(31)	(43)	27.9
<b>Cash earnings before IoRE</b>	<b>180</b>	<b>197</b>	<b>(8.6)</b>	<b>72</b>	<b>108</b>	<b>(33.3)</b>

## Planned and Experience Analysis

Planned margins	166	181	(8.3)	84	82	2.4
Experience profit/(loss)	14	16	(12.5)	(12)	26	large
<b>Cash earnings before IoRE</b>	<b>180</b>	<b>197</b>	<b>(8.6)</b>	<b>72</b>	<b>108</b>	<b>(33.3)</b>

## Performance Measures

Annual inforce premiums (spot) (\$m)	1,466.3	1,406.7	4.2	1,466.3	1,435.9	2.1
Annual inforce premiums (average) (\$m)	1,436.5	1,187.8	20.9	1,451.1	1,421.3	2.1
New business premiums (\$m)	286.1	349.0	(18.0)	152.0	134.1	13.3
Insurance cost to average inforce premiums (%)	16%	20%		16%	17%	

Annual Inforce Premiums (\$m)	As at Sep 10	Sales	Lapses	As at Sep 11	Sep 10 v Sep 11 %
Retail	1,122.4	231.3	(188.5)	1,165.2	3.8
Group Risk	284.3	54.8	(38.0)	301.1	5.9
<b>Total</b>	<b>1,406.7</b>	<b>286.1</b>	<b>(226.5)</b>	<b>1,466.3</b>	<b>4.2</b>

Annual Inforce Premiums (\$m)	As at Mar 11	Sales	Lapses	As at Sep 11	Mar 11 v Sep 11 %
Retail	1,146.5	121.4	(102.7)	1,165.2	1.6
Group Risk	289.4	30.6	(18.9)	301.1	4.0
<b>Total</b>	<b>1,435.9</b>	<b>152.0</b>	<b>(121.6)</b>	<b>1,466.3</b>	<b>2.1</b>

## Premiums in Force

	Jun 11		Dec 10		Jun 10	
	Rank	Market Share %	Rank	Market Share %	Rank	Market Share %
Retail risk premiums	2	18.4%	1	18.9%	1	19.1%
Group risk	6	9.8%	5	10.1%	5	9.8%

## Share of New Business

	Jun 11		Dec 10		Jun 10	
	Rank	Market Share %	Rank	Market Share %	Rank	Market Share %
Retail risk premiums	2	16.6%	1	18.1%	1	20.2%
Group risk	4	11.8%	4	11.8%	2	13.7%

Source: DEXX&R Life Analysis. (Prior periods have not been restated by DEXX&R for a competitors acquisition.)

**MLC & NAB Wealth - Insurance**

## Financial Analysis

**September 2011 v September 2010**

**Cash earnings before IoRE** of \$180 million have decreased by \$17 million or 8.6% compared to September 2010. This result is largely driven by an increase in claims and changes in the lapse mix and profile of the retail insurance book.

**Gross income** increased by \$84 million or 5.7% due to growth in the annual inforce premiums and earnings on the assets backing the Insurance policy liabilities.

**Volume related expenses** include commission payments, claims and changes in insurance policy liabilities. These costs increased by \$101 million or 10.3% compared to the prior year as a result of the increase in premiums inforce, changes in the lapse mix and profile of the retail insurance book and higher claims for group and lump sum business. These effects were partially offset by lower claims in individual disability.

**Operating expenses** of \$233 million improved by \$3 million compared to the prior year.

**Planned Margins and Experience Profit**

Planned margins were lower than 2010 mainly due to a strengthening of the basis for longer term claims in the lump sum business.

Experience profits arose as a result of favourable returns on assets backing policy liabilities and favourable claims experience on the lump sum business. This was partially offset by unfavourable lapses, changes in business mix and unfavourable, though improving, claims experience on the individual disability income business.

**September 2011 v March 2011**

**Cash earnings before IoRE** decreased by \$36 million or 33.3% compared to March 2011. This result was largely driven by an increase in claims and the full year impact of changes in the lapse mix and profile of the retail insurance book.

**Gross income** increased by \$4 million or 0.5% to \$784 million, broadly in line with growth in inforce premiums.

**Volume related expenses** increased by \$55 million or 10.8% driven by the full year impact of changes in the lapse mix and profile of the retail insurance book, an increase in average premiums inforce and higher claims for group and lump sum business. The effects were partially offset by lower claims in individual disability.

**Operating expenses** of \$115 million have improved by \$3 million compared to the prior half.

## NZ Banking

Andrew Thorburn

NZ Banking comprises the Retail, Business, Agribusiness, Corporate and Insurance franchises in New Zealand, operating under the 'BNZ' brand. It excludes BNZ's Wholesale Banking operations.

Results presented in local currency. See page 63 for results in \$AUDm.

	Year to			Half Year to		
	Sep 11 NZ\$m	Sep 10 NZ\$m	Sep 11 v Sep 10 %	Sep 11 NZ\$m	Mar 11 NZ\$m	Sep 11 v Mar 11 %
Net interest income	1,324	1,233	7.4	684	640	6.9
Other operating income	451	442	2.0	226	225	0.4
<b>Net operating income</b>	<b>1,775</b>	<b>1,675</b>	<b>6.0</b>	<b>910</b>	<b>865</b>	<b>5.2</b>
Operating expenses	(747)	(732)	(2.0)	(378)	(369)	(2.4)
<b>Underlying profit</b>	<b>1,028</b>	<b>943</b>	<b>9.0</b>	<b>532</b>	<b>496</b>	<b>7.3</b>
Charge to provide for bad and doubtful debts	(151)	(187)	19.3	(56)	(95)	41.1
<b>Cash earnings before tax</b>	<b>877</b>	<b>756</b>	<b>16.0</b>	<b>476</b>	<b>401</b>	<b>18.7</b>
Income tax expense	(265)	(232)	(14.2)	(147)	(118)	(24.6)
<b>Cash earnings</b>	<b>612</b>	<b>524</b>	<b>16.8</b>	<b>329</b>	<b>283</b>	<b>16.3</b>

**Average Volumes (NZ\$bn)**

	Sep 11	Sep 10	Sep 11 v Sep 10 %	Sep 11	Mar 11	Sep 11 v Mar 11 %
Gross loans and acceptances	55.9	54.9	1.8	56.4	55.4	1.8
Interest earning assets	57.6	57.1	0.9	58.0	57.2	1.4
Total assets	58.1	57.7	0.7	58.4	57.8	1.0
Retail deposits	31.1	28.3	9.9	31.8	30.4	4.6

**Capital (NZ\$bn)**

	Sep 11	Sep 10	Sep 11 v Sep 10 %	Sep 11	Mar 11	Sep 11 v Mar 11 %
Risk-weighted assets - credit risk (spot)	35.3	33.5	5.4	35.3	36.1	(2.2)
Total risk-weighted assets (spot)	39.8	38.2	4.2	39.8	40.8	(2.5)

**Performance Measures**

	Sep 11	Sep 10	Sep 11 v Sep 10 %	Sep 11	Mar 11	Sep 11 v Mar 11 %
Cash earnings on average assets	1.05%	0.91%	14 bps	1.12%	0.98%	14 bps
Net interest margin	2.30%	2.16%	14 bps	2.35%	2.24%	11 bps
Cost to income ratio	42.1%	43.7%	160 bps	41.5%	42.7%	120 bps
'Jaws'	4.0%	0.9%	310 bps	2.8%	-	280 bps
Cash earnings per average FTE (NZ\$'000s)	134	119	12.6	143	125	14.4
FTEs (spot)	4,641	4,551	(2.0)	4,641	4,578	(1.4)

Market Share <sup>(1)</sup>	As at		
	Aug 11	Mar 11	Sep 10
Housing	16.2%	16.0%	15.8%
Cards	27.5%	27.7%	27.7%
Agribusiness	20.5%	19.5%	19.2%
Retail deposits <sup>(2)</sup>	18.2%	18.1%	17.7%

Distribution	As at		
	Sep 11	Mar 11	Sep 10
Number of retail branches	179	178	178
Number of ATMs	445	444	442
Number of internet banking customers ('000s)	534	513	491

<sup>(1)</sup> Source RBNZ (historical market share rebased with latest revised RBNZ published data).

<sup>(2)</sup> Retail deposits excludes some deposits by business banking customers captured in money market deposits in the BNZ Disclosure Statement.

## NZ Banking

Financial Analysis (in local currency)

### September 2011 v September 2010

**Cash earnings** for the year increased by \$88 million or 16.8% to \$612 million, when compared to the prior year. The current year's performance was characterised by improved net interest income and margins and lower bad and doubtful debt charges. Lending volume growth remained modest in light of the subdued demand for business and personal credit. Expenses increased slightly from September 2010 while bad and doubtful debt charges fell from the cyclical high in the prior year.

**Net interest income** increased by \$91 million or 7.4% primarily due to margin improvement through volume growth in variable rate housing products and progressive repricing of the asset portfolio. Strong deposit volume growth also contributed to the increase in net interest income during the year.

Average volumes of **gross loans and acceptances** increased slightly by \$1 billion or 1.8%. Weak demand for business credit remained a challenge throughout the year. Nonetheless, BNZ increased its market share in key segments, including housing by 38 basis points to 16.2% and agribusiness by 131 basis points to 20.5%.

Average volumes of **retail deposits** grew strongly from September 2010, increasing by \$2.8 billion or 9.9%. This was driven by a continuing focus on growing retail deposits to further strengthen the Bank's balance sheet. This strong growth has helped improve BNZ's market share in a very competitive market, increasing by 52 basis points to 18.2%.

**Net interest margin** improved by 14 basis points to 2.30%. The favourable portfolio mix from customers' continued preference for variable rate products, as well as repricing of the asset portfolio, helped support the net interest margin during the year. Margin pressure has however continued from growing retail deposits in a very competitive market and increasing the term profile of wholesale funding.

**Other operating income** increased by \$9 million or 2.0%. This was primarily driven by higher lending fees from Corporate and Institutional Banking customers and client cross-sell, partially offset by a decrease in transaction fees from credit cards.

**Operating expenses** increased by \$15 million or 2.0% due primarily to costs associated with the refresh of the Store and Partners network, product development, and the Christchurch earthquake in February 2011. This included a \$1 million donation and special assistance payments made to affected staff in the region.

The **charge to provide for bad and doubtful debts** decreased by \$36 million or 19.3% from September 2010. The improvement was due to strong credit card collections, lower housing losses and an overall improvement in asset quality across the lending portfolio. The current year charge includes provisions for risk relating to the Christchurch earthquake.

### September 2011 v March 2011

**Cash earnings** increased by \$46 million or 16.3% to \$329 million when compared with the March 2011 half year, reflecting stronger margins and a significant improvement in bad and doubtful debt charges.

**Net interest income** increased by \$44 million or 6.9% from the March 2011 half year. The low interest rate environment following the official cash rate cut in March 2011 has helped maintain customers' preference for variable rate housing products. Repricing of loans to reflect current market conditions also contributed to the improved result.

Average volumes of **gross loans and acceptances** grew slightly by \$1 billion or 1.8% as overall system credit growth in New Zealand remained subdued. BNZ has however increased its market share in key segments including housing and agribusiness.

Average volumes of **retail deposits** grew by \$1.4 billion or 4.6% against the March 2011 half year, increasing BNZ's market share by 13 basis points to 18.2% and further strengthening BNZ's balance sheet.

**Net interest margin** improved by 11 basis points to 2.35% from the March 2011 half year. Margin support from repricing the asset book and a favourable housing portfolio mix were partially offset by the higher funding costs associated with deposit growth and longer term funding to help maintain balance sheet strength.

**Other operating income** remained largely flat compared to the March 2011 half year.

**Operating expenses** increased by \$9 million or 2.4% compared to the March 2011 half year. This result for the current half includes costs associated with product development, new advertising and marketing campaigns and upgrading of the Store and Partners network.

The **charge to provide for bad and doubtful debts** decreased by \$39 million or 41.1%. The significant improvement resulted from a combination of lower specific provisions on business exposures, an overall improvement in asset quality, recoveries made in the September 2011 half year and provisioning in the March 2011 half year for the Christchurch earthquake.



## Other Items

## Asset Quality

	As at		
	Sep 11	Mar 11	Sep 10
Specific provision for doubtful debts (NZ\$m)	170	175	148
Collective provision for doubtful debts (NZ\$m)	207	219	202
Specific provision on loans at fair value (NZ\$m)	57	84	94
Collective provision on loans at fair value (NZ\$m)	72	74	71
90+ DPD assets (NZ\$m)	202	263	196
Gross impaired assets (NZ\$m)	658	836	776
90+ DPD plus gross impaired asset to gross loans and acceptances	1.51%	1.96%	1.75%
Specific provision to gross impaired assets	34.5%	31.0%	31.2%
Net write-offs to gross loans and acceptances (annualised)	0.22%	0.18%	0.27%
Total provision as a percentage of net write-offs	405%	540%	348%
Total provision to gross loans and acceptances	0.89%	0.99%	0.93%
Bad and doubtful debt charge to credit risk weighted assets	0.43%	0.53%	0.56%

There has been further evidence in the second half of the year of economic recovery in New Zealand. This, combined with BNZ's strong risk management framework and responsible approach to lending has ensured that it has remained well placed with improvement across a number of asset quality indicators.

Compared with September 2010, the level of impaired assets and 90+ DPD assets to gross loans and acceptances has improved by 24 basis points from 1.75% to 1.51% with improvement across both business and retail exposures. Bad and doubtful debt charges and net write-offs are also lower than the September 2010 year while provision coverage remains strong.

Key industry risk areas continue to be in the commercial property (residential subdivision and development land) and dairy farming sectors. BNZ's disciplines around property development financing, such as requirements for minimum pre-sales targets, project feasibility analysis and assessment of undue concentration risk, all contributed to minimising losses on exposures in this sector.

International commodity prices have been well supported during the year generating improved confidence in the agribusiness sector. BNZ continues its positive and supportive approach to the agricultural sector and has encountered comparatively few financially stressed customers, due to its conservative through-the-cycle approach to assessing expected future returns from dairy and other commodities.

Housing accounts for 48% of BNZ's total lending portfolio. In an environment where housing sales volumes remain relatively subdued, the portfolio has experienced some improvement in asset quality in the second half of the year. Unemployment remains higher than average and BNZ continues to proactively monitor and manage emerging distressed customers with increased resources focusing on retail credit. Asset quality in unsecured consumer lending has also improved.

BNZ continues to place significant focus on monitoring and proactive management of asset quality to enable early intervention, as required. A dynamic approach to adjustment of risk settings, a comprehensive program of oversight and intervention activities, as well as active partnering with businesses are key strategies employed to maintain acceptable asset quality.

BNZ continues to be cautious about the impacts of the February 2011 earthquake and related after-shocks, and closely monitors the adequacy of provisions.

## Capital and Funding Position

During the year, management continued to focus on prudent liquidity management and maintenance of strong capital levels. An ongoing focus on deposit growth, reducing short term funding, and both diversification and lengthening of wholesale term funding has contributed to BNZ's strong Core Funding Ratio (CFR), which remains above the RBNZ's minimum CFR requirement of 70%.

The strong focus on customer deposits has seen BNZ increase its retail deposit market share compared to September 2010. Whilst retail deposit rates were higher than wholesale funding costs during the current year, deposit funding remains a core component of balance sheet strength. The ongoing rebalancing towards customer deposits is important to maintaining BNZ's AA credit rating.

In November 2010, BNZ completed its inaugural European covered bond issue, raising EUR 1 billion of seven year funding. In June 2011, BNZ completed its inaugural Australian covered bond issue. This transaction raised AUD 700 million of five year funding. Both covered bonds issuances were the first of their kind by an Australasian bank and demonstrated the continued international investor confidence in BNZ.

BNZ has now issued a total of NZ\$3.4 billion in covered bonds. The prudent use of covered bonds will form an important part of BNZ's funding mix over the coming years.

As at 30 September 2011 BNZ's regulatory capital levels remain well above the RBNZ's prescribed minimum levels. BNZ Banking Group's Tier 1 capital ratio was 8.99% and its Total capital ratio was 11.84% (minimum 8%). The RBNZ is expected to release a Basel III discussion paper by November 2011.

## NZ Banking

Results presented in Australian dollars. See page 60 for results in local currency.

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10%	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11%
Net interest income	1,015	978	3.8	528	487	8.4
Other operating income	345	351	(1.7)	174	171	1.8
<b>Net operating income</b>	<b>1,360</b>	<b>1,329</b>	<b>2.3</b>	<b>702</b>	<b>658</b>	<b>6.7</b>
Operating expenses	(572)	(581)	1.5	(291)	(281)	(3.6)
<b>Underlying profit</b>	<b>788</b>	<b>748</b>	<b>5.3</b>	<b>411</b>	<b>377</b>	<b>9.0</b>
Charge to provide for bad and doubtful debts	(116)	(148)	21.6	(44)	(72)	38.9
<b>Cash earnings before tax</b>	<b>672</b>	<b>600</b>	<b>12.0</b>	<b>367</b>	<b>305</b>	<b>20.3</b>
Income tax expense	(203)	(184)	(10.3)	(113)	(90)	(25.6)
<b>Cash earnings</b>	<b>469</b>	<b>416</b>	<b>12.7</b>	<b>254</b>	<b>215</b>	<b>18.1</b>

## Impact of foreign exchange rate movements

Favourable/ (unfavourable) September 11	Year since Sep 10		Half year since Mar 11	
	Sep 10 \$m	Sep 11 v Ex FX %	Mar 11 \$m	Sep 11 v Mar 11 Ex FX %
Net interest income	(36)	7.4	8	6.9
Other operating income	(13)	2.0	2	0.4
Operating expenses	21	(2.0)	(4)	(2.4)
Charge to provide for bad and doubtful debts	4	19.3	(1)	41.1
Income tax expense	6	(14.2)	(2)	(24.6)
Cash earnings	(18)	16.8	3	16.3

## UK Banking

David Thorburn

UK Banking operates under the Clydesdale Bank and Yorkshire Bank brands. It offers a range of banking services for both personal and business customers through retail branches, Financial Solutions Centres, direct banking and brokers.

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

	Year to			Half Year to		
	Sep 11 £m	Sep 10 £m	Sep 11 v Sep 10 %	Sep 11 £m	Mar 11 £m	Sep 11 v Mar 11 %
Net interest income	972	962	1.0	491	481	2.1
Other operating income	287	261	10.0	153	134	14.2
<b>Net operating income</b>	<b>1,259</b>	<b>1,223</b>	<b>2.9</b>	<b>644</b>	<b>615</b>	<b>4.7</b>
Operating expenses	(726)	(712)	(2.0)	(363)	(363)	-
<b>Underlying profit</b>	<b>533</b>	<b>511</b>	<b>4.3</b>	<b>281</b>	<b>252</b>	<b>11.5</b>
Charge to provide for bad and doubtful debts	(296)	(347)	14.7	(145)	(151)	4.0
<b>Cash earnings before tax</b>	<b>237</b>	<b>164</b>	<b>44.5</b>	<b>136</b>	<b>101</b>	<b>34.7</b>
Income tax expense	(54)	(46)	(17.4)	(30)	(24)	(25.0)
<b>Cash earnings</b>	<b>183</b>	<b>118</b>	<b>55.1</b>	<b>106</b>	<b>77</b>	<b>37.7</b>

**Average Volumes (£bn)**

Gross loans and acceptances	33.0	32.9	0.3	33.2	32.6	1.8
Interest earning assets	41.7	41.1	1.5	42.0	41.4	1.4
Total assets	44.9	44.5	0.9	45.1	44.8	0.7
Retail deposits	23.3	23.1	0.9	23.3	23.4	(0.4)

**Capital (£bn)**

Risk-weighted assets - credit risk (spot)	29.5	30.6	(3.6)	29.5	29.7	(0.7)
Total risk-weighted assets (spot)	32.5	33.8	(3.8)	32.5	33.3	(2.4)

**Performance Measures**

Cash earnings on average assets	0.41%	0.27%	14 bps	0.47%	0.34%	13 bps
Net interest margin	2.33%	2.34%	(1 bps)	2.33%	2.33%	-
Cost to income ratio	57.7%	58.2%	50 bps	56.4%	59.0%	260 bps
'Jaws'	0.9%	(4.2%)	510 bps	4.7%	0.4%	430 bps
Cash earnings per average FTE (£'000s)	21	14	50.0	25	18	38.9
FTEs (spot)	8,351	8,730	4.3	8,351	8,684	3.8

Distribution	As at		
	Sep 11	Mar 11	Sep 10
Number of retail branches	337	339	339
Number of ATMs	887	935	939
Number of internet banking customers ('000s)	562	536	505

## UK Banking

Financial Analysis (in local currency)

**September 2011 v September 2010**

**Cash earnings** at £183 million increased by £65 million or 55.1% over the September 2010 year, reflecting lower charges to provide for bad and doubtful debts and positive jaws. Underlying profit increased by £22 million or 4.3%.

**Net interest income** increased by £10 million or 1.0%, driven by higher lending income from margin management. This was partially offset by lower earnings on capital and higher funding and liquidity costs. The **net interest margin** declined by one basis point as a result of an increase in low yielding liquid assets as the liquidity was strengthened.

**Average gross loans and acceptances** increased by £0.1 billion or 0.3%, primarily due to growth in mortgages. Mortgage growth of 5.6% was substantially higher than system growth of 0.3%<sup>(1)</sup> and was partially offset by the subdued demand for credit and active downward management of the commercial property and unsecured personal lending books.

**Average retail deposits** increased by £0.2 billion or 0.9% which reflected careful management of retail funding costs. Growth has primarily been through current accounts, with customers looking to retain instant access to funds in what continues to be a challenging economic and low interest rate environment.

**Other operating income** increased by £26 million or 10.0%. The main contributors to this were higher commissions and fees. Commission income was £13 million higher than the prior year primarily due to increased insurance profit share income. Fees were £9 million higher as a result of growth in demand for the Signature current account. There was a £14 million charge for Payment Protection Insurance (PPI) redress in the March 2011 half year. All claims are now charged against a provision of £100 million raised through non-cash earnings in the September 2011 half year. The net impact was a £4 million reduction in the cash earnings charge for PPI redress to customers over the prior year.

**Operating expenses** increased by £14 million or 2.0% over the prior year. The business has demonstrated strong cost control by keeping expenses below inflation levels while continuing to invest to satisfy ongoing regulatory requirements, improve the customer proposition and rationalise the operating model. Operating expenses includes a charge for the Bank Levy which was introduced by the UK Government during the year.

The **charge to provide for bad and doubtful debts** decreased by £51 million or 14.7% over the prior year, primarily due to lower unsecured retail lending losses, an improvement in portfolio delinquency, and a lower business lending impairment charge.

There was a reduction in the UK **effective tax rate** in the year, mainly due to the movement in deferred tax balances following the change to the rate of UK corporation tax and associated adjustments.

<sup>(1)</sup> Source: Bank of England - August 2011.

**September 2011 v March 2011**

**Cash earnings** increased by £29 million or 37.7% on the prior half. This increase was primarily due to a strong improvement in income, which included the half-on-half impact of the business's response to the PPI issue, flat costs and a lower charge to provide for bad and doubtful debts.

**Net interest income** increased by £10 million or 2.1% driven by higher lending income from increased volumes and margin management. This was partially offset by lower Treasury income due to the decline in swap rates and higher funding costs. The **net interest margin** was flat at 2.33%.

**Average gross loans and acceptances** increased by £0.6 billion or 1.8%. This was driven by above system growth in mortgages, although demand for credit remains subdued.

**Average retail deposits** decreased by £0.1 billion or 0.4% although the business has maintained a strong Customer Funding Index (CFI) in the competitive environment.

**Other operating income** increased by £19 million or 14.2%. This was mainly driven by the non-recurring £14 million charge for PPI refunds that occurred in the March 2011 half year which was not repeated in the September 2011 half year, due to the raising of a provision in non-cash earnings to deal with this issue.

**Operating expenses** remained flat. Benefits from a reduction in FTEs and contractor costs were offset by expenses relating to rationalisation and the effect of the Bank Levy. Cost control remained a key management focus, while investment in the business, including ongoing regulatory requirements, continued.

The **charge to provide for bad and doubtful debts** decreased by £6 million or 4.0% when compared to the March 2011 half year. The rate of reduction has slowed alongside the pace of economic recovery. This was particularly evident in the last quarter.

## Other Items

## Asset Quality

	As at		
	Sep 11	Mar 11	Sep 10
Specific provision for doubtful debts (£m)	120	89	65
Collective provision for doubtful debts (£m)	243	275	282
Specific provision on loans at fair value (£m)	16	37	26
Collective provision on loans at fair value (£m)	141	97	104
90+ DPD assets (£m)	194	261	265
Gross impaired assets (£m)	858	867	766
90+ DPD plus gross impaired assets to gross loans and acceptances	3.12%	3.44%	3.15%
Specific provision to gross impaired assets	15.9%	14.5%	11.9%
Net write-offs to gross loans and acceptances (annualised)	0.84%	0.84%	0.99%
Total provision as a percentage of net write-offs	184%	181%	147%
Total provision to gross loans and acceptances	1.54%	1.52%	1.46%
Bad and doubtful debt charge to credit risk weighted assets	1.00%	1.02%	1.13%

The overall credit quality of the portfolio has improved in a number of areas over the year. As a result of well established and strong underwriting criteria, effective recovery processes and the low interest rate environment, retail credit quality has improved leading to a lower delinquency profile.

The total 90+ DPD balances have reduced through the year to £194 million at September 2011, compared with £265 million at September 2010. The majority of this reduction was in the business portfolio although, there were also reductions in the home loan and unsecured portfolios.

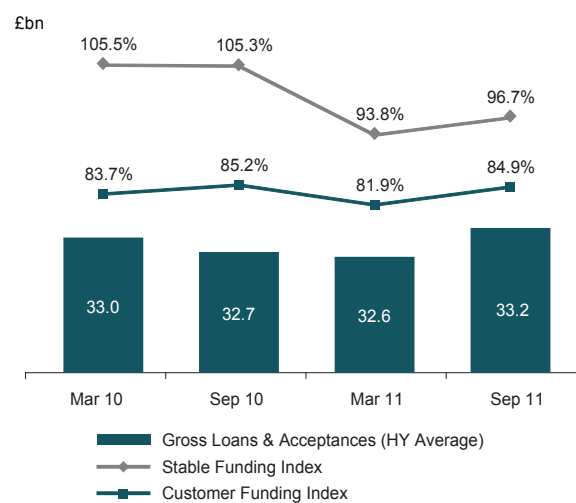
The level of impaired assets has increased to £858 million in the year to September 2011, with the portfolio remaining relatively stable in the September 2011 half year. Property business remains the largest component of the impaired asset portfolio as a result of the ongoing economic uncertainty and challenging property market conditions.

The overall collective provision for doubtful debts has remained stable throughout the year. However, there was a reduction in the personal lending collective provision driven by improvements in the delinquency profile and a fall in unsecured personal lending balances.

The ratio of total provisions to gross loans and acceptances increased to 1.54% in September 2011, as growth in balance sheet provisions were balanced with growth in the portfolio. The write-off rate declined during the year but remained stable in the September 2011 half year.

Asset Quality remains an area of management scrutiny during this period of protracted economic uncertainty.

## Capital and Funding Position



Clydesdale Bank PLC (Clydesdale) has maintained a strong Customer Funding Index (CFI) which has demonstrated the Bank's ability to retain and manage deposits relative to lending in this competitive market.

Clydesdale has a well balanced funding base between wholesale and retail funding and the maturity of the deposit book. Clydesdale has taken steps to strengthen its capability to raise wholesale funding in the past year. Actions included the establishment of a Regulated Covered Bond programme, the re-structure of the current securitisation platform to include only owner occupied mortgages and the establishment of a Buy-to-Let mortgage securitisation platform. NAB periodically provides funding to Clydesdale in the ordinary course of business.

The Stable Funding Index (SFI) has fallen in the last year, reflecting the remaining maturity of historic term funding issuances.

The liquid asset portfolio remains strong and includes UK Government gilts, Bank of England Reserve Account, Treasury bills, note cover required to cover Clydesdale's notes in circulation and lending to other banks.

Clydesdale issued £200 million of preference shares to NAB in December 2010 and £100 million of ordinary shares in July 2011, improving the Tier 1 capital ratio (FSA basis under the standardised approach) from 9.0% as at September 2010 to 9.8% as at September 2011.

## UK Banking

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

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10 %	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11 %
Net interest income	1,522	1,665	(8.6)	754	768	(1.8)
Other operating income	448	452	(0.9)	234	214	9.3
<b>Net operating income</b>	<b>1,970</b>	<b>2,117</b>	<b>(6.9)</b>	<b>988</b>	<b>982</b>	<b>0.6</b>
Operating expenses	(1,136)	(1,232)	7.8	(556)	(580)	4.1
<b>Underlying profit</b>	<b>834</b>	<b>885</b>	<b>(5.8)</b>	<b>432</b>	<b>402</b>	<b>7.5</b>
Charge to provide for bad and doubtful debts	(462)	(601)	23.1	(221)	(241)	8.3
<b>Cash earnings before tax</b>	<b>372</b>	<b>284</b>	<b>31.0</b>	<b>211</b>	<b>161</b>	<b>31.1</b>
Income tax expense	(84)	(80)	(5.0)	(45)	(39)	(15.4)
<b>Cash earnings</b>	<b>288</b>	<b>204</b>	<b>41.2</b>	<b>166</b>	<b>122</b>	<b>36.1</b>

## Impact of foreign exchange rate movements

Favourable/ (unfavourable) September 11	Year since Sep 10		Half year since Mar 11	
	Sep 10 \$m	Sep 11 v Sep 10 Ex FX %	Mar 11 \$m	Sep 11 v Mar 11 Ex FX %
Net interest income	(162)	1.0	(31)	2.1
Other operating income	(48)	10.0	(10)	14.2
Operating expenses	122	(2.0)	25	-
Charge to provide for bad and doubtful debts	50	14.7	10	4.0
Income tax expense	9	(17.4)	2	(25.0)
Cash earnings	(29)	55.1	(4)	37.7

## Great Western Bank

Andrew Thorburn

With 195 locations through the Midwest United States, Great Western Bank (GWB) is a regional bank maintaining core community banking values. When coupled with the strength of the Group, this provides a compelling distinction between the large US mega-banks and the smaller community banks with fewer capital resources.

GWB is fully deposit funded and offers a range of traditional banking and wealth management products, together with diversified lending in Agribusiness, small and medium sized businesses, commercial property and a growing retail offering.

Results presented in local currency. See page 71 for results in \$AUDm.

	Year to			Half Year to		
	Sep 11 US\$m	Sep 10 US\$m	Sep 11 v Sep 10 %	Sep 11 US\$m	Mar 11 US\$m	Sep 11 v Mar 11 %
Net interest income	293	221	32.6	138	155	(11.0)
Other operating income	82	65	26.2	44	38	15.8
<b>Net operating income</b>	<b>375</b>	<b>286</b>	<b>31.1</b>	<b>182</b>	<b>193</b>	<b>(5.7)</b>
Operating expenses	(181)	(137)	(32.1)	(91)	(90)	(1.1)
<b>Underlying profit</b>	<b>194</b>	<b>149</b>	<b>30.2</b>	<b>91</b>	<b>103</b>	<b>(11.7)</b>
Charge to provide for bad and doubtful debts	(59)	(49)	(20.4)	(27)	(32)	15.6
<b>Cash earnings before tax</b>	<b>135</b>	<b>100</b>	<b>35.0</b>	<b>64</b>	<b>71</b>	<b>(9.9)</b>
Income tax expense	(45)	(33)	(36.4)	(21)	(24)	12.5
<b>Cash earnings</b>	<b>90</b>	<b>67</b>	<b>34.3</b>	<b>43</b>	<b>47</b>	<b>(8.5)</b>
<b>Average Volumes (US\$bn)</b>						
Gross loans and acceptances	5.3	4.2	26.2	5.3	5.3	-
Interest earning assets	7.0	5.5	27.3	6.9	7.1	(2.8)
Total assets <sup>(1)</sup>	7.7	5.8	32.8	7.6	7.7	(1.3)
Retail deposits	6.4	4.9	30.6	6.3	6.6	(4.5)
<b>Capital (US\$bn)</b>						
Risk-weighted assets - credit risk (spot)	4.9	6.2	(21.0)	4.9	5.7	(14.0)
Total risk-weighted assets (spot)	6.1	6.2	(1.6)	6.1	5.9	3.4
<b>Performance Measures</b>						
Cash earnings on average assets	1.17%	1.16%	1 bps	1.13%	1.22%	(9 bps)
Net interest margin	4.19%	4.02%	17 bps	3.99%	4.38%	(39 bps)
Cost to income ratio	48.3%	47.9%	(40 bps)	50.0%	46.6%	(340 bps)
'Jaws' <sup>(2)</sup>	(1.0%)	7.4%	(840 bps)	(6.8%)	6.5%	large
Cash earnings per average FTE (US\$'000s)	59	59	-	57	62	(8.1)
FTEs (spot)	1,492	1,596	6.5	1,492	1,515	1.5

<sup>(1)</sup> Total assets exclude goodwill and other intangible assets.

<sup>(2)</sup> The 'Jaws' for September 2010 excludes the acquisition of F&M Bank and TierOne assets.

## 2011

## Great Western Bank

Financial Analysis (in local currency)

**September 2011 v September 2010**

**Cash earnings** increased by \$23 million or 34.3% to \$90 million in the full year to September 2011, largely reflecting the full year impact of the acquisitions made in the second half of 2010. Revenue and expenses grew at similar levels, consistent with the overall growth in the business as a result of the acquisitions.

**Net interest income** increased by \$72 million or 32.6%, largely as a result of the acquisitions in mid 2010.

Cash earnings continued to be supported by a strong **net interest margin**. The margin is affected by accounting treatment of the acquired loan portfolio together with lower deposit costs, partially offset by contracting margins in the loan and investment portfolio.

**Other operating income** increased by \$17 million or 26.2%, mainly due to additional fee income from acquired assets.

**Operating expenses** increased by \$44 million or 32.1% for the full year, largely driven by acquisitions.

The **charge to provide for bad and doubtful debts** increased by \$10 million or 20.4% to \$59 million, driven by the revaluation of the TierOne loan portfolio carried at fair value (largely offset in revenue).

**September 2011 v March 2011**

**Cash earnings** for the September 2011 half year decreased \$4 million or 8.5% compared to the March 2011 half year, due to the revaluation of loans related to the TierOne transaction, carried at fair value. Excluding the impact of this revaluation the overall performance of the business is marginally favourable with an increase in other operating income together with lower bad and doubtful debt charges, partially offset by the effect of slightly tighter margins in the September 2011 half year.

**Net interest income** decreased by \$17 million or 11.0%, mainly due to the accounting impact of the TierOne assets. Underlying net interest income is marginally higher reflecting lower deposit prices, largely offsetting tighter loan yields.

The reduction in **net interest margin** reflects the continuing low interest rate environment and the accounting impact of the TierOne assets, together with the effect of a lack of lending growth compressing loan yields that have not been fully offset by reductions in deposit pricing.

**Other operating income** increased by \$6 million or 15.8% to \$44 million in the September 2011 half year, mainly due to changes in fee structure for overdraft and other fees.

**Operating expenses** increased \$1 million or 1.1% during the September 2011 half year. Higher salary costs were largely offset by reduced expenses related to the write-down on foreclosed property.

The **charge to provide for bad and doubtful debts** decreased by \$5 million or 15.6%, partially related to the revaluation of TierOne assets. Excluding this accounting treatment, bad and doubtful debts were lower, reflecting reduced specific and collective charges.



**Other Items****Asset Quality**

<b>Excluding covered loans <sup>(1)</sup></b>	<b>As at</b>		
	<b>Sep 11</b>	<b>Mar 11</b>	<b>Sep 10</b>
Specific provision for doubtful debts (US\$m)	17	20	17
Collective provision for doubtful debts (US\$m)	42	41	38
Gross impaired assets (US\$m)	141	97	61
90+ DPD plus gross impaired assets to non-covered gross loans and acceptances	3.25%	2.37%	1.48%
Specific provision to gross impaired assets	12.1%	20.6%	27.9%
Total provision to non-covered gross loans and acceptances	1.36%	1.49%	1.35%

<b>Including covered loans <sup>(1)</sup></b>	<b>As at</b>		
	<b>Sep 11</b>	<b>Mar 11</b>	<b>Sep 10</b>
90+ DPD assets (US\$m)	110	197	221
Specific provision for doubtful debts (US\$m)	17	20	17
Collective provision for doubtful debts (US\$m)	42	41	38
Gross impaired assets (US\$m)	141	97	61
90+ DPD plus gross impaired assets to gross loans and acceptances	4.81%	5.65%	5.21%
Specific provision to gross impaired assets	12.1%	20.6%	27.9%
Net write-offs to gross loans and acceptances (annualised)	0.79%	0.69%	0.50%
Total provision to gross loans and acceptances	1.13%	1.17%	1.02%

<sup>(1)</sup> Refers to loans covered by the loss share agreement with the FDIC.

Total 90+ DPD has improved in the September 2011 half year as the acquired TierOne assets have been managed down.

With subdued economic growth, continued high unemployment levels and no substantive recovery in asset valuations, pressure on asset quality has remained consistent to the prior year. While the total of 90+ DPD and impaired assets in the legacy book has deteriorated in the September 2011 half year due to the difficult economic environment, the asset quality of the overall portfolio, including those covered by the FDIC loss share agreement has improved, reflecting significant progress made in the workout of the non-core portfolio. The acquired loan portfolio continues to perform largely in line with expectations, with the loss share indemnification from the FDIC continuing to work effectively.

Asset quality deterioration remains largely concentrated in commercial real estate and land development with many projects stalled or slowed in the current economic environment. GWB has significantly reduced core exposure to commercial real estate since the acquisition by NAB.

Specific provision to gross impaired assets has fallen in the second half reflecting the practice in the US of partially writing off portions of loans prior to realisation of any underlying asset. Remaining specific provisions are based on current collateral valuations on underlying security.

Other segments, particularly agribusiness, continue to perform well with solid harvests and commodity prices supporting land valuations.

**Capital and Funding Position**

GWB continues to maintain a strong core funding base, with an excess of US\$1.1 billion in deposits over loans. Excess deposits are invested in a liquid portfolio of predominantly US government backed securities.

GWB's regulatory capital position remains strong and has consistently exceeded the requirements of a 'well capitalised' institution under the guidelines of the FDIC. As non-core TierOne assets, backed by the FDIC loss share agreement are divested or paid down and redeployed into organic loan growth, risk weighted assets have increased to reflect this strategy.

In September 2011 GWB was approved by APRA to report risk weighted assets on a Basel II standardised basis resulting in a reduction in risk weighted assets.

## Great Western Bank

Results presented in Australian dollars. See page 68 for results in local currency.

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10 %	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11 %
Net interest income	285	245	16.3	130	155	(16.1)
Other operating income	81	72	12.5	43	38	13.2
<b>Net operating income</b>	<b>366</b>	<b>317</b>	<b>15.5</b>	<b>173</b>	<b>193</b>	<b>(10.4)</b>
Operating expenses	(177)	(152)	(16.4)	(87)	(90)	3.3
<b>Underlying profit</b>	<b>189</b>	<b>165</b>	<b>14.5</b>	<b>86</b>	<b>103</b>	<b>(16.5)</b>
Charge to provide for bad and doubtful debts	(57)	(54)	(5.6)	(25)	(32)	21.9
<b>Cash earnings before tax</b>	<b>132</b>	<b>111</b>	<b>18.9</b>	<b>61</b>	<b>71</b>	<b>(14.1)</b>
Income tax expense	(44)	(37)	(18.9)	(20)	(24)	16.7
<b>Cash earnings</b>	<b>88</b>	<b>74</b>	<b>18.9</b>	<b>41</b>	<b>47</b>	<b>(12.8)</b>

## Impact of foreign exchange rate movements

Favourable/ (unfavourable) September 11	Year since Sep 10		Half year since Mar 11	
	Sep 11 v Sep 10 \$m	Sep 11 v Sep 10 Ex FX %	Sep 11 v Mar 11 \$m	Sep 11 v Mar 11 Ex FX %
Net interest income	(40)	32.6	(9)	(11.0)
Other operating income	(11)	26.2	(2)	15.8
Operating expenses	25	(32.1)	5	(1.1)
Charge to provide for bad and doubtful debts	8	(20.4)	2	15.6
Income tax expense	7	(36.4)	2	12.5
Cash earnings	(11)	34.3	(2)	(8.5)

## Specialised Group Assets

Peter Thodey

The Specialised Group Assets (SGA) business comprises non-franchise assets with approximately \$15.0 billion of Credit Risk Weighted Assets.

The portfolio of assets, which is primarily domiciled in the United Kingdom and the United States, consists of nine portfolios:

- Structured Asset Management (SAM).
- Credit Wrapped Bonds.
- Private Equity & Real Estate Investment Funds USA.
- Infrastructure Finance USA.
- Corporate Lending USA.
- Corporate & NBF I Lending UK.
- Commercial Property UK.
- Leverage Finance UK.
- Structured Asset Finance UK.

Results presented at actual exchange rates.

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10 %	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11 %
Net interest income	123	178	(30.9)	58	65	(10.8)
Other operating income	44	(268)	large	(30)	74	large
<b>Net operating income</b>	<b>167</b>	<b>(90)</b>	<b>large</b>	<b>28</b>	<b>139</b>	<b>(79.9)</b>
Operating expenses	(49)	(51)	3.9	(25)	(24)	(4.2)
<b>Underlying profit</b>	<b>118</b>	<b>(141)</b>	<b>large</b>	<b>3</b>	<b>115</b>	<b>(97.4)</b>
Charge to provide for bad and doubtful debts	(41)	(268)	84.7	(20)	(21)	4.8
<b>Cash earnings before tax</b>	<b>77</b>	<b>(409)</b>	<b>large</b>	<b>(17)</b>	<b>94</b>	<b>large</b>
Income tax benefit/(expense)	33	147	77.6	50	(17)	large
<b>Cash earnings/(deficit)</b>	<b>110</b>	<b>(262)</b>	<b>large</b>	<b>33</b>	<b>77</b>	<b>(57.1)</b>
<b>Average Volumes (\$bn)</b>						
Gross loans and acceptances	5.4	7.9	(31.6)	5.2	5.6	(7.1)
Interest earning assets	10.8	15.6	(30.8)	9.8	11.8	(16.9)
<b>Capital (\$bn)</b>						
Risk-weighted assets - credit risk (spot)	15.0	20.5	(26.8)	15.0	18.0	(16.7)
Total risk-weighted assets (spot)	15.0	20.5	(26.8)	15.0	18.0	(16.7)

The accounting effect of the losses to the original Credit Linked Notes assets in 2010, which form part of the SCDO exposures, and related recovery from the hedge counterparty are reflected net in the above financial extract.

## Impact of foreign exchange rate movements

Favourable/ (unfavourable) September 11	Year since Sep 10		Half year since Mar 11	
	Sep 10 \$m	Sep 11 v Ex FX %	Mar 11 \$m	Sep 11 v Mar 11 Ex FX %
Net interest income	(13)	(23.6)	(3)	(6.2)
Other operating income	(23)	large	(5)	large
Operating expenses	5	(5.9)	1	(8.3)
Charge to provide for bad and doubtful debts	11	80.6	2	(4.8)
Income tax expense	3	(79.6)	-	large
Cash earnings	(17)	large	(5)	(50.6)

## Specialised Group Assets

## Financial Analysis

**September 2011 v September 2010**

**Cash earnings** improved by \$372 million on the September 2010 year to a profit of \$110 million. This was mainly due to lower mark-to-market losses on the SCDO risk mitigation trades and a lower bad and doubtful debts charge.

**Net operating income** increased by \$257 million against the September 2010 year to \$167 million. This was mainly due to lower mark-to-market losses on the SCDO risk mitigation trades, and a gain on the sale of an equity investment held as a prior restructure of debt.

Non-franchise asset income decreased, consistent with the run-down of the lending portfolio.

**Operating expenses** decreased by \$2 million or 3.9% on the September 2010 year to \$49 million. This was due to the run-off of the business, with FTE numbers contracting from 47 to 41.

The **charge to provide for bad and doubtful debts** decreased by \$227 million on the September 2010 year to \$41 million. This was the result of reductions in collective provisions as clients repaid or cancelled facilities.

**Effective tax rates** in SGA were heavily influenced by the mix of income and losses between the UK and US, with additional affects from the restatement of deferred tax balances due to the change in the UK corporate tax rate.

**Average interest earning assets** decreased by \$4.8 billion or 30.8% to \$10.8 billion. Excluding the foreign exchange impact of \$1.1 billion, the asset decrease was \$3.7 billion.

**Risk Weighted Assets** decreased by \$5.5 billion or 26.8% to \$15.0 billion. Excluding the foreign exchange impact of \$0.2 billion, there was an underlying decrease of \$5.3 billion.

**September 2011 v March 2011**

**Cash earnings** decreased by \$44 million on the March 2011 half year, primarily due to increased mark-to-market losses on the SCDO risk mitigation trades and the impact of leasing and equity sale transactions.

**Net operating income** decreased by \$111 million largely due to unfavourable mark-to-market movements on the SCDO risk mitigation trades during the September 2011 half year, which were partially offset by the gain on the sale of an equity investment held as a prior restructure of debt.

**Operating expenses** were flat on the March 2011 half year.

The **charge to provide for bad and doubtful debts** decreased by \$1 million or 4.8%.

**Effective tax rates** in SGA were heavily influenced by the mix of income and losses between the UK and the US, with additional affects from the restatement of deferred tax balances due to the change in the UK corporate tax rate.

**Average interest earning assets** decreased by \$2.0 billion or 16.9%. Excluding the foreign exchange impact of \$0.4 billion, the asset decrease was \$1.6 billion.

**Risk Weighted Assets** decreased by \$3.0 billion or 16.7%.

**Other Items****Asset Quality**

	As at		
	Sep 11	Mar 11	Sep 10
Specific provision for doubtful debts (\$m)	167	147	150
Collective provision for doubtful debts (\$m)	180	210	303
Collective provision on derivatives at fair value (\$m)	185	189	203
Gross impaired assets (\$m)	488	513	558
90+ DPD plus gross impaired assets to gross loans and acceptances	10.49%	9.71%	8.78%
Specific provision to gross impaired assets	34.2%	28.7%	26.9%
Net write-offs to gross loans and acceptances (annualised)	2.26%	3.07%	3.04%

The internal credit ratings of SGA portfolio assets were reasonably stable during the March 2011 half year, which assisted in reducing the bad and doubtful debt charge. However, due to adverse economic conditions in the September 2011 half of the year, credit ratings have deteriorated slightly.

The bad and doubtful debts charge for the full 2011 year was \$41 million, which is a decrease of \$227 million or 84.7% on the September 2010 year. During the current financial year, specific provisions across the portfolios stemmed principally from the UK Leveraged Finance and Commercial Property portfolios, which remain the portfolios that are most vulnerable to adverse economic conditions. A number of impaired assets have been written-off, reducing specific provisions and gross impaired assets.

Provisions for the non SAM portfolio (totalling 127 clients) have been set according to each client's individual circumstances, on the basis of ongoing reviews.

The exposures across the portfolios are predominantly in the UK, Europe, and North America.

A number of assets in these portfolios are under the review and oversight of the Group's Strategic Business Services team.

SGA continues to actively manage the SAM portfolio. As at 30 September 2011, the exposures in the SAM portfolio fell to \$4.3 billion from \$5.2 billion at September 2010.

With respect to the SCDOs, there were no credit events during the September 2011 half year. In April and May 2011, transactions were entered into to remove the economic risk of four of the original six SCDO assets.

Internal and external credit ratings for the SCDOs have remained stable, with some modest improvement in the internal ratings during the period. Market values of the remaining SCDOs were adversely affected by market turmoil relating to the European sovereign debt crisis. The future values of SCDOs remain uncertain and will reflect developments in credit markets.

The level of gross impaired assets has decreased by \$70 million from September 2010 to \$488 million at September 2011. The ratio of 90+ DPD plus gross impaired assets to gross loans and acceptances increased to 10.49% at September 2011 from 8.78% at September 2010. SGA has applied a write-off of \$110 million in the year.

# 2011

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## Corporate Functions and Other

The Group's 'Corporate Functions' business includes NAB's operations in Asia and functions that support all businesses including Group Funding and Other Corporate Functions 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. Other Corporate Functions activities include Group Business Services, Office of the CEO, Group Risk, Group Governance, Group Strategy and Finance, Corporate Affairs and Marketing and Human Capital Strategy.

	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10 %	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11 %
Net operating income	652	589	10.7	344	308	11.7
Operating expenses	(523)	(521)	(0.4)	(260)	(263)	1.1
<b>Underlying profit</b>	<b>129</b>	<b>68</b>	<b>89.7</b>	<b>84</b>	<b>45</b>	<b>86.7</b>
(Charge to provide for)/benefit from bad and doubtful debts	(4)	-	large	71	(75)	large
<b>Cash earnings before tax and non-controlling interest</b>	<b>125</b>	<b>68</b>	<b>83.8</b>	<b>155</b>	<b>(30)</b>	<b>large</b>
Income tax benefit/(expense)	34	46	(26.1)	(13)	47	large
<b>Cash earnings</b>	<b>159</b>	<b>114</b>	<b>39.5</b>	<b>142</b>	<b>17</b>	<b>large</b>

**September 2011 v September 2010**

**Cash earnings** increased by \$45 million mainly due to an increase in net operating income.

**Net operating income** increased by \$63 million primarily due to increased earnings from higher levels of capital and interest on the settlement of the ExCaps tax dispute.

**Operating expenses** increased by \$2 million mainly driven by disciplined cost management throughout the year.

The **charge to provide for bad and doubtful debts** increased by \$4 million due to higher charges in Asia Banking.

The **income tax benefit** decreased by \$12 million as a result of higher cash earnings before tax.

**September 2011 v March 2011**

**Cash earnings** increased by \$125 million against the March 2011 half year mainly due to a decrease in the charge for bad and doubtful debts and an increase in net operating income.

**Net operating income** increased by \$36 million driven by increased earnings on higher levels of capital, partly offset by the interest on the settlement of the ExCaps tax dispute in the March 2011 half year.

**Operating expenses** decreased by \$3 million against the March 2011 half year due to the timing of expenses.

The **charge to provide for bad and doubtful debts** decreased by \$146 million largely due to the reversal of the overlay raised as a result of the Queensland and Victorian floods in the March 2011 half year (the effect of these natural disaster events are now reflected in the bad and doubtful debt charges of the relevant divisions).

The **income tax benefit** decreased by \$60 million largely due to higher cash earnings before tax.

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## Consolidated Income Statement

	Note	Year to		Half Year to	
		Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
Interest income		34,270	29,824	17,570	16,700
Interest expense		(21,236)	(17,568)	(10,815)	(10,421)
Net interest income		13,034	12,256	6,755	6,279
Premium and related revenue		1,359	1,294	693	666
Investment revenue		(447)	2,769	(3,975)	3,528
Fee income		553	479	276	277
Claims expense		(794)	(695)	(427)	(367)
Change in policy liabilities		475	(1,724)	3,298	(2,823)
Policy acquisition and maintenance expense		(914)	(930)	(459)	(455)
Investment management expense		(5)	(35)	1	(6)
Movement in external unitholders' liability		133	(345)	657	(524)
Net life insurance income		360	813	64	296
Gains less losses on financial instruments at fair value	3	(329)	122	(129)	(200)
Other operating income	3	3,778	3,817	1,866	1,912
Total other income		3,449	3,939	1,737	1,712
Personnel expenses	4	(4,563)	(4,644)	(2,240)	(2,323)
Occupancy-related expenses	4	(599)	(592)	(289)	(310)
General expenses	4	(3,203)	(3,305)	(1,719)	(1,484)
Total operating expenses		(8,365)	(8,541)	(4,248)	(4,117)
Charge to provide for doubtful debts	9	(1,750)	(2,791)	(827)	(923)
Profit before income tax expense		6,728	5,676	3,481	3,247
Income tax expense	5	(1,508)	(1,451)	(690)	(818)
<b>Net profit for the period</b>		<b>5,220</b>	<b>4,225</b>	<b>2,791</b>	<b>2,429</b>
<i>Attributable to:</i>					
Owners of the Company		5,219	4,224	2,791	2,428
Non-controlling interest in controlled entities		1	1	-	1
<b>Net profit for the period</b>		<b>5,220</b>	<b>4,225</b>	<b>2,791</b>	<b>2,429</b>
		<b>cents</b>	<b>cents</b>	<b>cents</b>	<b>cents</b>
Basic earnings per share		233.6	191.8	124.4	108.8
Diluted earnings per share		231.5	190.6	123.2	108.3

## Consolidated Statement of Comprehensive Income

	Note	Year to		Half Year to	
		Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>Net profit for the period</b>		5,220	4,225	2,791	2,429
<b>Other comprehensive income</b>					
Actuarial gains/(losses) on defined benefit superannuation plans	12	80	(114)	(145)	225
Cash flow hedge:					
Gains/(losses) on cash flow hedging instruments	12	221	424	319	(98)
Losses/(gains) transferred to the income statement	12	-	3	(4)	4
Exchange differences on translation of foreign operations	12	(171)	(969)	421	(592)
Reclassification to profit or loss on disposal of foreign operations	12	(2)	-	-	(2)
Tax on items transferred directly from equity		(70)	(92)	(35)	(35)
Investments - available for sale:					
Revaluation (losses)/gains	12	(36)	60	(10)	(26)
Gains from sale transferred to the income statement	12	(20)	(28)	(11)	(9)
Impairment transferred to the income statement	12	10	3	-	10
Revaluation of land and buildings	12	11	9	11	-
<b>Other comprehensive income for the period, net of income tax</b>		23	(704)	546	(523)
<b>Total comprehensive income for the period</b>		5,243	3,521	3,337	1,906
<i>Attributable to:</i>					
Owners of the Company		5,242	3,520	3,337	1,905
Non-controlling interest in controlled entities		1	1	-	1
<b>Total comprehensive income for the period</b>		5,243	3,521	3,337	1,906

## Consolidated Balance Sheet

	Note	As at		
		30 Sep 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m
<b>Assets</b>				
Cash and liquid assets		27,093	22,534	26,072
Due from other banks		47,106	37,341	37,679
Trading derivatives		48,466	27,022	38,340
Trading securities		34,628	29,913	25,821
Investments - available for sale		18,045	14,693	14,572
Investments - held to maturity		12,787	13,393	13,789
Investments relating to life insurance business		63,920	67,155	64,560
Other financial assets at fair value		51,756	42,779	37,409
Hedging derivatives		4,108	2,645	3,712
Loans and advances		382,369	365,378	354,835
Due from customers on acceptances		43,017	45,935	49,678
Current tax assets		-	385	222
Property, plant and equipment		1,919	1,761	1,778
Goodwill and other intangible assets		7,262	7,113	7,077
Deferred tax assets		2,243	1,780	2,026
Other assets		9,038	9,636	8,382
<b>Total assets</b>		<b>753,757</b>	<b>689,463</b>	<b>685,952</b>
<b>Liabilities</b>				
Due to other banks		40,162	37,449	37,612
Trading derivatives		47,889	34,573	40,587
Other financial liabilities at fair value		23,726	19,557	19,887
Hedging derivatives		4,550	5,336	1,444
Deposits and other borrowings	11	402,964	364,311	353,232
Liability on acceptances		10,633	11,774	12,549
Life policy liabilities		53,608	56,810	54,354
Current tax liabilities		561	-	-
Provisions		1,596	1,167	1,445
Bonds, notes and subordinated debt		99,768	91,449	93,203
Other debt issues		2,494	2,404	2,502
Defined benefit superannuation plan liabilities		295	182	522
External unitholders' liability		9,959	10,229	10,241
Deferred tax liabilities		28	95	19
Other liabilities		13,336	14,307	19,401
<b>Total liabilities</b>		<b>711,569</b>	<b>649,643</b>	<b>646,998</b>
<b>Net assets</b>				
		<b>42,188</b>	<b>39,820</b>	<b>38,954</b>
<b>Equity</b>				
Contributed equity	12	25,274	24,365	23,551
Reserves	12	(773)	(1,491)	(639)
Retained profits	12	17,667	16,931	16,028
<b>Total equity (parent entity interest)</b>		<b>42,168</b>	<b>39,805</b>	<b>38,940</b>
Non-controlling interest in controlled entities		20	15	14
<b>Total equity</b>		<b>42,188</b>	<b>39,820</b>	<b>38,954</b>

## Consolidated Cash Flow Statement

	Note	Year ended		Half Year ended	
		Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>Cash flows from operating activities</b>					
Interest received		33,841	28,499	17,764	16,077
Interest paid		(20,945)	(16,299)	(10,866)	(10,079)
Dividends received		18	16	7	11
Life insurance:					
Premiums and other revenue received		9,628	8,859	5,598	4,030
Investment revenue received		3,240	2,376	2,302	938
Policy and other payments		(8,865)	(6,275)	(5,033)	(3,832)
Fees and commissions paid		(498)	(483)	(254)	(244)
Net trading revenue received		1,389	233	140	1,249
Other operating income received		3,988	4,679	2,529	1,459
Payments to employees and suppliers:					
Personnel expenses paid		(4,389)	(4,256)	(1,935)	(2,454)
Other operating expenses paid		(3,896)	(3,654)	(2,110)	(1,786)
Net goods and services tax received/(paid)		24	(32)	5	19
Payments for income taxes		(1,171)	(1,186)	(317)	(854)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>12,364</b>	<b>12,477</b>	<b>7,830</b>	<b>4,534</b>
<b>Changes in operating assets and liabilities arising from cash flow movements</b>					
Net placement of deposits with and withdrawal of deposits from supervisory central banks that are not part of cash equivalents		(63)	(24)	(49)	(14)
Net funds advanced to and receipts from other banks with maturity greater than three months		2,484	(516)	(169)	2,653
Net payments for and receipts from acceptance transactions		4,759	1,023	1,792	2,967
Net funds advanced to and receipts from customers for loans and advances		(30,277)	(14,744)	(14,916)	(15,361)
Net acceptance from and repayment of deposits and other borrowings		52,096	26,620	34,434	17,662
Net movement in life insurance business investments		15	(2,141)	(93)	108
Net movement in other life insurance assets and liabilities		22	(311)	204	(182)
Net receipts from and payments for transactions in treasury bills and other eligible bills held for trading and not part of cash equivalents		(114)	(360)	(506)	392
Net payments for and receipts from trading securities transactions		(11,251)	(6,138)	(6,831)	(4,420)
Net payments for and receipts from trading derivatives		(5,110)	1,278	(4,405)	(705)
Net funds advanced to and receipts from hedging derivative assets and other financial assets at fair value		(13,745)	(7,446)	(8,437)	(5,308)
Net receipts from and payments for hedging derivative liabilities and other financial liabilities at fair value		(30)	(744)	2,449	(2,479)
Net (increase)/decrease in other assets		(3,013)	1,409	(2,731)	(282)
Net increase/(decrease) in other liabilities		1,028	(4,518)	3,416	(2,388)
<b>Changes in operating assets and liabilities arising from cash flow movements</b>		<b>(3,199)</b>	<b>(6,612)</b>	<b>4,158</b>	<b>(7,357)</b>
<b>Net cash provided by/(used in) operating activities</b>	13(a)	<b>9,165</b>	<b>5,865</b>	<b>11,988</b>	<b>(2,823)</b>

	Note	Year ended		Half Year ended	
		Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>Cash flows from investing activities</b>					
Movement in investments - available for sale:					
Purchases		(30,931)	(19,994)	(16,957)	(13,974)
Proceeds from disposal		3,072	1,130	1,964	1,108
Proceeds on maturity		23,484	12,743	10,232	13,252
Movement in investments - held to maturity:					
Purchases		(24,288)	(24,466)	(12,624)	(11,664)
Proceeds on maturity		24,119	27,984	12,304	11,815
Purchase of controlled entities and business combinations, net of cash acquired	13(d)	(6)	(4,994)	-	(6)
Proceeds from sale of controlled entities, net of cash disposed	13(e)	11	-	-	11
Purchase of property, plant, equipment and software		(1,068)	(797)	(586)	(482)
Proceeds from sale of property, plant, equipment and software, net of costs		117	26	48	69
<b>Net cash (used in)/provided by investing activities</b>		<b>(5,490)</b>	<b>(8,368)</b>	<b>(5,619)</b>	<b>129</b>
<b>Cash flows from financing activities</b>					
Repayments of bonds, notes and subordinated debt		(21,905)	(18,326)	(11,010)	(10,895)
Proceeds from issue of bonds, notes and subordinated debt, net of costs		31,582	27,303	15,816	15,766
On market purchase of shares for equity-based compensation		(33)	-	(33)	-
Dividends and distributions paid (excluding dividend reinvestment plan)		(2,341)	(2,500)	(1,199)	(1,142)
<b>Net cash provided by financing activities</b>		<b>7,303</b>	<b>6,477</b>	<b>3,574</b>	<b>3,729</b>
Net increase in cash and cash equivalents		10,978	3,974	9,943	1,035
Cash and cash equivalents at beginning of period		25,683	24,154	25,231	25,683
Effects of exchange rate changes on balance of cash held in foreign currencies		(655)	(2,445)	832	(1,487)
<b>Cash and cash equivalents at end of period</b>	13(b)	<b>36,006</b>	<b>25,683</b>	<b>36,006</b>	<b>25,231</b>

## Consolidated Statement of Changes in Equity

## Group – Yearly

	Contributed equity \$m	Reserves \$m	Retained profits \$m	Total \$m	Non-controlling interest in controlled entities \$m	Total equity \$m
<b>Balance at 1 October 2009</b>	22,781	(976)	16,010	37,815	20	37,835
Net profit for the period	-	-	4,224	4,224	1	4,225
Other comprehensive income for the period	-	(612)	(92)	(704)	-	(704)
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	808	-	-	808	-	808
Transfer from equity-based compensation reserve - issued shares	84	(84)	-	-	-	-
Transfer from equity-based compensation reserve - purchased shares	17	(17)	-	-	-	-
Net loss realised on treasury shares	(6)	-	-	(6)	-	(6)
Movement in treasury shares relating to life insurance business	(133)	-	-	(133)	-	(133)
Transfer from/(to) retained profits	-	841	(841)	-	-	-
Equity-based compensation	-	213	-	213	-	213
Tax on equity-based compensation	-	(4)	-	(4)	-	(4)
Dividends paid	-	-	(3,039)	(3,039)	-	(3,039)
Distributions on other equity instruments	-	-	(215)	(215)	-	(215)
Adjustment from adoption of new Accounting Standard	-	-	(19)	(19)	-	(19)
Changes in ownership interests not resulting in loss of control:						
Movement of non-controlling interest in controlled entities	-	-	-	-	(7)	(7)
<b>Balance at 30 September 2010</b>	23,551	(639)	16,028	38,940	14	38,954
Net profit for the period	-	-	5,219	5,219	1	5,220
Other comprehensive income for the period	-	(18)	41	23	-	23
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	1,364	-	-	1,364	-	1,364
On market purchase of shares for equity-based compensation	(33)	-	-	(33)	-	(33)
Transfer from equity-based compensation reserve - issued shares	180	(180)	-	-	-	-
Transfer from equity-based compensation reserve - purchased shares	5	(5)	-	-	-	-
Net loss realised on treasury shares	(57)	-	-	(57)	-	(57)
Movement in treasury shares relating to life insurance business	264	-	-	264	-	264
Transfer from/(to) retained profits	-	(17)	17	-	-	-
Equity-based compensation	-	89	-	89	-	89
Tax on equity-based compensation	-	(3)	-	(3)	-	(3)
Dividends paid	-	-	(3,413)	(3,413)	-	(3,413)
Distributions on other equity instruments	-	-	(225)	(225)	-	(225)
Changes in ownership interests not resulting in loss of control:						
Movement of non-controlling interest in controlled entities	-	-	-	-	5	5
<b>Balance at 30 September 2011</b>	25,274	(773)	17,667	42,168	20	42,188

## Consolidated Statement of Changes in Equity

## Group – Half Yearly

	Contributed equity \$m	Reserves \$m	Retained profits \$m	Total \$m	Non- controlling interest in controlled entities \$m	Total equity \$m
<b>Balance at 1 October 2010</b>	23,551	(639)	16,028	38,940	14	38,954
Net profit for the period	-	-	2,428	2,428	1	2,429
Other comprehensive income for the period	-	(679)	156	(523)	-	(523)
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	635	-	-	635	-	635
On market purchase of shares for equity-based compensation	(33)	-	-	(33)	-	(33)
Transfer from equity-based compensation reserve - issued shares	147	(147)	-	-	-	-
Transfer from equity-based compensation reserve - purchased shares	3	(3)	-	-	-	-
Net loss realised on treasury shares	(30)	-	-	(30)	-	(30)
Movement in treasury shares relating to life insurance business	92	-	-	92	-	92
Transfer (to)/from retained profits	-	(61)	61	-	-	-
Equity-based compensation	-	40	-	40	-	40
Tax on equity-based compensation	-	(2)	-	(2)	-	(2)
Dividends paid	-	-	(1,628)	(1,628)	-	(1,628)
Distributions on other equity instruments	-	-	(114)	(114)	-	(114)
<b>Balance at 31 March 2011</b>	24,365	(1,491)	16,931	39,805	15	39,820
Net profit for the period	-	-	2,791	2,791	-	2,791
Other comprehensive income for the period	-	661	(115)	546	-	546
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	729	-	-	729	-	729
Transfer from equity-based compensation reserve - issued shares	33	(33)	-	-	-	-
Transfer from equity-based compensation reserve - purchased shares	2	(2)	-	-	-	-
Net loss realised on treasury shares	(27)	-	-	(27)	-	(27)
Movement in treasury shares relating to life insurance business	172	-	-	172	-	172
Transfer from/(to) retained profits	-	44	(44)	-	-	-
Equity-based compensation	-	49	-	49	-	49
Tax on equity-based compensation	-	(1)	-	(1)	-	(1)
Dividends paid	-	-	(1,785)	(1,785)	-	(1,785)
Distributions on other equity instruments	-	-	(111)	(111)	-	(111)
Changes in ownership interests not resulting in loss of control:						
Movement of non-controlling interest in controlled entities	-	-	-	-	5	5
<b>Balance at 30 September 2011</b>	25,274	(773)	17,667	42,168	20	42,188

## 1. Principal Accounting Policies

The preliminary final report for the year ended 30 September 2011 has been prepared in accordance with the requirements of the Australian Securities Exchange (ASX) Listing Rules.

This report does not, and cannot be expected to, contain all disclosures of the type normally found within an annual financial report and it is not designed or intended to be a suitable substitute for the 30 September 2011 annual financial report.

This report should be read in conjunction with the 2010 annual financial report, the 2011 half year results, any public announcements made by the Company during the year and when released, the 2011 annual financial report.

This report has been prepared on the basis of accounting policies consistent with those applied in the 30 September 2010 annual financial report.

Adoption of the following new and amended Accounting Standards and Interpretations, which were applicable from 1 October 2010, has not had a material impact on the Group:

- AASB 2009-5 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project" which made amendments to several Accounting Standards arising from the 2009 annual improvements project.
- AASB 2009-8 "Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions" which clarified the accounting treatment for group cash-settled share-based payment transactions in the separate financial statements of an entity receiving the goods or services when the entity does not have an obligation to settle the share-based payment transaction.
- AASB 2009-10 "Amendments to Australian Accounting Standards – Classification of Rights Issues" which clarified that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if an entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments.
- AASB 2010-3 "Amendments to Australian Accounting Standards arising from the Annual Improvements Project" which made amendments to several Accounting Standards arising from the 2010 annual improvements project.
- AASB Interpretation 19 "Extinguishing Financial Liabilities with Equity Instruments" which clarified the accounting treatment when the terms of a financial liability are renegotiated and result in an entity issuing equity instruments to extinguish all or part of the financial liability.

The preparation of this report requires the use of 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 (such as the calculation of provision for doubtful debts, defined benefit obligations and fair value adjustments), are based on best estimates at that date. Although the Group has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from those estimated.

This report has been prepared under the historical cost convention, as modified by the application of fair value measurements required or allowed by relevant Accounting Standards. Accounting policies have been consistently applied throughout the Group.

### Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.



## 2. Segment Information

The Group evaluates reportable segments' performance on the basis of cash earnings. Cash earnings represents the net profit attributable to owners of the Company, adjusted for certain items.

### Major Customers

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

#### Year ended 30 September 2011

Segment Information by reportable segment	Cash Earnings \$m	Net interest income \$m	Total other income and MLC & NAB Wealth income \$m	Total assets \$m
Business Banking	2,445	5,033	1,006	195,128
Personal Banking	932	2,826	590	140,706
Wholesale Banking	661	1,230	626	241,553
MLC & NAB Wealth	533	328	1,521	92,832
NZ Banking	469	1,015	345	46,650
UK Banking	288	1,522	448	76,512
Great Western Bank	88	285	81	8,399
Specialised Group Assets	110	123	44	9,240
Corporate Functions & Other	159	730	(78)	30,030
Distributions/Eliminations	(225)	-	(81)	(87,293)
<b>Total</b>	<b>5,460</b>	<b>13,092</b>	<b>4,502</b>	<b>753,757</b>

#### Year ended 30 September 2010

Segment Information by reportable segment	Cash Earnings \$m	Net interest income \$m	Total other income and MLC & NAB Wealth income \$m	Total assets \$m
Business Banking	2,193	4,664	955	187,115
Personal Banking	743	2,501	604	118,850
Wholesale Banking	705	1,189	739	196,046
MLC & NAB Wealth	609	295	1,546	92,433
NZ Banking	416	978	351	43,958
UK Banking	204	1,665	452	72,691
Great Western Bank	74	245	72	8,570
Specialised Group Assets	(262)	178	(268)	12,572
Corporate Functions & Other	114	573	16	8,525
Distributions/Eliminations	(215)	-	(117)	(54,808)
<b>Total</b>	<b>4,581</b>	<b>12,288</b>	<b>4,350</b>	<b>685,952</b>

## Half year ended 30 September 2011

Segment Information by reportable segment	Cash Earnings \$m	Net interest income \$m	Total other income and MLC & NAB Wealth income \$m	Total assets \$m
Business Banking	1,264	2,587	514	195,128
Personal Banking	500	1,458	289	140,706
Wholesale Banking	268	708	151	241,553
MLC & NAB Wealth	235	168	732	92,832
NZ Banking	254	528	174	46,650
UK Banking	166	754	234	76,512
Great Western Bank	41	130	43	8,399
Specialised Group Assets	33	58	(30)	9,240
Corporate Functions & Other	142	397	(53)	30,030
Distributions/Eliminations	(111)	-	(47)	(87,293)
<b>Total</b>	<b>2,792</b>	<b>6,788</b>	<b>2,007</b>	<b>753,757</b>

## Half year ended 31 March 2011

Segment Information by reportable segment	Cash Earnings \$m	Net interest income \$m	Total other income and MLC & NAB Wealth income \$m	Total assets \$m
Business Banking	1,181	2,446	492	191,574
Personal Banking	432	1,368	301	129,864
Wholesale Banking	393	522	475	189,051
MLC & NAB Wealth	298	160	789	95,140
NZ Banking	215	487	171	43,134
UK Banking	122	768	214	68,000
Great Western Bank	47	155	38	8,015
Specialised Group Assets	77	65	74	10,653
Corporate Functions & Other	17	333	(25)	16,480
Distributions/Eliminations	(114)	-	(34)	(62,448)
<b>Total</b>	<b>2,668</b>	<b>6,304</b>	<b>2,495</b>	<b>689,463</b>

Reconciliation of cash earnings to net profit attributable to owners of the Company	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
Group cash earnings <sup>(1)</sup>	5,460	4,581	2,792	2,668
<i>Non cash earnings items (after tax):</i>				
Distributions	225	215	111	114
Treasury shares	39	106	80	(41)
Fair value and hedge ineffectiveness	(181)	(353)	146	(327)
IoRE discount rate variation	26	34	48	(22)
UK Payment Protection Insurance provision	(117)	-	(117)	-
Hedging costs on SCDO assets	(127)	-	(127)	-
Efficiency, quality and service initiatives	-	(237)	-	-
Litigation expense	(4)	(12)	(4)	-
Property revaluation	-	(4)	-	-
Provision for tax - NZ structured finance transactions	-	128	-	-
MLC reinsurance dispute	-	(36)	-	-
Refund of tax on exchangeable capital units settlement	142	-	-	142
Amortisation of acquired intangible assets	(82)	(73)	(41)	(41)
Due diligence, acquisition and integration costs	(162)	(125)	(97)	(65)
<b>Net profit attributable to owners of the Company</b>	<b>5,219</b>	<b>4,224</b>	<b>2,791</b>	<b>2,428</b>

<sup>(1)</sup> Includes eliminations and distributions.

	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>Reconciliation of net interest income</b>				
Net interest income for reportable segments	13,092	12,288	6,788	6,304
MLC & NAB Wealth net adjustment	(58)	(32)	(33)	(25)
<b>Net interest income</b>	<b>13,034</b>	<b>12,256</b>	<b>6,755</b>	<b>6,279</b>

	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>Reconciliation of other income and MLC &amp; NAB Wealth income</b>				
Total other operating and MLC & NAB Wealth income - cash earnings basis <sup>(1)</sup>	4,502	4,350	2,007	2,495
MLC & NAB Wealth net adjustment	(65)	190	(188)	123
Treasury shares	48	133	95	(47)
Fair value and hedge ineffectiveness	(338)	(501)	194	(532)
UK Payment Protection Insurance provision	(156)	-	(156)	-
Hedging costs on SCDO assets	(219)	-	(219)	-
IoRE discount rate variation	37	48	68	(31)
Gains on bargain purchase	-	4	-	-
Recovery on SCDO risk mitigation trades	-	528	-	-
<b>Total other income and MLC &amp; NAB Wealth income - statutory basis</b>	<b>3,809</b>	<b>4,752</b>	<b>1,801</b>	<b>2,008</b>

<sup>(1)</sup> Includes eliminations and distributions.

## 3. Other Income

	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>Gains less losses on financial instruments at fair value</b>				
Trading securities	917	713	677	240
Trading derivatives				
Trading and risk management purposes	(1,026)	(915)	(1,399)	373
Recovery on SCDO risk mitigation trades	-	528	-	-
Assets, liabilities and derivatives designated in hedge relationships <sup>(1)</sup>	(109)	(308)	235	(344)
Assets and liabilities designated at fair value	(100)	92	375	(475)
Impairment of investments - available for sale	(10)	(3)	-	(10)
Other	(1)	15	(17)	16
	(329)	122	(129)	(200)
<b>Other operating income</b>				
Dividend revenue	18	16	7	11
Gains from sale of investments - available for sale	20	28	11	9
Gains from sale of loans and advances	-	3	-	-
Gains from sale of property, plant and equipment and other assets	3	10	2	1
Banking fees	906	930	458	448
Money transfer fees	647	652	324	323
Fees and commissions	1,856	1,733	958	898
Investment management fees	263	305	124	139
Fleet management fees	23	22	13	10
Rentals received on leased vehicle assets	19	19	9	10
Revaluation gains on investment properties	4	6	1	3
Other income	19	93	(41)	60
	3,778	3,817	1,866	1,912
<b>Total other income</b>	<b>3,449</b>	<b>3,939</b>	<b>1,737</b>	<b>1,712</b>

<sup>(1)</sup> Represents hedge ineffectiveness of designated hedging relationships, plus economic hedges of long-term funding that do not meet the requirements for hedge accounting.

## 4. Operating Expenses

	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>Personnel expenses</b>				
Salaries and related on-costs	3,299	3,089	1,645	1,654
Superannuation costs - defined contribution plans	253	235	127	126
Superannuation costs - defined benefit plans	44	52	20	24
Performance-based compensation				
Cash	428	491	195	233
Equity-based compensation	78	208	38	40
Other expenses	461	569	215	246
	4,563	4,644	2,240	2,323
<b>Occupancy-related expenses</b>				
Operating lease rental expense	436	385	219	217
Other expenses	163	207	70	93
	599	592	289	310
<b>General expenses</b>				
Fees and commission expense	376	275	227	149
Depreciation and amortisation of property, plant and equipment	271	304	126	145
Amortisation of intangible assets	344	357	167	177
Depreciation on leased vehicle assets	9	9	5	4
Operating lease rental expense	32	36	16	16
Advertising and marketing	212	228	119	93
Charge to provide for operational risk event losses	72	56	53	19
Communications, postage and stationery	295	300	153	142
Computer equipment and software	428	342	226	202
Data communication and processing charges	122	124	64	58
Transport expenses	78	71	41	37
Professional fees	475	460	255	220
Travel	90	98	50	40
Loss on disposal of property, plant and equipment and other assets	19	36	16	3
Impairment losses recognised	16	7	16	-
Other expenses	364	602	185	179
	3,203	3,305	1,719	1,484
<b>Total</b>	<b>8,365</b>	<b>8,541</b>	<b>4,248</b>	<b>4,117</b>

## 5. Income Tax Expense

Reconciliation of income tax expense shown in the income statement with prima facie tax payable on the pre-tax accounting profit

	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>Profit before income tax expense</b>	6,728	5,676	3,481	3,247
Deduct profit before income tax expense attributable to the statutory funds of the life insurance business and their controlled trusts	(363)	(690)	(17)	(346)
<b>Total profit excluding that attributable to the statutory funds of the life insurance business and their controlled trusts, before income tax expense</b>	6,365	4,986	3,464	2,901
<b>Prima facie income tax at 30%</b>	1,910	1,496	1,040	870
Add/(deduct) tax effect of amounts not deductible/(assessable):				
Assessable foreign income	9	8	5	4
Foreign tax rate differences	8	(15)	8	-
Depreciation on buildings not deductible	3	3	1	2
Refund of tax on exchangeable capital units settlement	(142)	-	-	(142)
Foreign branch income not assessable	(60)	(44)	(26)	(34)
Over provision in prior years	(24)	(52)	(19)	(5)
Offshore banking unit income	(23)	(14)	(11)	(12)
Restatement of deferred tax balance for UK, US and NZ tax changes	(20)	5	(13)	(7)
Profit on sale of controlled entities	(9)	-	(9)	-
Treasury shares adjustment	(6)	(13)	(14)	8
Tax provision for New Zealand structured finance tax case	-	(66)	-	-
Tax provision for interest on New Zealand structured finance tax case	-	(66)	-	-
Investment allowance	-	(5)	-	-
Other	(78)	(37)	(63)	(15)
<b>Total income tax expense on profit excluding that attributable to the statutory funds of the life insurance business and their controlled trusts</b>	1,568	1,200	899	669
Income tax (benefit)/expense attributable to the statutory funds of the life insurance business and their controlled trusts	(60)	251	(209)	149
<b>Total income tax expense</b>	1,508	1,451	690	818
<b>Effective tax rate, excluding statutory funds of the life insurance business and their controlled trusts</b>	24.6%	24.1%	26.0%	23.1%

## 6. Dividends and Distributions

	Amount per share cents	Franked amount per share %	Foreign income per share %	Total amount \$m
<b>Dividends on ordinary shares</b>				
Final dividend declared in respect of the year ended 30 September 2011	88	100	Nil	1,937
Interim dividend paid in respect of the six months ended 31 March 2011	84	100	Nil	1,823
<b>Total dividends paid or payable in respect of the year ended 30 September 2011</b>	172			3,760

The record date for determining entitlements to the 2011 final dividend is 16 November 2011. The final dividend has been declared by the directors of the Company and is payable on 19 December 2011. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 September 2011 and will be recognised in subsequent financial reports.

Final dividend paid in respect of the year ended 30 September 2010	78	100	Nil	1,667
Interim dividend paid in respect of the six months ended 31 March 2010	74	100	Nil	1,570
<b>Total dividends paid or payable in respect of the year ended 30 September 2010</b>	152			3,237

	Year to			
	30 Sep 11		30 Sep 10	
	Amount per security cents <sup>(1)</sup>	Total amount \$m	Amount per security cents <sup>(1)</sup>	Total amount \$m
<b>Dividends on preference shares</b>				
BNZ Income Securities	5.34	24	5.56	25
BNZ Income Securities 2	5.00	13	5.00	13
<b>Total dividends on preference shares</b>		37		38

<sup>(1)</sup> \$A equivalent.

	Year to			
	30 Sep 11		30 Sep 10	
	Amount per security \$	Total amount \$m	Amount per security \$	Total amount \$m
<b>Distributions on other equity instruments</b>				
National Income Securities	6.15	123	5.35	107
Trust Preferred Securities <sup>(1)</sup>	87.50	35	97.50	39
Trust Preferred Securities II <sup>(1)</sup>	53.75	43	61.25	49
National Capital Instruments	3,000.00	24	2,500.00	20
<b>Total distributions on other equity instruments</b>		225		215

<sup>(1)</sup> \$A equivalent.

## Dividend and distribution plans

The dividend is paid in cash or as part of a dividend plan. Cash dividends are paid by way of cash or cash equivalents and direct credit. The dividend plans in operation are the Dividend Reinvestment Plan and the Bonus Share Plan (closed to new participants). As separately announced, NAB has terminated its United Kingdom Dividend Plan, effective 5 May 2011.

The last date for receipt of election notices for the Dividend Reinvestment Plan and the Bonus Share Plan is 5pm (Australian Eastern Daylight Savings time) on 16 November 2011.

## 7. Net Tangible Assets

	As at		
	30 Sep 11	31 Mar 11	30 Sep 10
Net tangible assets per ordinary share (\$)	13.62	12.80	12.63

## 8. Loans and Advances including Acceptances

	As at		
	30 Sep 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m
Overdrafts	15,136	15,331	15,407
Credit card outstandings	7,903	7,679	7,427
Asset and lease financing	15,307	15,530	16,109
Housing loans	253,064	237,312	224,900
Other term lending	139,809	129,755	126,402
Other	6,479	6,758	6,642
Fair value adjustment	1,410	946	1,416
<b>Gross loans and advances</b>	<b>439,108</b>	<b>413,311</b>	<b>398,303</b>
Acceptances	43,017	45,935	49,678
<b>Gross loans and advances including acceptances</b>	<b>482,125</b>	<b>459,246</b>	<b>447,981</b>
<i>Represented by:</i>			
Loans and advances at fair value <sup>(1)</sup>	50,472	41,567	36,700
Loans and advances at amortised cost	388,636	371,744	361,603
Acceptances	43,017	45,935	49,678
<b>Gross loans and advances including acceptances</b>	<b>482,125</b>	<b>459,246</b>	<b>447,981</b>
Unearned income and deferred net fee income	(2,287)	(2,286)	(2,494)
Provision for doubtful debts	(3,980)	(4,080)	(4,274)
<b>Net loans and advances including acceptances</b>	<b>475,858</b>	<b>452,880</b>	<b>441,213</b>
<b>Securitised loans <sup>(2)</sup></b>	<b>6,394</b>	<b>4,121</b>	<b>4,731</b>

<sup>(1)</sup> On the balance sheet this amount is included within 'Other financial assets at fair value'. This amount is included in the product and geographical analysis below.

<sup>(2)</sup> 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
<b>As at 30 September 2011</b>						
Overdrafts	7,892	5,708	1,503	7	26	15,136
Credit card outstandings	6,050	771	1,075	7	-	7,903
Asset and lease financing	12,877	2,407	16	-	7	15,307
Housing loans	207,272	22,306	21,535	615	1,336	253,064
Other term lending	83,942	28,225	20,265	5,561	1,816	139,809
Other	4,493	923	221	442	400	6,479
Fair value adjustment	462	816	110	22	-	1,410
<b>Gross loans and advances</b>	<b>322,988</b>	<b>61,156</b>	<b>44,725</b>	<b>6,654</b>	<b>3,585</b>	<b>439,108</b>
Acceptances	43,006	11	-	-	-	43,017
<b>Gross loans and advances including acceptances</b>	<b>365,994</b>	<b>61,167</b>	<b>44,725</b>	<b>6,654</b>	<b>3,585</b>	<b>482,125</b>
<i>Represented by:</i>						
Loans and advances at fair value	26,635	7,731	15,801	305	-	50,472
Loans and advances at amortised cost	296,353	53,425	28,924	6,349	3,585	388,636
Acceptances	43,006	11	-	-	-	43,017
<b>Gross loans and advances including acceptances</b>	<b>365,994</b>	<b>61,167</b>	<b>44,725</b>	<b>6,654</b>	<b>3,585</b>	<b>482,125</b>



By product and geographic location	Australia \$m	Europe \$m	New Zealand \$m	United States \$m	Asia \$m	Total Group \$m
<b>As at 31 March 2011</b>						
Overdrafts	7,895	5,830	1,575	7	24	15,331
Credit card outstandings	5,874	782	1,018	5	-	7,679
Asset and lease financing	13,027	2,479	16	-	8	15,530
Housing loans	195,319	20,464	19,783	586	1,160	237,312
Other term lending	77,717	27,005	18,659	5,019	1,355	129,755
Other	4,410	1,380	169	410	389	6,758
Fair value adjustment	263	564	115	4	-	946
<b>Gross loans and advances</b>	<b>304,505</b>	<b>58,504</b>	<b>41,335</b>	<b>6,031</b>	<b>2,936</b>	<b>413,311</b>
Acceptances	45,924	11	-	-	-	45,935
<b>Gross loans and advances including acceptances</b>	<b>350,429</b>	<b>58,515</b>	<b>41,335</b>	<b>6,031</b>	<b>2,936</b>	<b>459,246</b>
<i>Represented by:</i>						
Loans and advances at fair value	19,700	7,348	14,311	208	-	41,567
Loans and advances at amortised cost	284,805	51,156	27,024	5,823	2,936	371,744
Acceptances	45,924	11	-	-	-	45,935
<b>Gross loans and advances including acceptances</b>	<b>350,429</b>	<b>58,515</b>	<b>41,335</b>	<b>6,031</b>	<b>2,936</b>	<b>459,246</b>

By product and geographic location	Australia \$m	Europe \$m	New Zealand \$m	United States \$m	Asia \$m	Total Group \$m
<b>As at 30 September 2010</b>						
Overdrafts	7,648	6,090	1,625	19	25	15,407
Credit card outstandings	5,517	862	1,042	6	-	7,427
Asset and lease financing	13,415	2,667	18	-	9	16,109
Housing loans	181,997	20,941	20,101	772	1,089	224,900
Other term lending	71,803	28,955	19,032	5,484	1,128	126,402
Other	4,247	1,593	157	645	-	6,642
Fair value adjustment	336	916	154	10	-	1,416
<b>Gross loans and advances</b>	<b>284,963</b>	<b>62,024</b>	<b>42,129</b>	<b>6,936</b>	<b>2,251</b>	<b>398,303</b>
Acceptances	49,665	13	-	-	-	49,678
<b>Gross loans and advances including acceptances</b>	<b>334,628</b>	<b>62,037</b>	<b>42,129</b>	<b>6,936</b>	<b>2,251</b>	<b>447,981</b>
<i>Represented by:</i>						
Loans and advances at fair value	13,984	8,237	14,310	169	-	36,700
Loans and advances at amortised cost	270,979	53,787	27,819	6,767	2,251	361,603
Acceptances	49,665	13	-	-	-	49,678
<b>Gross loans and advances including acceptances</b>	<b>334,628</b>	<b>62,037</b>	<b>42,129</b>	<b>6,936</b>	<b>2,251</b>	<b>447,981</b>

## Increase/(Decrease) from 31 Mar 11

Movement from 31 March 2011 excluding foreign exchange	Australia %	Europe %	New Zealand %	United States %	Asia %	Total Group %
Overdrafts	-	(4.4)	(10.3)	-	4.0	(2.8)
Credit card outstandings	3.0	(3.7)	(0.8)	40.0	-	1.8
Asset and lease financing	(1.2)	(5.2)	(5.9)	-	(12.5)	(1.8)
Housing loans	6.1	6.5	2.3	(0.8)	8.8	5.8
Other term lending	8.0	2.1	2.0	4.7	26.6	5.9
Other	6.0	(12.6)	9.6	5.9	(2.9)	0.9
<b>Total gross loans and advances</b>	<b>6.1</b>	<b>2.1</b>	<b>1.7</b>	<b>4.2</b>	<b>15.3</b>	<b>5.1</b>

## Increase/(Decrease) from 30 Sep 10

Movement from 30 September 2010 excluding foreign exchange	Australia %	Europe %	New Zealand %	United States %	Asia %	Total Group %
Overdrafts	3.2	(3.7)	(10.2)	(63.2)	4.0	(1.0)
Credit card outstandings	9.7	(8.1)	0.2	16.7	-	6.3
Asset and lease financing	(4.0)	(7.3)	(15.8)	-	(22.2)	(4.6)
Housing loans	13.9	9.4	4.0	(19.5)	24.0	12.5
Other term lending	16.9	0.1	3.4	2.5	62.7	10.8
Other	8.1	(28.8)	3.1	(28.4)	large	(1.3)
<b>Total gross loans and advances</b>	<b>13.3</b>	<b>1.3</b>	<b>3.1</b>	<b>(3.0)</b>	<b>61.0</b>	<b>10.4</b>

## 9. Provision for Doubtful Debts

	As at		
	30 Sep 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m
Specific provision for doubtful debts	1,475	1,299	1,409
Collective provision for doubtful debts	2,505	2,781	2,865
<b>Total provision for doubtful debts</b>	<b>3,980</b>	<b>4,080</b>	<b>4,274</b>
Specific provision on loans at fair value <sup>(1)</sup>	71	120	115
Collective provision on loans and derivatives at fair value <sup>(1)(2)</sup>	893	707	705
<b>Total provision for doubtful debts and provisions held on assets at fair value <sup>(3)</sup></b>	<b>4,944</b>	<b>4,907</b>	<b>5,094</b>

<sup>(1)</sup> Included within the carrying value of other financial assets at fair value and derivatives.

<sup>(2)</sup> Included within this balance for September 2011 is a management overlay in relation to conduit assets and derivatives of \$160 million (March 2011 \$160 million, September 2010 \$160 million).

<sup>(3)</sup> Not included in total provisions for doubtful debts are provisions on investments - held to maturity of \$204 million (March 2011 \$187 million, September 2010 \$181 million).

## Movement in provisions for doubtful debts

	Year to Sep 11			Year to Sep 10		
	Specific \$m	Collective \$m	Total \$m	Specific \$m	Collective \$m	Total \$m
<b>Opening balance</b>	1,409	2,865	4,274	1,453	2,948	4,401
Acquisition of controlled entities	-	-	-	-	9	9
Transfer to/(from) specific/collective provision	2,055	(2,055)	-	2,235	(2,235)	-
Bad debts recovered	184	-	184	177	-	177
Bad debts written off	(2,172)	-	(2,172)	(2,424)	-	(2,424)
Charge to income statement	-	1,723	1,723	-	2,236	2,236
Foreign currency translation and other adjustments	(1)	(28)	(29)	(32)	(93)	(125)
<b>Total provision for doubtful debts</b>	<b>1,475</b>	<b>2,505</b>	<b>3,980</b>	<b>1,409</b>	<b>2,865</b>	<b>4,274</b>

	Half Year to Sep 11			Half Year to Mar 11		
	Specific \$m	Collective \$m	Total \$m	Specific \$m	Collective \$m	Total \$m
<b>Opening balance</b>	1,299	2,781	4,080	1,409	2,865	4,274
Transfer to/(from) specific/collective provision	1,116	(1,116)	-	939	(939)	-
Bad debts recovered	91	-	91	93	-	93
Bad debts written off	(1,049)	-	(1,049)	(1,123)	-	(1,123)
Charge to income statement	-	819	819	-	904	904
Foreign currency translation and other adjustments	18	21	39	(19)	(49)	(68)
<b>Total provision for doubtful debts</b>	<b>1,475</b>	<b>2,505</b>	<b>3,980</b>	<b>1,299</b>	<b>2,781</b>	<b>4,080</b>

	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>Total charge for doubtful debts by geographic location</b>				
Australia	1,002	1,204	459	543
Europe	562	806	284	278
New Zealand	116	148	44	72
United States	42	78	31	11
Asia	1	-	1	-
<b>Total charge to provide for doubtful debts - recognised in provision</b>	<b>1,723</b>	<b>2,236</b>	<b>819</b>	<b>904</b>
Total charge on investments - held to maturity	27	555	8	19
<b>Total charge to provide for doubtful debts - recognised in income statement</b>	<b>1,750</b>	<b>2,791</b>	<b>827</b>	<b>923</b>

## 10. Asset Quality

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 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 classified as impaired when they become 180 days past due (if not written off).

Summary of total impaired assets	As at		
	30 Sep 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m
Impaired assets <sup>(1)(2)(3)</sup>	6,151	6,063	5,809
Restructured loans <sup>(4)</sup>	235	212	239
Gross total impaired assets	6,386	6,275	6,048
Less: Specific provisions - total impaired assets	(1,546)	(1,419)	(1,524)
<b>Net total impaired assets</b>	<b>4,840</b>	<b>4,856</b>	<b>4,524</b>

<sup>(1)</sup> Impaired assets do not include conduit assets classified as Investments - held to maturity in the balance sheet. There were \$795 million of impaired conduit assets within this category at September 2011 (March 2011 \$215 million, September 2010 \$233 million).

<sup>(2)</sup> In the United States there is US\$100 million (March 2011 US\$135 million, September 2010 US\$133 million) of "Other Real Estate Owned" where the Group assumed ownership or foreclosed in the settlement of debt. Of this amount, US\$83 million (March 2011 \$113 million, September 2010 US\$111 million) is covered by the Federal Deposit Insurance Corporation (FDIC) Loss Sharing Agreement, where the FDIC will absorb 80% of any losses arising in recovery of these assets. The real estate assets are included in other assets and are not included in impaired assets.

<sup>(3)</sup> Impaired assets for September 2011 includes \$170 million of impaired fair value assets (March 2011 \$255 million, September 2010 \$284 million).

<sup>(4)</sup> These loans represent facilities which have been classified as restructured for reasons relating to the financial difficulty of the counterparty. Restructured loans include \$16 million of restructured fair value assets (March 2011 \$24 million, September 2010 nil).

Movement in gross impaired assets	Australia \$m	Europe \$m	New Zealand \$m	United States \$m	Asia \$m	Total Group \$m
<b>Balance at 31 March 2010</b>	3,493	1,709	570	77	-	5,849
New	1,469	930	228	116	-	2,743
Written off	(618)	(403)	(81)	(21)	-	(1,123)
Returned to performing or repaid	(776)	(410)	(114)	(92)	-	(1,392)
Foreign currency translation adjustments	-	(13)	(12)	(4)	-	(29)
<b>Balance at 30 September 2010</b>	3,568	1,813	591	76	-	6,048
New	1,406	1,108	244	57	2	2,817
Written off	(599)	(276)	(64)	(20)	-	(959)
Returned to performing or repaid	(685)	(688)	(136)	(3)	-	(1,512)
Foreign currency translation adjustments	-	(92)	(21)	(6)	-	(119)
<b>Balance at 31 March 2011</b>	3,690	1,865	614	104	2	6,275
New	1,478	845	173	59	1	2,556
Written off	(508)	(295)	(72)	(6)	-	(881)
Returned to performing or repaid	(815)	(593)	(235)	(13)	-	(1,656)
Foreign currency translation adjustments	-	47	36	9	-	92
<b>Gross impaired assets at 30 September 2011</b>	<b>3,845</b>	<b>1,869</b>	<b>516</b>	<b>153</b>	<b>3</b>	<b>6,386</b>

Gross impaired assets to gross loans & acceptances - by geographic location	As at		
	30 Sep 11 %	31 Mar 11 %	30 Sep 10 %
Australia	1.05	1.05	1.07
Europe	3.06	3.19	2.92
New Zealand	1.15	1.49	1.40
United States	2.30	1.72	1.10
Asia	0.08	0.07	-
<b>Total gross impaired assets to gross loans &amp; acceptances</b>	<b>1.32</b>	<b>1.37</b>	<b>1.35</b>

Group coverage ratios			
Net impaired assets to total equity <sup>(1)(2)</sup>	11.5	12.2	11.6
Specific provision to gross impaired assets <sup>(3)</sup>	24.2	22.6	25.2
Collective provision to credit risk-weighted assets (excluding housing) <sup>(4)</sup>	1.45	1.46	1.48
Collective provision including GRCL (top-up) to credit risk-weighted assets (excluding housing)	1.86	1.88	1.88
90+ days past due plus gross impaired assets to gross loans and acceptances <sup>(3)</sup>	1.77	1.92	1.88
Net write-offs to gross loans and acceptances (annualised)	0.41	0.45	0.50
Total provision as a percentage of net write-offs (annualised) <sup>(5)</sup>	249	238	227
Total provision to gross loans and acceptances <sup>(5)</sup>	1.03	1.07	1.14

<sup>(1)</sup> Total equity of the parent.

<sup>(2)</sup> Net impaired assets for September 2011 include \$115 million of net impaired fair value assets (March 2011 \$159 million, September 2010 \$169 million).

<sup>(3)</sup> Gross impaired assets for September 2011 includes \$170 million of gross impaired fair value assets (March 2011 \$255 million, September 2010 \$284 million) and \$16 million of restructured fair value assets (March 2011 \$24 million, September 2010 nil).

<sup>(4)</sup> Includes economic cycle adjustment, doubtful debt provision against loans at amortised cost and collective provisions held on assets at fair value.

<sup>(5)</sup> Includes economic cycle adjustment, doubtful debt provision against loans at amortised cost and total provisions held on assets at fair value.

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 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m
Total non-impaired assets past due 90 days or more with adequate security	1,975	2,346	1,953
Total non-impaired portfolio managed facilities past due 90 to 180 days	175	195	413
<b>Total 90+ days past due loans</b>	<b>2,150</b>	<b>2,541</b>	<b>2,366</b>
Total 90+ days past due loans to gross loans and acceptances (%)	0.45	0.55	0.53

Non-impaired loans 90+ days past due - by geographic location	As at		
	30 Sep 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m
Australia	1,547	1,749	1,556
Europe	318	407	434
New Zealand	158	194	148
United States	127	190	228
Asia	-	1	-
<b>Total 90+ days past due loans</b>	<b>2,150</b>	<b>2,541</b>	<b>2,366</b>

## 11. Deposits and Other Borrowings

	As at		
	30 Sep 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m
Deposits not bearing interest	21,324	18,415	17,393
On-demand and short-term deposits	145,947	138,455	134,250
Certificates of deposit	76,945	61,501	60,178
Term deposits	144,418	137,728	131,520
<b>Total deposits</b>	<b>388,634</b>	<b>356,099</b>	<b>343,341</b>
Securities sold under agreements to repurchase	6,379	3,220	4,410
Borrowings	18,159	13,409	15,474
Fair value adjustment	257	233	219
<b>Total deposits and other borrowings</b>	<b>413,429</b>	<b>372,961</b>	<b>363,444</b>
<i>Represented by:</i>			
Total deposits and other borrowings at fair value <sup>(1)</sup>	10,465	8,650	10,212
Total deposits and other borrowings at amortised cost	402,964	364,311	353,232
<b>Total deposits and other borrowings</b>	<b>413,429</b>	<b>372,961</b>	<b>363,444</b>

<sup>(1)</sup> On the balance sheet this amount is included within 'Other financial liabilities at fair value'. These amounts are included in the product and geographical analysis below.

By product and geographic location	Australia \$m	Europe \$m	New Zealand \$m	United States \$m	Asia \$m	Total Group \$m
<b>As at 30 September 2011</b>						
Deposits not bearing interest	16,572	2,218	1,351	1,179	4	21,324
On-demand and short-term deposits	100,626	27,307	8,589	9,188	237	145,947
Certificates of deposit	22,751	33,718	1,440	19,036	-	76,945
Term deposits	98,515	15,758	15,881	6,012	8,252	144,418
<b>Total deposits</b>	<b>238,464</b>	<b>79,001</b>	<b>27,261</b>	<b>35,415</b>	<b>8,493</b>	<b>388,634</b>
Securities sold under agreements to repurchase	1,632	2,046	-	2,701	-	6,379
Borrowings	2,384	-	6,345	9,430	-	18,159
Fair value adjustment	-	252	3	2	-	257
<b>Total deposits and other borrowings</b>	<b>242,480</b>	<b>81,299</b>	<b>33,609</b>	<b>47,548</b>	<b>8,493</b>	<b>413,429</b>
<i>Represented by:</i>						
Total deposits and other borrowings at fair value	-	1,179	9,284	2	-	10,465
Total deposits and other borrowings at amortised cost	242,480	80,120	24,325	47,546	8,493	402,964
<b>Total deposits and other borrowings</b>	<b>242,480</b>	<b>81,299</b>	<b>33,609</b>	<b>47,548</b>	<b>8,493</b>	<b>413,429</b>

By product and geographic location	Australia \$m	Europe \$m	New Zealand \$m	United States \$m	Asia \$m	Total Group \$m
<b>As at 31 March 2011</b>						
Deposits not bearing interest	14,603	2,086	667	1,056	3	18,415
On-demand and short-term deposits	95,199	27,880	8,493	6,666	217	138,455
Certificates of deposit	19,688	28,668	1,678	11,467	-	61,501
Term deposits	94,073	14,641	14,931	5,151	8,932	137,728
<b>Total deposits</b>	<b>223,563</b>	<b>73,275</b>	<b>25,769</b>	<b>24,340</b>	<b>9,152</b>	<b>356,099</b>
Securities sold under agreements to repurchase	731	427	-	2,062	-	3,220
Borrowings	4,048	-	3,962	5,399	-	13,409
Fair value adjustment	-	223	7	3	-	233
<b>Total deposits and other borrowings</b>	<b>228,342</b>	<b>73,925</b>	<b>29,738</b>	<b>31,804</b>	<b>9,152</b>	<b>372,961</b>
<i>Represented by:</i>						
Total deposits and other borrowings at fair value	-	1,169	7,478	3	-	8,650
Total deposits and other borrowings at amortised cost	228,342	72,756	22,260	31,801	9,152	364,311
<b>Total deposits and other borrowings</b>	<b>228,342</b>	<b>73,925</b>	<b>29,738</b>	<b>31,804</b>	<b>9,152</b>	<b>372,961</b>

By product and geographic location	Australia \$m	Europe \$m	New Zealand \$m	United States \$m	Asia \$m	Total Group \$m
<b>As at 30 September 2010</b>						
Deposits not bearing interest	13,715	1,975	609	1,092	2	17,393
On-demand and short-term deposits	91,175	31,176	8,223	3,437	239	134,250
Certificates of deposit	23,360	27,174	1,338	8,306	-	60,178
Term deposits	88,066	15,908	14,740	5,019	7,787	131,520
<b>Total deposits</b>	<b>216,316</b>	<b>76,233</b>	<b>24,910</b>	<b>17,854</b>	<b>8,028</b>	<b>343,341</b>
Securities sold under agreements to repurchase	1,248	218	-	2,944	-	4,410
Borrowings	4,949	-	5,631	4,894	-	15,474
Fair value adjustment	-	209	4	6	-	219
<b>Total deposits and other borrowings</b>	<b>222,513</b>	<b>76,660</b>	<b>30,545</b>	<b>25,698</b>	<b>8,028</b>	<b>363,444</b>
<i>Represented by:</i>						
Total deposits and other borrowings at fair value	-	1,139	9,067	6	-	10,212
Total deposits and other borrowings at amortised cost	222,513	75,521	21,478	25,692	8,028	353,232
<b>Total deposits and other borrowings</b>	<b>222,513</b>	<b>76,660</b>	<b>30,545</b>	<b>25,698</b>	<b>8,028</b>	<b>363,444</b>

## Increase/(Decrease) from 31 Mar 11

Movement from 31 March 2011 excluding foreign exchange	Australia %	Europe %	New Zealand %	United States %	Asia %	Total Group %
Deposits not bearing interest	13.5	3.8	90.3	5.5	33.3	14.8
On-demand and short-term deposits	5.7	(4.3)	(5.0)	30.2	3.0	4.2
Certificates of deposit	15.6	14.9	(19.4)	56.8	-	22.2
Term deposits	4.7	5.2	(0.1)	10.2	(12.7)	3.3
<b>Total deposits</b>	<b>6.7</b>	<b>5.3</b>	<b>(0.6)</b>	<b>37.5</b>	<b>(12.3)</b>	<b>7.5</b>
Securities sold under agreements to repurchase	large	large	-	23.7	-	90.4
Borrowings	(41.1)	-	50.5	65.0	-	29.9
<b>Total deposits and other borrowings</b>	<b>6.2</b>	<b>7.4</b>	<b>6.2</b>	<b>41.2</b>	<b>(12.3)</b>	<b>9.1</b>

## Increase/(Decrease) from 30 Sep 10

Movement from 30 September 2010 excluding foreign exchange	Australia %	Europe %	New Zealand %	United States %	Asia %	Total Group %
Deposits not bearing interest	20.8	15.3	large	9.2	large	22.9
On-demand and short-term deposits	10.4	(10.0)	1.4	large	0.4	9.2
Certificates of deposit	(2.6)	27.4	4.5	large	-	29.5
Term deposits	11.9	2.0	4.6	21.0	7.1	9.9
<b>Total deposits</b>	<b>10.2</b>	<b>6.4</b>	<b>6.3</b>	<b>large</b>	<b>6.9</b>	<b>13.7</b>
Securities sold under agreements to repurchase	30.8	large	-	(7.3)	-	45.9
Borrowings	(51.8)	-	9.4	94.8	-	16.5
<b>Total deposits and other borrowings</b>	<b>9.0</b>	<b>8.9</b>	<b>6.8</b>	<b>87.0</b>	<b>6.9</b>	<b>14.2</b>

## 12. Contributed Equity and Reserves

Contributed equity	As at		
	30 Sep 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m
<b>Issued and paid-up ordinary share capital</b>			
Ordinary shares, fully paid	20,360	19,451	18,637
<b>Issued and paid-up preference share capital</b>			
BNZ Income Securities	380	380	380
BNZ Income Securities 2	203	203	203
<b>Other contributed equity</b>			
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
<b>Total contributed equity</b>	<b>25,274</b>	<b>24,365</b>	<b>23,551</b>

Movements in contributed equity	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>Ordinary share capital</b>				
Balance at beginning of period	18,637	17,867	19,451	18,637
Shares issued				
Dividend reinvestment plan	1,364	808	729	635
On market purchase of shares for equity-based compensation	(33)	-	-	(33)
Transfer from equity-based compensation reserve - issued shares	180	84	33	147
Transfer from equity-based compensation reserve - purchased shares	5	17	2	3
Net loss realised on treasury shares	(57)	(6)	(27)	(30)
Movement in treasury shares relating to life insurance business	264	(133)	172	92
<b>Balance at end of period</b>	<b>20,360</b>	<b>18,637</b>	<b>20,360</b>	<b>19,451</b>
<b>BNZ Income Securities</b>				
Balance at beginning of period	380	380	380	380
Movement during period	-	-	-	-
<b>Balance at end of period</b>	<b>380</b>	<b>380</b>	<b>380</b>	<b>380</b>
<b>BNZ Income Securities 2</b>				
Balance at beginning of period	203	203	203	203
Movement during period	-	-	-	-
<b>Balance at end of period</b>	<b>203</b>	<b>203</b>	<b>203</b>	<b>203</b>
<b>National Income Securities</b>				
Balance at beginning of period	1,945	1,945	1,945	1,945
Movement during period	-	-	-	-
<b>Balance at end of period</b>	<b>1,945</b>	<b>1,945</b>	<b>1,945</b>	<b>1,945</b>
<b>Trust Preferred Securities</b>				
Balance at beginning of period	975	975	975	975
Movement during period	-	-	-	-
<b>Balance at end of period</b>	<b>975</b>	<b>975</b>	<b>975</b>	<b>975</b>
<b>Trust Preferred Securities II</b>				
Balance at beginning of period	1,014	1,014	1,014	1,014
Movement during period	-	-	-	-
<b>Balance at end of period</b>	<b>1,014</b>	<b>1,014</b>	<b>1,014</b>	<b>1,014</b>
<b>National Capital Instruments</b>				
Balance at beginning of period	397	397	397	397
Movement during period	-	-	-	-
<b>Balance at end of period</b>	<b>397</b>	<b>397</b>	<b>397</b>	<b>397</b>

Reserves	As at		
	30 Sep 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m
General reserve	1,267	1,052	1,166
Asset revaluation reserve	76	68	68
Foreign currency translation reserve	(3,667)	(4,088)	(3,494)
Cash flow hedge reserve	355	114	182
Equity-based compensation reserve	433	556	668
General reserve for credit losses	716	751	698
Available for sale investments reserve	47	56	73
<b>Total reserves</b>	<b>(773)</b>	<b>(1,491)</b>	<b>(639)</b>

Movements in reserves	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>General reserve</b>				
Balance at beginning of period	1,166	1,009	1,052	1,166
Transfer from/(to) retained profits	101	157	215	(114)
<b>Balance at end of period</b>	<b>1,267</b>	<b>1,166</b>	<b>1,267</b>	<b>1,052</b>
<b>Asset revaluation reserve</b>				
Balance at beginning of period	68	76	68	68
Revaluation of land and buildings	11	9	11	-
Transfer to retained profits	-	(14)	-	-
Tax on revaluation adjustments	(3)	(3)	(3)	-
<b>Balance at end of period</b>	<b>76</b>	<b>68</b>	<b>76</b>	<b>68</b>
<b>Foreign currency translation reserve</b>				
Balance at beginning of period	(3,494)	(2,525)	(4,088)	(3,494)
Currency translation adjustments	(171)	(969)	421	(592)
Reclassification to profit or loss on disposal of foreign operations	(2)	-	-	(2)
<b>Balance at end of period</b>	<b>(3,667)</b>	<b>(3,494)</b>	<b>(3,667)</b>	<b>(4,088)</b>
<b>Cash flow hedge reserve</b>				
Balance at beginning of period	182	(142)	114	182
Gains/(losses) on cash flow hedging instruments	221	424	319	(98)
Losses/(gains) transferred to the income statement	-	3	(4)	4
Tax on cash flow hedging instruments	(48)	(103)	(74)	26
<b>Balance at end of period</b>	<b>355</b>	<b>182</b>	<b>355</b>	<b>114</b>
<b>Equity-based compensation reserve</b>				
Balance at beginning of period	668	560	556	668
Equity-based compensation	89	213	49	40
Transfer to contributed equity - issued shares	(180)	(84)	(33)	(147)
Transfer to contributed equity - purchased shares	(5)	(17)	(2)	(3)
Transfer of shares, options and rights lapsed to retained profits	(136)	-	(136)	-
Tax on equity-based compensation	(3)	(4)	(1)	(2)
<b>Balance at end of period</b>	<b>433</b>	<b>668</b>	<b>433</b>	<b>556</b>



	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>General reserve for credit losses</b>				
Balance at beginning of period	698	-	751	698
Transfer from retained profits <sup>(1)</sup>	18	698	(35)	53
<b>Balance at end of period</b>	<b>716</b>	<b>698</b>	<b>716</b>	<b>751</b>

<sup>(1)</sup> The Group has created a general reserve from retained profits to meet prudential requirements relating to a general reserve for credit losses.

<b>Available for sale investments reserve</b>				
Balance at beginning of period	73	46	56	73
Revaluation (losses)/gains	(36)	60	(10)	(26)
Gains from sale transferred to the income statement	(20)	(28)	(11)	(9)
Impairment transferred to the income statement	10	3	-	10
Tax on available for sale investments	20	(8)	12	8
<b>Balance at end of period</b>	<b>47</b>	<b>73</b>	<b>47</b>	<b>56</b>

	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>Reconciliation of movement in retained profits</b>				
Balance at beginning of period	16,028	16,010	16,931	16,028
Adjustment from adoption of new Accounting Standard	-	(19)	-	-
Actuarial gains/(losses) on defined benefit superannuation plans	80	(114)	(145)	225
Tax on items taken directly to equity	(39)	22	30	(69)
Net profit attributable to owners of the Company	5,219	4,224	2,791	2,428
Transfer (to)/from general reserve for credit losses	(18)	(698)	35	(53)
Transfer (to)/from general reserves	(101)	(157)	(215)	114
Transfer from asset revaluation reserve	-	14	-	-
Transfer of shares, options and rights lapsed from equity-based compensation reserve	136	-	136	-
Dividends paid	(3,413)	(3,039)	(1,785)	(1,628)
Distributions on other equity instruments	(225)	(215)	(111)	(114)
<b>Balance at end of period</b>	<b>17,667</b>	<b>16,028</b>	<b>17,667</b>	<b>16,931</b>

### 13. Notes to the Cash Flow Statement

#### (a) Reconciliation of net profit attributable to owners of the Company to net cash provided by operating activities

	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
Net profit attributable to owners of the Company	5,219	4,224	2,791	2,428
(Deduct)/add non-cash items in the income statement:				
(Increase)/decrease in interest receivable	(222)	(1,090)	225	(447)
Increase/(decrease) in interest payable	291	1,269	(51)	342
Decrease in unearned income and deferred net fee income	(207)	(235)	(31)	(176)
Fair value movements:				
Assets, liabilities and derivatives held at fair value	1,707	123	252	1,455
Net adjustment to bid/offer valuation	1	(15)	17	(16)
Increase/(decrease) in personnel provisions	37	131	203	(166)
Increase/(decrease) in other operating provisions	105	(285)	206	(101)
Equity based payments recognised in equity or reserves	89	213	82	7
Superannuation costs - defined benefit superannuation plans	44	52	20	24
Impairment losses on non-financial assets	16	7	16	-
Impairment losses on financial assets	10	3	-	10
Charge to provide for doubtful debts	1,750	2,791	827	923
Depreciation and amortisation expense	624	670	298	326
Gain on bargain purchase	-	(4)	-	-
Movement in life insurance policyholder liabilities	(830)	3,230	(3,275)	2,445
Unrealised loss/(gain) on investments relating to life insurance business	3,602	85	5,715	(2,113)
Decrease/(increase) in other assets	214	787	588	(374)
(Decrease)/increase in other liabilities	(408)	258	(429)	21
Increase/(decrease) in income tax payable	775	328	984	(209)
(Decrease)/increase in deferred tax liabilities	(528)	(17)	(609)	81
Decrease/(increase) in deferred tax assets	90	(46)	(2)	92
Operating cash flow items not included in profit	(3,199)	(6,612)	4,158	(7,357)
Investing or financing cash flows included in profit:				
Gain on disposal of controlled entities	(11)	-	-	(11)
Gain on investments classified as available for sale	(20)	(28)	(11)	(9)
Loss on disposal of property, plant, equipment and other assets	16	26	14	2
<b>Net cash (used in)/provided by operating activities</b>	<b>9,165</b>	<b>5,865</b>	<b>11,988</b>	<b>(2,823)</b>

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

Cash and cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash within three months and are subject to an insignificant risk of change in value. They are held for the purposes of meeting short-term cash commitments (rather than for investment or other purposes) and include cash and liquid assets, amounts due from other banks, including securities held under reverse repurchase agreements, and short-term government securities.

Cash and cash equivalents as shown in the cash flow statement is reconciled to the related items on the balance sheet as follows:

Cash and cash equivalents	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>Assets</b>				
Cash and liquid assets	27,093	26,072	27,093	22,534
Treasury and other eligible bills	159	157	159	773
Due from other banks (excluding mandatory deposits with supervisory central banks)	45,241	34,148	45,241	36,552
	72,493	60,377	72,493	59,859
<b>Liabilities</b>				
Due to other banks	(36,487)	(34,694)	(36,487)	(34,628)
<b>Total cash and cash equivalents</b>	<b>36,006</b>	<b>25,683</b>	<b>36,006</b>	<b>25,231</b>

**(c) Non-cash financing and investing activities**

	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>New share issues</b>				
Dividend reinvestment plan	1,364	808	729	635
Bonus share plan	46	46	24	22
Movement in assets under finance lease	15	(14)	5	10

**(d) Acquisitions of controlled entities and business combinations**

The following acquisitions were made during the year to September 2011:

- On 31 March 2011, National Australia Bank Limited acquired 100% of the issued share capital of Invia Custodian Pty Limited (Invia), an Australian based custodial services business. As part of the 1 November 2009 JBWere Pty Limited (JBWere) acquisition, National Wealth Management Holdings Limited acquired the Goldman Sachs private wealth management client base as well as the employees of Invia. The JBWere acquisition did not include acquisition of the Invia legal entity and this acquisition enhances the strategic benefits from the JBWere acquisition; and
- On 30 November 2010, MLC Alliance Holdings Pty Limited acquired the remaining 51% of the issued share capital of Meritum Financial Group Pty Limited (Meritum), bringing the Group's interest to 100%. Meritum is an Australian based financial planning business and the acquisition enhances the Group's network of financial planning providers. The acquisition agreement contains provision for contingent cash consideration of up to \$7 million to be payable based on funds under management performance. The fair value of this contingent consideration has been assessed as \$5 million as at the acquisition date.

Goodwill arose on the acquisition of Meritum as the purchase consideration included a premium for the intrinsic value in the expanded distribution network and capabilities, and for expected synergies from combining the business into the Group. None of the goodwill is expected to be deductible for tax purposes.

Since their respective acquisition dates, the acquired entities have not contributed a material amount to the net operating income and net profit of the Group. If the acquisitions had been effected at 1 October 2010, there would not have been a material impact on the net operating income and net profit of the Group for the year ended 30 September 2011.

In December 2010, the provisionally determined accounting for the acquisition of certain assets and liabilities of TierOne Bank was finalised resulting in a \$4 million increase in goodwill and an equivalent decrease in other assets relating to the indemnification asset arising from the loss sharing arrangement with the Federal Deposit Insurance Corporation.

Details of the acquisitions were as follows:

	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>Consideration transferred</b>				
Cash paid	14	6,016	-	14
Deferred consideration	12	21	(1)	13
<b>Total consideration transferred</b>	<b>26</b>	<b>6,037</b>	<b>(1)</b>	<b>27</b>
	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>				
Cash and liquid assets	8	859	-	8
Due from other banks	-	163	-	-
Trading derivatives	-	3	-	-
Investments - available for sale	-	287	-	-
Investments relating to life insurance business	-	4,553	-	-
Loans and advances <sup>(1)</sup>	-	6,615	-	-
Property, plant and equipment	-	20	-	-
Intangible assets	9	552	9	-
Deferred tax assets	-	50	-	-
Other assets	2	491	-	2
Deposits and other borrowings	-	(3,385)	-	-
Life policy liabilities	-	(3,784)	-	-
Current tax liabilities	-	(12)	-	-
Provisions	(1)	(66)	-	(1)
External unitholders' liability	-	(434)	-	-
Deferred tax liabilities	(3)	(146)	(3)	-
Other liabilities	-	(164)	-	-
Net identifiable assets and liabilities	15	5,602	6	9
Less: Fair value of equity interest in the acquiree held before the consideration date included in other assets <sup>(2)</sup>	(11)	-	-	(11)
Goodwill on acquisition	22	439	(7)	29
Gain on bargain purchase	-	(4)	-	-
Total purchase consideration	26	6,037	(1)	27
Less: Deferred consideration	(12)	(21)	1	(13)
Less: Cash and cash equivalents acquired:				
Cash and liquid assets	(8)	(859)	-	(8)
Due from other banks	-	(163)	-	-
<b>Net cash outflow</b>	<b>6</b>	<b>4,994</b>	<b>-</b>	<b>6</b>

<sup>(1)</sup> At the date of the respective acquisitions, loans and advances acquired had gross contractual amounts receivable of nil (September 2010 \$6,874 million). At the date of the respective acquisitions, the best estimate of the contractual cash flows not expected to be collected was nil (September 2010 \$261 million). In respect of cash flows not expected to be collected in the prior year, an indemnification asset was recognised and included in other assets of \$209 million in relation to the loss sharing agreement entered into with the Federal Deposit Insurance Corporation as part of the TierOne assets acquisition.

<sup>(2)</sup> There was nil gain or loss recognised as a result of re-measuring to fair value the equity interest in the acquiree held before the business combination.

**(e) Loss of control of controlled entities**

Control was lost over the following entity during the current year:

- On 15 February 2011, the Company disposed of Relationship Services Pty Limited, the holding company of an interest in a joint venture that administers the FlyBuys program.

The contribution to net profit of the Group from entities over which control has been lost during the current year is not material.

	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>Loss of control of controlled entities</b>				
Net assets over which control was lost	-	-	-	-
Gain on disposal	11	-	-	11
Cash consideration received	11	-	-	11
Less: Cash and cash equivalents disposed	-	-	-	-
<b>Net cash inflow from loss of control of controlled entities</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>11</b>

**(f) Reconciliation of goodwill**

The following is a reconciliation of the carrying amount of goodwill:

	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>Movements in goodwill</b>				
Balance at beginning of period	5,546	5,182	5,533	5,546
Additions from the acquisition of controlled entities and business combinations <sup>(1)</sup>	26	439	(7)	33
Foreign currency translation adjustments	(5)	(75)	41	(46)
<b>Balance at end of period</b>	<b>5,567</b>	<b>5,546</b>	<b>5,567</b>	<b>5,533</b>

<sup>(1)</sup> Includes an increase to goodwill from the revision to provisionally determined acquisition accounting of \$4 million (March 2011 \$4 million, September 2010 nil).

**(g) Investments in associates and joint ventures**

The Group holds no material interests in associates or joint venture entities as at 30 September 2011.

## 14. Contingent Liabilities

### (i) Legal Proceedings

Entities within the Group are defendants from time to time in legal proceedings arising from the conduct of their business.

There are contingent liabilities in respect of claims, potential claims and court proceedings against entities of the Group. Where appropriate, provisions have been made. The aggregate of potential liability in respect thereof cannot be accurately assessed.

### (ii) Contingent Liability - Class Action/ Potential Class Action

On 18 November 2010, Maurice Blackburn Lawyers (an Australian law firm) commenced a class action proceeding against the Group in the Supreme Court of Victoria in relation to its exposure to certain Collateralised Debt Obligations (CDOs) in nabCapital sponsored conduits. The Group announced a provision of \$181 million against an approximate US\$1.1 billion exposure to the CDOs when it released its half year result to March 2008, and increased its provision by \$830 million in July 2008. Maurice Blackburn allege that in 2008 the Group contravened certain misleading and deceptive conduct and continuous disclosure provisions of the *Corporations Act 2001* (Cth) in relation to its exposure to the CDOs. The loss claimed by class members has not yet been identified in the proceeding. The proceeding is being vigorously defended.

On 12 May 2010, Maurice Blackburn Lawyers announced it was preparing 12 class actions against banks operating in Australia, including the Group, in relation to the payment of exception fees. On 22 September 2010, an exception fee class action was issued against Australia and New Zealand Banking Group Limited. To date an exception fees class action has not been issued by Maurice Blackburn Lawyers against the Group. If an exception fees class action is issued by Maurice Blackburn Lawyers against the Group, it will be vigorously defended.

### (iii) Contingent Liability - United Kingdom Financial Services Compensation Scheme

The UK Financial Services Compensation Scheme (FSCS) provides compensation to depositors in the event that a financial institution is unable to repay amounts due. Following the failure of a number of financial institutions, claims have been triggered against the FSCS, initially to pay interest on borrowings which the FSCS has raised from the UK Government to support the protected deposits. These borrowings are anticipated to be repaid from the realisation of the assets of the institutions. In the interim, the FSCS has estimated levies due to 31 March 2012 and an accrual is presently held for the Group's calculated liability for this period. If the assets of the failed institutions are insufficient to repay the Government loan, additional levies will become payable in future periods.

### (iv) Claims for Potential Mis-selling of Payment Protection Insurance

Market wide issues relating to the UK banking industry Payment Protection Insurance (PPI) issue are ongoing. In May 2011, the British Bankers' Association announced that it does not intend to pursue the judicial review process and provisions were announced by some of the largest British banks.

A provision of £102 million is held for this matter. The provision reflects an assessment of future PPI claims based upon estimates, statistical analysis and assumptions in relation to a wide range of uncertain factors, including how many PPI claims will be made against Clydesdale Bank PLC, for what value, and the prospects of mis-selling being established in relation to those claims. The final amount required to settle the potential liability is therefore uncertain. The Group continues to keep the matter under review.

**15. Events Subsequent to Balance Date**

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

## Compliance Statement

The preliminary final report is prepared in accordance with the ASX listing rules. It should be read in conjunction with any announcement 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.

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



Michaela Healey  
Company Secretary  
27 October 2011



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**Section 6****Supplementary Information**

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## 1. Disclosures on Special Purpose Entities

The following supplementary disclosures are based on Financial Stability Board (FSB) recommendations that were included in a report entitled *Enhancing Market and Institutional Resilience*.

### (a) Special Purpose Entities

Controlled entities are those entities, including Special Purpose Entities (SPEs), over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. Control rather than ownership interest is the sole criterion for determining a parent entity relationship. SPEs require consolidation in circumstances such as those where the Group has access to the majority of the residual income or is exposed to the majority of the residual risk associated with the SPE.

These supplementary disclosures focus on the exposure of the Group through its use of SPEs for various types of programs (both on and off balance sheet) including:

- Securitisation SPEs.
- Funding program SPEs.
- Other SPEs.

### (b) Securitisation SPEs

#### Objectives

The Group engages in securitisation activities for two purposes:

- Securitisation activities for business purposes, including arranging and managing securitisations for third parties (clients) as well as securities arbitrage (funding of purchased assets) activities <sup>(1)</sup>, primarily through SPEs that provide funding for single or multiple transactions.
- Securitisation of its own assets for funding and liquidity purposes, primarily for risk and capital management reasons. These transactions have always been recorded on the balance sheet since the adoption of IFRS in 2006 as the derecognition criteria are not met.

The first category represents third party asset securitisation SPEs. The Group's participation in these SPEs is discussed below.

#### Third party asset securitisation SPEs

*NAB sponsored securitisation SPEs for client securitisation assets and third party transactions*

For these transactions, securitisation structures are established by the Group, comprising one or numerous SPEs to purchase and fund customer assets, including in securitised form. Previously, securitisation structures also included purchasing of rated securities arbitrage assets (purchased assets). Securities arbitrage activities have been discontinued by the Group. Each SPE funds the acquisition of assets or securities backed by the assets by:

- The issuance of debt securities (medium term notes or MTN) directly into the market (term securitisation).
- The issuance of debt securities (asset backed commercial paper or ABCP) via an issuing entity (ABCP conduit funding). Standby liquidity facilities are typically made available to the ABCP conduits to fund acquired assets in the event that ABCP cannot be rolled or reissued to external investors.
- The drawdown under funding facilities (securitisation funding facilities and warehouse facilities) provided by the Group directly to the SPE.

Ordinary equity in the securitisation SPE is typically held by a third party.

Most of the transactions in which the Group gains exposure to the securitisation SPEs are transactions funded through its sponsored multi-seller ABCP conduits and by securitisation funding facilities and warehouse facilities provided to the NAB sponsored SPEs established under Titan Securitisation, TSL (USA) Inc, Quasar Securitisation, CentreStar and MiraStar Securitisation. The Group undertakes one or more of the following roles of arranger, manager (through wholly-owned subsidiaries), standby liquidity provider, securitisation funding facility provider, asset liquidity provider, warehouse facility provider, derivative provider and dealer.

The NAB sponsored securitisation SPEs are consolidated in the financial statements.

*Non-NAB sponsored securitisation SPEs for third party securitisation assets*

For these transactions, securitisation SPEs are established by market participants, other than the Group, to acquire and fund various assets by issuing securities to external investors. The Group's exposures to these SPEs arise from provision of standby liquidity facilities that can be drawn in the event that ABCP cannot be rolled or reissued to external investors and, in some cases, other facilities provided to fund and support acquired assets. These entities are generally not consolidated, with facilities provided by the Group (and drawn) being included in loans and advances.

#### Securitisation funding and standby liquidity facilities

The Group's securitisation SPE exposures fall into two categories: purchased assets, which were acquired on set investment criteria to seed a new ABCP conduit or achieve critical mass; and client originated assets, which were originated as part of a broader client relationship. Within these categories the SPE exposures are categorised by asset class, resulting in the grouping of the exposures based on common features and risks.

*Table 1* summarises the Group's exposures to both NAB sponsored and non-NAB sponsored SPEs via securitisation funding facilities and standby liquidity facilities provided to ABCP conduits. *Table 2* separates those exposures which are managed by Specialised Group Assets (SGA) and Wholesale Banking. Both tables show the facility limits extended by the Group, the amount drawn and available to be drawn under the respective facilities, and related provisions. It also shows the total securities issued by the relevant SPEs including ABCP and MTN, the carrying value of the SPE assets (other than cash), and the associated fair value.

Note: The standby liquidity facilities are only available to fund repayment of outstanding ABCP in cases where it cannot be rolled or reissued to external investors. For these facilities, the unutilised limit over and above the drawn and available amount cannot be accessed to fund additional assets until ABCP is reissued.

Selected comparative information for 31 March 2011 is provided, with further detail available in the 2011 Half Year Results.

<sup>(1)</sup> *Securities arbitrage (funding of purchased assets) activities have been discontinued by the Group and, along with several client originated SPE exposures no longer deemed part of the Group's core activities (largely Northern Hemisphere originated exposures), are being managed separately as part of the Specialised Group Assets division.*

Table 1 As at 30 September 2011	Group facilities				SPE		
	Limit \$m	Drawn & Available <sup>(1)</sup> \$m	Drawn- down \$m	Provisions <sup>(2)</sup> \$m	Securities on issue <sup>(3)</sup> \$m	Total asset value <sup>(4)</sup> \$m	Fair value <sup>(5)</sup> \$m
SPE purchased ABS CDOs:							
Senior tranche ABS CDO	223	223	223	(107)	-	223	60
Total SPE purchased ABS CDOs <sup>(6)</sup>	223	223	223	(107)	-	223	60
SPE other purchased assets:							
Infrastructure (credit wrapped bonds) <sup>(7)</sup>	150	150	150	-	-	150	150
Leveraged loans (CLOs)	1,412	1,412	1,412	-	-	1,412	1,287
Commercial property (CMBS)	587	587	587	-	-	587	513
Corporates (SCDO) <sup>(8)</sup>	1,290	1,290	1,290	-	-	1,290	991
Total SPE other purchased assets	3,439	3,439	3,439	-	-	3,439	2,941
NAB client originated assets:							
Auto / Equipment	36	36	36	(4)	-	36	32
Credit wrapped bonds	564	502	502	-	-	502	446
Prime residential mortgages	3,326	2,317	1,127	-	1,639	2,766	2,766
Non-conforming residential mortgages	556	326	326	-	98	424	407
Sub-prime residential mortgages	96	96	96	-	-	96	81
Subscription loans	446	434	434	-	-	434	434
Commercial Property (CMBS)	33	33	33	-	51	84	84
Credit wrapped ABS	570	570	570	(93)	-	570	323
Other <sup>(9)</sup>	583	383	383	-	498	881	830
Total NAB client originated assets	6,210	4,697	3,507	(97)	2,286	5,793	5,403
<i>Represented by:</i>							
NAB sponsored SPEs	3,040	2,713	2,713	-	577	3,290	2,904
Non-NAB sponsored SPEs	3,170	1,984	794	-	1,709	2,503	2,499
Total NAB client originated assets	6,210	4,697	3,507	(2)	2,286	5,793	5,403
<b>Total standby liquidity facilities <sup>(10)</sup></b>	<b>9,872</b>	<b>8,359</b>	<b>7,169</b>	<b>(206)</b>	<b>2,286</b>	<b>9,455</b>	<b>8,404</b>

As at 31 March 2011	Group facilities				SPE		
	Limit \$m	Drawn & Available <sup>(1)</sup> \$m	Drawn- down \$m	Provisions <sup>(2)</sup> \$m	Securities on issue <sup>(3)</sup> \$m	Total asset value <sup>(4)</sup> \$m	Fair value <sup>(5)</sup> \$m
Total SPE purchased ABS CDOs <sup>(6)</sup>	215	215	215	(102)	-	215	78
Total SPE other purchased assets	3,686	3,686	3,686	-	-	3,686	3,208
Total NAB client originated assets	6,137	5,087	4,227	(4)	2,156	6,383	6,018
Represented by:							
NAB sponsored SPEs	3,484	3,360	3,360	-	550	3,910	3,550
Non-NAB sponsored SPEs	2,653	1,727	867	-	1,606	2,473	2,468
Total NAB client originated assets	6,137	5,087	4,227	(87)	2,156	6,383	6,018
<b>Total standby liquidity facilities <sup>(10)</sup></b>	<b>10,038</b>	<b>8,988</b>	<b>8,128</b>	<b>(193)</b>	<b>2,156</b>	<b>10,284</b>	<b>9,304</b>

<sup>(1)</sup> Drawn and available represents amounts drawn-down under the facility, and amounts currently available to be drawn (for standby liquidity facilities and securitisation funding facilities this is limited to the amounts that maybe required to repay maturing ABCP if it cannot be rolled).

<sup>(2)</sup> Includes both specific and collective provisions. Provisions include exchange rate movements. The specific provisions have been allocated against the specific asset classes whilst the collective provisions have been included in the totals. The provisions disclosed are shown net of any expected recoveries under the risk mitigation strategy (refer "Protection purchased to hedge exposure to SPE other purchased assets"). A separate management overlay of \$160 million still exists in respect of conduit related assets and derivative transactions to reflect the uncertainty created by any possible deteriorating economic conditions and impact of any potential default.

<sup>(3)</sup> Securities on issue exclude amounts drawn under the facilities and include ABCP issued of \$1,190 million (NAB does not hold any of the ABCP on issues) and medium term notes of \$1,096 million.

<sup>(4)</sup> Comprises total gross non-cash assets before provisions of the SPEs. For non-NAB sponsored SPEs, this only includes that portion of the SPE assets to which the Group is exposed through the securitisation funding facilities or the standby liquidity facilities. The drawn-down amounts on these facilities are recorded on the Group's balance sheet.

<sup>(5)</sup> The estimated fair values are based on relevant information at 30 September 2011 and 31 March 2011 respectively. These estimates involve matters of judgement, as changes in assumptions could have a material impact on the amounts estimated.

There are various limitations inherent in this fair value disclosure particularly in the current market where, due to the uncertainty in the market, prices may not represent the underlying value. Not all of the Group's financial instruments can be exchanged in an active trading market. The Group obtains the fair values for investment securities from quoted market prices, where available. Where securities are unlisted and quoted market prices are not available, the Group obtains the fair value by means of anticipated discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity. In addition, it is the Group's intent to hold its financial instruments to maturity. The difference to fair value represents the significant change in discount rates in the current depressed markets. This is relevant in a trading environment, but is not relevant to assets held to maturity and loans and advances. This is consistent with the treatment of assets of the wider Group.

The fair value of the SCDOs reflects the Group's exposure subsequent to the purchase of additional protection (refer "Protection purchased to hedge exposure to SPE other purchased assets" for further information). The fair value of infrastructure (credit wrapped bonds), credit wrapped bonds and credit wrapped ABS ascribes minimal value to the protection afforded by insurance policies from financial guarantee (monoline) insurers.

<sup>(6)</sup> SGA has exposure to a portfolio of ABS CDOs that contain exposure to US sub-prime mortgage assets. While most assets within this portfolio were written off in full, a single asset remains. The specific provision against this asset is approximately 48% of its current balance.

<sup>(7)</sup> The total asset value of infrastructure (credit wrapped bonds) purchased by other SPEs is substantially funded by facilities provided by the Group.

<sup>(8)</sup> The limit, drawn and available, drawn-down amounts and asset value includes exposures which have been subject to recovery under the risk mitigation strategy (refer "Protection purchased to hedge exposure to SPE other purchased assets"). \$528 million in write-offs have been recovered to date under the risk mitigation strategy. During the year Specialised Group Assets removed the economic risk associated with four of the six sold protection SCDO derivative exposures. Represented in the above table are the four underlying asset exposures of \$690 million where the economic risk has been hedged and the two remaining sold protection SCDO derivative exposures of \$600 million in lieu of the underlying asset exposures.

<sup>(9)</sup> Other exposures include trade receivable and other asset backed securities including a standby letter of credit.

<sup>(10)</sup> The movement in Drawn and Available from 31 March 2011 to 30 September 2011 is comprised of a reduction for repayments, terminations and restructured facilities of \$0.8 billion and a increase of \$0.2 billion attributable to exchange rate movements.

Table 2 shows the SPE exposures, related provisions, carrying value of the SPE assets (other than cash) and the associated fair value by Division.

Table 2 Divisional distribution <sup>(1)</sup>	Group facilities				SPE		
	Limit \$m	Drawn & Available \$m	Drawn- down \$m	Provisions <sup>(2)</sup> \$m	Securities on issue \$m	Total asset value \$m	Fair value \$m
<b>As at 30 September 2011</b>							
<b>Specialised Group Assets managed:</b>							
Senior tranche ABS CDO	223	223	223	(107)	-	223	60
Leveraged loans (CLOs)	1,412	1,412	1,412	-	-	1,412	1,287
Commercial property (CMBS)	587	587	587	-	-	587	513
Corporates (SCDO)	1,290	1,290	1,290	-	-	1,290	991
Infrastructure (credit wrapped bonds)	150	150	150	-	-	150	150
Credit wrapped bonds	564	502	502	-	-	502	446
Credit wrapped ABS	570	570	570	(93)	-	570	323
Non-conforming residential mortgages	115	115	115	-	-	115	98
Sub-prime residential mortgages	96	96	96	-	-	96	81
Subscription loans	446	434	434	-	-	434	434
Other <sup>(4)</sup>	36	36	36	-	-	36	22
<b>Total Specialised Group Assets <sup>(2)(3)</sup></b>	<b>5,489</b>	<b>5,415</b>	<b>5,415</b>	<b>(201)</b>	-	<b>5,415</b>	<b>4,405</b>
<b>Wholesale Banking managed:</b>							
Auto / Equipment	36	36	36	(4)	-	36	32
Commercial property (CMBS)	33	33	33	-	51	84	84
Prime residential mortgages	3,326	2,317	1,127	-	1,639	2,766	2,766
Non-conforming residential mortgages	441	211	211	-	98	309	309
Other <sup>(4)</sup>	547	347	347	-	498	845	808
<b>Total Wholesale Banking <sup>(5)</sup></b>	<b>4,383</b>	<b>2,944</b>	<b>1,754</b>	<b>(4)</b>	<b>2,286</b>	<b>4,040</b>	<b>3,999</b>
<i>Represented by:</i>							
NAB sponsored SPEs	1,213	960	960	-	577	1,537	1,500
Non-NAB sponsored SPEs	3,170	1,984	794	-	1,709	2,503	2,499
<b>Total Wholesale Banking <sup>(2)(5)</sup></b>	<b>4,383</b>	<b>2,944</b>	<b>1,754</b>	<b>(5)</b>	<b>2,286</b>	<b>4,040</b>	<b>3,999</b>
<b>Total exposure to standby liquidity facilities</b>	<b>9,872</b>	<b>8,359</b>	<b>7,169</b>	<b>(206)</b>	<b>2,286</b>	<b>9,455</b>	<b>8,404</b>

As at 31 March 2011	Group facilities				SPE		
	Limit \$m	Drawn & Available \$m	Drawn- down \$m	Provisions <sup>(2)</sup> \$m	Securities on issue \$m	Total asset value \$m	Fair value \$m
<b>Specialised Group Assets managed:</b>							
<i>Represented by:</i>							
NAB sponsored SPEs	6,291	6,201	6,201	-	-	6,201	5,256
Non-NAB sponsored SPEs	89	-	-	-	-	-	-
<b>Total Specialised Group Assets <sup>(3)</sup></b>	<b>6,380</b>	<b>6,201</b>	<b>6,201</b>	<b>(189)</b>	-	<b>6,201</b>	<b>5,256</b>
<b>Wholesale Banking managed:</b>							
<i>Represented by:</i>							
NAB sponsored SPEs	1,094	1,060	1,060	-	550	1,610	1,580
Non-NAB sponsored SPEs	2,564	1,727	867	-	1,606	2,473	2,468
<b>Total Wholesale Banking <sup>(5)</sup></b>	<b>3,658</b>	<b>2,787</b>	<b>1,927</b>	<b>(4)</b>	<b>2,156</b>	<b>4,083</b>	<b>4,048</b>
<b>Total exposure to standby liquidity facilities</b>	<b>10,038</b>	<b>8,988</b>	<b>8,128</b>	<b>(193)</b>	<b>2,156</b>	<b>10,284</b>	<b>9,304</b>

<sup>(1)</sup> Management of underlying exposure i.e. the management of the exposure between Wholesale Banking and Specialised Group Assets.

<sup>(2)</sup> Provisions include both specific and collective provisions. Collective provisions for SGA (\$1.4 million) and Wholesale Banking (\$0.8 million) have been calculated across the portfolio of NAB sponsored and non-NAB sponsored assets. The specific provisions have been allocated against the specific asset classes whilst the collective provisions have been included in the totals.

<sup>(3)</sup> The movement in Drawn and Available from 31 March 2011 to 30 September 2011 is comprised of a reduction for repayments, terminations and restructured facilities of \$1.0 billion and an increase of \$0.2 billion attributable to exchange rate movements. As at 30 September 2011 there were no longer any non-NAB sponsored SPEs within SGA.

<sup>(4)</sup> Other exposures includes trade receivables, other asset backed securities and standby letter of credit.

<sup>(5)</sup> The movement in Drawn and Available from 31 March 2011 to 30 September 2011 is comprised of an overall increase of \$0.2 billion due to new facilities offset by repayments.

Table 3 shows the total drawn and available securitisation funding and standby liquidity facility of the Group to all securitisation SPEs by Geography.

<b>Table 3 Geographic distribution</b> <sup>(1)</sup>	<b>Australia &amp; New Zealand \$m</b>	<b>Europe \$m</b>	<b>North America \$m</b>	<b>Asia &amp; Other \$m</b>	<b>Total drawn &amp; available \$m</b>	<b>Weighted Average Term to Maturity</b> <sup>(2)</sup> yrs
<b>As at 30 September 2011</b>						
SPE purchased ABS CDOs:						
Senior tranche ABS CDO	-	-	223	-	223	26.2
Total SPE purchased ABS CDOs	-	-	223	-	223	26.2
SPE other purchased assets:						
Infrastructure (credit wrapped bonds) <sup>(3)</sup>	150	-	-	-	150	1.1
Leveraged loans (CLOs) <sup>(4)</sup>	-	718	694	-	1,412	4.6
Commercial property (CMBS) <sup>(5)</sup>	-	536	51	-	587	2.1
Corporates (SCDO) <sup>(6)</sup>	48	500	677	65	1,290	4.3
Total SPE other purchased assets	198	1,754	1,422	65	3,439	3.9
NAB client originated assets:						
Auto / Equipment	36	-	-	-	36	1.1
Credit wrapped bonds <sup>(3)</sup>	502	-	-	-	502	8.5
Prime residential mortgages	2,317	-	-	-	2,317	24.6
Non-conforming residential mortgages	211	115	-	-	326	22.7
Sub-prime residential mortgages	-	-	96	-	96	23.9
Subscription loans	-	51	279	104	434	0.4
Commercial Property (CMBS)	33	-	-	-	33	0.2
Credit wrapped ABS <sup>(3)</sup>	-	-	552	18	570	24.2
Other	347	-	36	-	383	3.1
Total NAB client originated assets	3,446	166	963	122	4,697	18.4
<b>Total exposure to standby liquidity facilities</b>	<b>3,644</b>	<b>1,920</b>	<b>2,608</b>	<b>187</b>	<b>8,359</b>	<b>11.9</b>
<b>Managed within:</b>						
Wholesale Banking	2,944	-	-	-	2,944	21.6
Specialised Group Assets	700	1,920	2,608	187	5,415	7.8
<b>Total exposure to standby liquidity facilities</b>	<b>3,644</b>	<b>1,920</b>	<b>2,608</b>	<b>187</b>	<b>8,359</b>	<b>11.9</b>

<b>As at 31 March 2011</b>	<b>Australia &amp; New Zealand \$m</b>	<b>Europe \$m</b>	<b>North America \$m</b>	<b>Asia &amp; Other \$m</b>	<b>Total drawn &amp; available \$m</b>	<b>Weighted Average Term to Maturity</b> yrs
Total SPE purchased ABS CDOs	-	-	215	-	215	26.6
Total SPE other purchased assets	207	1,932	1,461	86	3,686	4.0
Total NAB client originated assets	3,769	236	964	118	5,087	14.7
<b>Total exposure to standby liquidity facilities</b>	<b>3,976</b>	<b>2,168</b>	<b>2,640</b>	<b>204</b>	<b>8,988</b>	<b>10.0</b>

<sup>(1)</sup> Location of underlying exposure i.e. the location of the ultimate borrower/reference entity within the portfolios on a look through basis.

<sup>(2)</sup> Reflects the weighted average contractual maturity of the underlying exposure of the SPE on a look through basis.

<sup>(3)</sup> Credit wrapped bonds and ABS are wrapped by financial guarantee (monoline) insurers.

<sup>(4)</sup> Includes nine transactions, in all but one case with exposure to the most senior class of notes, and initial subordination ranging from 24-36%. Reported defaults to date range from 3-16% with modest realised losses on underlying corporate loan collateral. Excess spread available to cover ongoing losses generally exceeds 1% per annum of the current principal balance of each CLO transaction.

<sup>(5)</sup> Includes four UK transactions backed by Greater London and regional properties, with exposure to the most senior bonds, and ratio of relevant note tranche to property value ranging from 69-96%. In general, the properties securing larger loans are let with quality tenants, have low vacancy rates and good lease profiles. The loan vintages are generally 2006 and 2007.

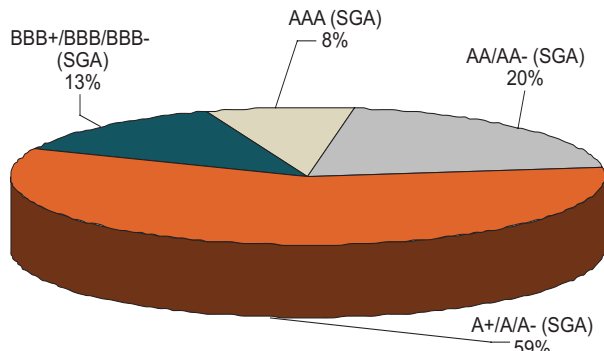
<sup>(6)</sup> The limit, drawn and available, drawn-down amounts and asset value includes exposures which have been subject to recovery under the risk mitigation strategy (refer "Protection purchased to hedge exposure to SPE other purchased assets"). \$528 million in write-offs have been recovered to date under the risk mitigation strategy. During the year Specialised Group Assets removed the economic risk associated with four of the six sold protection SCDO derivative exposures. Represented in the above table are the four underlying asset exposures of \$690 million where the economic risk has been hedged and the two remaining sold protection SCDO derivative exposures of \$600 million in lieu of the underlying asset exposures.

## Further analysis of facilities

### Rating analysis

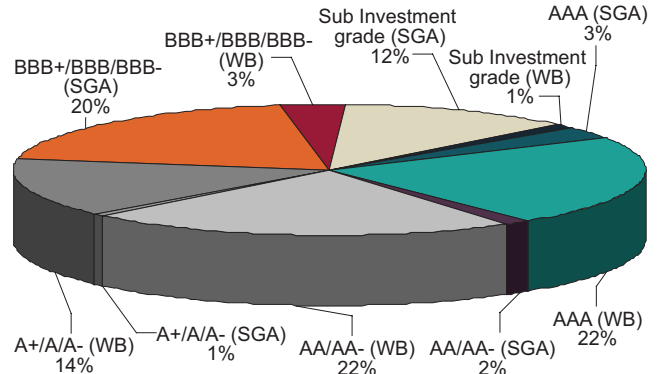
The ABS CDO of \$223 million not written-off is currently rated CC by S&P and Ca by Moody's.

### Current S&P equivalent ratings - \$3.4 billion SPE other purchased assets <sup>(1)</sup>



<sup>(1)</sup> Includes internally rated assets mapped to S&P risk grades, taking into account the risk mitigation strategy on the SCDO's. These exposures only exist within SGA.

### Current S&P equivalent ratings - \$4.7 billion NAB client originated assets split by business <sup>(1) (2)</sup>



<sup>(1)</sup> Includes NAB internally rated assets mapped to S&P risk grades.  
<sup>(2)</sup> The current ratings of credit wrapped bonds are based on the BBB+ ratings of the underlying assets.

### Asset Quality information relevant to specific exposures

Table 4 shows asset quality and past due analysis of underlying collateral of NAB client originated assets.

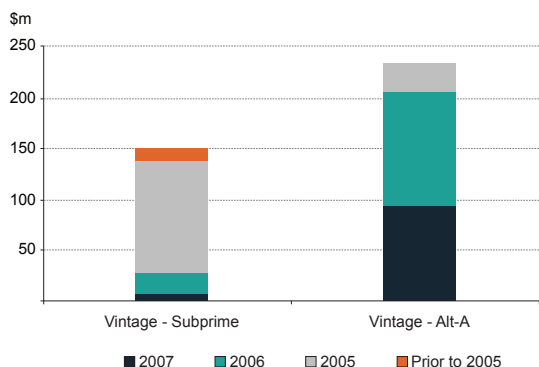
Table 4 As at 30 September 2011	Weighted average current LVR %	Mortgage Insurance coverage %	Days Past Due		
			31-60 %	61-90 %	>90 %
<b>Specialised Group Assets managed:</b>					
Non-conforming residential mortgages <sup>(1)</sup>	82.65%	-	4.49%	2.91%	16.10%
Sub-prime residential mortgages <sup>(1)</sup>	81.33%	52.26%	3.61%	1.41%	6.16%
<b>Wholesale Banking managed:</b>					
Auto / Equipment <sup>(2)</sup>	n/a	n/a	2.37%	1.35%	1.97%
Prime residential mortgages	68.91%	91.29%	0.95%	0.39%	1.85%
Non-conforming residential mortgages	61.57%	1.87%	0.90%	0.47%	1.97%

<sup>(1)</sup> Current mortgage insurance coverage on sub-prime residential mortgages is shown. The >90 days percentage for sub-prime residential mortgages does not include loans in foreclosure or homes foreclosed upon but not liquidated. Total sub-prime foreclosures represent an additional 30.39% of the current principal balance. Foreclosures and repossessed properties for non-conforming residential mortgages represent 1.22% of the current principal balance which together with >90 days represents 17.32% of the current principal balance.

<sup>(2)</sup> All auto/equipment transactions benefit from various types of credit enhancements including subordination and excess spread.



Vintage of sub-prime and Alt-A exposures <sup>(1) (2)</sup>



<sup>(1)</sup> US sub-prime exposure of the Group was \$147 million as at 30 September 2011. This amount represents \$14 million included in ABS CDOs not written off, \$96 million of sub-prime residential mortgage backed securities and \$37 million as part of credit wrapped ABS in the NAB client originated assets. These exposures only exist within SGA.

<sup>(2)</sup> US Alt-A exposure of the Group was \$238 million as at 30 September 2011. This amount represents \$107 million included in ABS CDOs not written off, and \$131 million as part of credit wrapped ABS in the NAB client originated assets. These exposures only exist within SGA.

Securitisation SPE credit exposure to the financial guarantor sector (monoline insurers)

Table 5 summarises the indirect exposures to third party transactions supported by monoline financial guarantees. In the event of monoline failure, the benefit of the financial guarantee falls away resulting in exposure to the underlying asset.

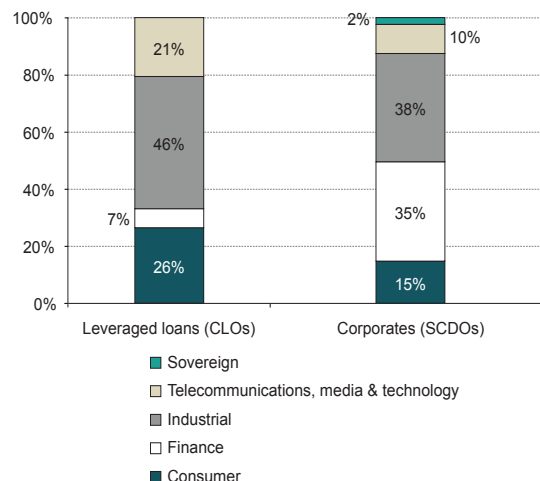
	Exposures to monoline insurers	
	Sep 11 \$m	Mar 11 \$m
<b>Specialised Group Assets managed:</b>		
Infrastructure (credit wrapped bonds) <sup>(1)</sup>	150	260
Credit wrapped bonds <sup>(1)</sup>	564	750
Credit wrapped ABS <sup>(2)</sup>	570	566
Other	36	34
<b>Total Specialised Group Assets <sup>(3)</sup></b>	<b>1,320</b>	<b>1,610</b>

<sup>(1)</sup> These bonds include those issued by well known essential infrastructure and energy borrowers and are themselves high quality investment grade assets.

<sup>(2)</sup> Monoline-wrapped portfolio of ABS contains certain underlying assets which have also been individually monoline-wrapped.

<sup>(3)</sup> There are no Wholesale Banking exposures which rely on monoline insurers.

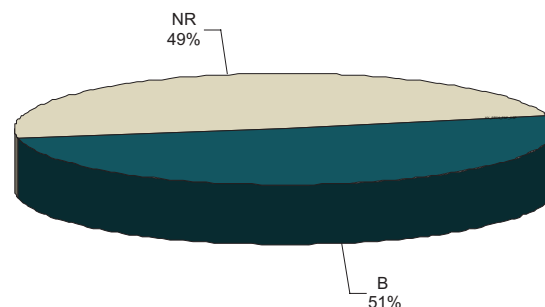
Industry splits - SPE other purchased assets <sup>(1) (2)</sup>



<sup>(1)</sup> Leverage loans (CLOs) total \$1.4 billion.

<sup>(2)</sup> Corporates (SCDOs) total \$1.3 billion.

Current S&P rating of monolines <sup>(1)</sup>



<sup>(1)</sup> The unrated (NR) monoline insurer provides a guarantee on the credit wrapped bonds. The ratings of the underlying assets are rated between B and BBB+.

Protection purchased to hedge exposure to SPE other purchased assets

In September 2008 the Group completed a risk mitigation strategy in relation to its exposure to Corporates (SCDO) within its securitisation SPE portfolio. As a result, long-dated hedges were entered into with a large, highly reputable, global bank counterparty which strengthened the Group's position and substantially reduced the likelihood of loss arising from the SCDOs. Subordination was improved as a result of risk mitigation activities, and the portfolio is managed to maintain the credit quality of the tranche.

To date the Group has recovered losses of \$528 million relating to write downs of the underlying notes as a result of credit events within the portfolio. Consistent with the Group's expectation and the above risk mitigation strategy the Group has recovered all of its losses on the original investment associated with this write down. The recovery under the hedging strategy was recognised within other income in the Income Statement for the year ended 30 September 2010.

The exposure is being managed by a dedicated specialised team together with input from an external portfolio manager. The SCDOs are currently rated between A+ and BBB-. During 2009 a management overlay of \$160 million was taken in respect of conduit related assets and derivative transactions to reflect the uncertainty created by the deteriorating economic conditions and any potential default. This management overlay remains on the Group's balance sheet.

During the year Specialised Group Assets removed the economic risk associated with four of the six sold protection SCDO derivative exposures.

### Other exposures

In addition to securitisation funding facilities and standby liquidity facilities discussed above, there are securitisation SPE exposures arising from warehouse facilities (refer Table 6), asset liquidity facilities (\$699 million), credit enhancements (\$247 million), investments in securitisation debt securities (\$3,573 million), derivatives (\$133 million) and redraw facilities (\$17 million).

Derivative transactions include interest rate and currency derivatives provided to securitisation SPEs.

Warehouse facilities are funding facilities provided to SPEs holding client assets until such time as the facility is refinanced by ABCP conduits or the term securitisation market. Typically these facilities are reviewed annually. These facilities are in addition to securitisation funding facilities and standby liquidity facilities.

Table 6 shows the limit and drawn amount under the facility. The undrawn limit is available to fund additional assets.

<b>Table 6</b>	<b>Limit</b>	<b>Drawn-down</b>
<b>As at 30 September 2011</b>	<b>\$m</b>	<b>\$m</b>
<b>Wholesale Banking managed:</b>		
Prime residential mortgages	2,566	1,897
Non-conforming residential mortgages	3,003	2,609
Other	150	150
Total warehouse facilities - Wholesale Banking <sup>(2)</sup>	5,719	4,656
<b>Total warehouse facilities <sup>(1)</sup></b>	<b>5,719</b>	<b>4,656</b>

	<b>Limit</b>	<b>Drawn-down</b>
<b>As at 31 March 2011</b>	<b>\$m</b>	<b>\$m</b>
Total warehouse facilities - Specialised Group Assets	273	273
Total warehouse facilities - Wholesale Banking	4,092	3,492
<b>Total warehouse facilities</b>	<b>4,365</b>	<b>3,765</b>

<sup>(1)</sup> The remaining non-conforming residential mortgage warehouse facility in Specialised Group Assets was repaid during the year.

<sup>(2)</sup> Of the drawn-down amount \$1.2 billion (March 2011 \$1.6 billion) is via consolidated NAB-sponsored SPEs resulting in the recognition of the underlying assets on the balance sheet.

Table 7 shows the available asset quality and past due analysis of underlying collateral of warehouse facilities.

<b>Table 7</b>	<b>Weighted average current LVR</b>	<b>Mortgage Insurance coverage</b>	<b>Days Past Due</b>		
			<b>31-60</b>	<b>61-90</b>	<b>&gt; 90</b>
<b>As at 30 September 2011</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Wholesale Banking managed:					
Prime residential mortgages <sup>(1)</sup>	67.67%	94.35%	0.46%	0.40%	0.67%
Non-conforming residential mortgages	74.47%	59.87%	2.82%	1.39%	5.00%

<sup>(1)</sup> Includes the most senior position in a transaction, structured to invest in fully insured non-performing prime mortgages.

**Risk Weights for Securitisation Exposure**

Table 8 shows the risk weights for securitisation exposures as calculated under the Australian Prudential Standard for Securitisation (APS 120), predominantly using the Standardised Approach and includes SPE exposures (Table 1), warehouse facilities (Table 6) and other securitisation SPE exposures disclosed in the "Other Exposures" section above. The table separates the risk weights between SGA and Wholesale Banking.

Table 8	Sep 11		Mar 11	
	Exposure <sup>(1)</sup> \$m	RWA \$m	Exposure <sup>(1)</sup> \$m	RWA \$m
Specialised Group Assets managed:				
> 10% ≤ 25%	895	167	1,353	257
> 25% ≤ 35%	130	46	196	69
> 35% ≤ 50%	901	452	960	480
> 50% ≤ 75%	196	139	189	134
> 75% ≤ 100%	1,531	1,531	1,722	1,722
>100% ≤ 650%	1,170	5,206	2,018	6,398
Deductions	116	-	112	-
Total Specialised Group Assets	4,939	7,541	6,550	9,060
Wholesale Banking managed:				
≤ 10%	8,027	563	7,149	514
> 10% ≤ 25%	4,906	695	2,852	383
> 25% ≤ 35%	42	13	40	13
> 35% ≤ 50%	14	7	12	6
> 50% ≤ 75%	215	159	160	116
> 75% ≤ 100%	16	16	47	47
>100% ≤ 650%	20	55	23	70
Deductions	24	-	92	-
Total Wholesale Banking <sup>(2)</sup>	13,264	1,508	10,375	1,149
<b>Total securitisation exposure</b>	<b>18,203</b>	<b>9,049</b>	<b>16,925</b>	<b>10,209</b>

<sup>(1)</sup> Refer to Table 9 for further details on how the exposures relate to the other relevant tables within this Disclosure on Special Purpose Entities.

<sup>(2)</sup> Wholesale Banking includes BNZ exposures of \$74 million (March 2011 \$48 million). The risk weighted assets for these exposures are \$25 million (March 2011 \$28 million).

**Securitisation Exposures**

Table 9 shows how the various securitisation exposures as disclosed within this Disclosure on Special Purpose Entities reconcile to the above securitisation exposure as calculated under APS 120.

Table 9	Sep 11 \$m	Mar 11 \$m
Total group facilities (Table 1)	9,872	10,038
Total warehouse facilities (Table 6)	5,719	4,365
Total other exposures <sup>(1)</sup>	4,669	3,644
<b>Less:</b>		
Other banking book exposures <sup>(2)</sup>	(1,256)	(1,016)
Specific provisions (Table 1) <sup>(3)</sup>	(111)	(106)
SCDO notes protected by hedging <sup>(4)</sup>	(690)	-
Total securitisation exposures (APS 120)	18,203	16,925
Other derivatives and securities <sup>(5)</sup>	34	16
<b>Total securitisation exposures</b>	<b>18,237</b>	<b>16,941</b>

<sup>(1)</sup> The other exposures includes asset liquidity facilities \$699 million (March 2011 \$544 million), redraw facilities \$17 million (March 2011 \$17 million), derivative transactions \$133 million (March 2011 \$185 million), credit enhancements \$247 million (March 2011 \$59 million) and investment in securitisation debt securities \$3,573 million (March 2011 \$2,829 million). The increase reflects additional assets in Wholesale Banking.

<sup>(2)</sup> The banking book exposures relate to those exposures which are treated as mortgages from a prudential standard perspective and therefore excluded from the securitisation exposures under APS 120.

<sup>(3)</sup> The specific provisions relate to the ABS CDO and Auto/Equipment asset classes as disclosed in Table 1. The specific provisions on credit wrapped ABS has been excluded following amendments to the capital treatment. Except for credit wrapped ABS, securitisation exposures are disclosed net of these provisions in the above table.

<sup>(4)</sup> During the year Specialised Group Assets removed the economic risk associated with four of the six sold protection SCDO derivative exposures. This represents the four underlying asset exposures of \$690 million where the economic risk has been hedged.

<sup>(5)</sup> Includes exposure to securitisation SPEs which are not subject to APS120 but rather APS113 and APS116 for the purposes of calculating the associated risk weighted assets. These exposures are required to be disclosed under APS330 and therefore included in the Risk and Capital Report.

**Roles in securitisation**

The Group may undertake any of the following roles in its third party asset securitisation activities:

- Arranger (the structurer of securitisation transactions).
- Sponsor (the entity that established the securitisation SPEs and often provides other services. NAB sponsored SPEs are established under Titan Securitisation, TSL (USA) Inc, Quasar Securitisation, CentreStar and MiraStar Securitisation legal structures).
- Manager (operator of securitisation SPEs including managing assets and liabilities and providing accounting and administrative services).
- Securitisation funding facility provider (a lender to securitisation SPEs where tenor of the funding extends beyond one year and may match the expected redemption date of the underlying security held by the SPE).
- Standby liquidity provider (a provider of liquidity available to repay ABCP if unable to reissue).
- Asset liquidity provider (a provider of liquidity to cover mismatches in cashflow for securitisation structures).
- Warehouse facility provider (a lender to securitisation SPEs pending refinance via issuance of securities).
- Derivative provider.
- Investor in securities issued.
- Letter of credit provider (a provider of credit enhancement to securitisation structures).
- Dealer (a buyer and seller in the primary and secondary markets of securities).

### Accounting Treatment

In general, facilities provided to securitisations are treated the same way as facilities to any other borrower or counterparty.

Interest and line fees received are treated as revenue in the period in which they are accrued. Arrangement fees are treated as revenue and recognised as revenue over the life of the securitisation transaction.

Most of these facilities fund NAB sponsored securitisation SPEs which are consolidated by the Group. On consolidation the facilities are eliminated and the underlying liabilities and assets, including held to maturity investments, in the SPEs are brought onto the Group's balance sheet. Held to maturity investments are accounted for at amortised cost, net of any provision for impairment.

Derivatives such as interest rate swaps, basis swaps or cross-currency swaps have the same accounting treatment as non-securitisation derivatives.

### (c) Funding program SPEs

The Group has established programs to raise funding from the issue of equity instruments.

Material funding programs of the Group that use SPEs are as follows:

	Sep 11 \$m	Mar 11 \$m
Trust Preferred Securities	975	975
Trust Preferred Securities II	1,014	1,014
National Capital Instruments	397	397
BNZ Income Securities	380	380
BNZ Income Securities 2	203	203

The SPEs used in the above funding programs are controlled by the Group under IFRS and are recorded on balance sheet as equity items of the Group.

Other funding programs of the Group do not use SPEs and are recorded in the books of the Company. Further details on funding programs can be found at [www.nabgroup.com](http://www.nabgroup.com).

### (d) Other SPEs

The Group is involved in transactions that involve the use of SPEs. All of these SPEs are recorded on the balance sheet.

	Sep 11 \$m	Mar 11 \$m
<b>Table 11</b>		
Consolidated SPEs		
<b>Group exposure excluding SGA</b>		
Investments in debt securities	684	709
Investments in property trusts	128	157
Funding transactions	(1,914)	(1,870)
Lease finance	66	70
<b>SGA Exposure</b>		
Lease finance	831	827

The Group invests in debt instruments through various SPEs, mainly in the form of bonds, certificates of deposits and loans. The assets within the portfolio are subject to the Group's normal credit approval, hedging and review processes.

The Group also utilises SPEs to invest in a range of property and other equity related investments as well as a means to access alternate sources of funding.

Lease financing involves extending finance to clients in order to meet their particular asset financing requirements mainly in the mining, mobile infrastructure and transport industries.

## 2. Net Interest Margins and Spreads

Group	Year to			Half Year to		
	Sep 11 %	Sep 10 %	Sep 11 v Sep 10	Sep 11 %	Mar 11 %	Sep 11 v Mar 11
Net interest spread <sup>(1)</sup>	1.80	1.93	(13 bps)	1.82	1.79	3 bps
Benefit of net free liabilities, provisions and equity	0.44	0.31	13 bps	0.45	0.43	2 bps
Net interest margin - statutory basis <sup>(2)</sup>	2.24	2.24	-	2.27	2.22	5 bps

<sup>(1)</sup> Net interest spread represents the difference between the average interest rate earned and the average interest rate incurred on funds.

<sup>(2)</sup> Net interest margin is net interest income as a percentage of average interest earning assets.

Average interest earning assets	Year to				Movement in mix % of Group AIEA
	Sep 11		Sep 10		
	\$bn	Mix %	\$bn	Mix %	
Business Banking	192.3	33.1	186.1	34.0	(0.9)
Personal Banking	129.0	22.2	108.5	19.8	2.4
Wholesale Banking	164.4	28.3	144.8	26.5	1.8
NZ Banking	44.1	7.6	45.3	8.3	(0.7)
UK Banking	65.3	11.2	71.2	13.0	(1.8)
Great Western Bank	6.8	1.2	6.1	1.1	0.1
Specialised Group Assets	10.8	1.9	15.6	2.9	(1.0)
Other <sup>(1)</sup>	(32.1)	(5.5)	(31.0)	(5.6)	0.1
<b>Group</b>	<b>580.6</b>	<b>100.0</b>	<b>546.6</b>	<b>100.0</b>	<b>-</b>

Net interest income and margins	Year to				NIM Change
	Sep 11		Sep 10		
	\$m	NIM %	\$m	NIM %	
Business Banking	5,033	2.62	4,664	2.51	11 bps
Personal Banking	2,826	2.19	2,501	2.31	(12 bps)
Wholesale Banking	1,230	0.75	1,189	0.82	(7 bps)
NZ Banking	1,015	2.30	978	2.16	14 bps
UK Banking	1,522	2.33	1,665	2.34	(1 bps)
Great Western Bank	285	4.19	245	4.02	17 bps
Specialised Group Assets	123	1.14	178	1.14	-
Other <sup>(1)</sup>	1,058	n/a	868	n/a	n/a
<b>Group - cash earnings basis</b>	<b>13,092</b>	<b>2.25</b>	<b>12,288</b>	<b>2.25</b>	<b>-</b>
MLC net interest income	(58)	(0.01)	(32)	(0.01)	-
<b>Group - statutory basis</b>	<b>13,034</b>	<b>2.24</b>	<b>12,256</b>	<b>2.24</b>	<b>-</b>

## Year ended September 2011 v Year ended September 2010

Contribution to Group Margin	Impact of		Impact on Group NIM
	Change in NIM <sup>(2)</sup>	Change in Mix <sup>(3)</sup>	
Business Banking	4 bps	-	4 bps
Personal Banking	(2 bps)	(1 bps)	(3 bps)
Wholesale Banking	(2 bps)	(3 bps)	(5 bps)
NZ Banking	1 bps	-	1 bps
UK Banking	-	-	-
Great Western Bank	-	-	-
Specialised Group Assets	-	1 bps	1 bps
Other <sup>(1)</sup>	3 bps	(1 bps)	2 bps
<b>Group - cash earnings basis</b>	<b>4 bps</b>	<b>(4 bps)</b>	<b>-</b>
MLC net interest income	-	-	-
<b>Group - statutory basis</b>	<b>4 bps</b>	<b>(4 bps)</b>	<b>-</b>

<sup>(1)</sup> Includes MLC & NAB Wealth, Group Funding, other supporting units and eliminations.

<sup>(2)</sup> The increase/(decrease) in net interest margin assuming no change in mix of average interest earning assets (AIEA).

<sup>(3)</sup> The increase/(decrease) in net interest margin caused by changes in divisional mix of AIEA.

Average interest earning assets	Half Year to				Movement in mix % of Group AIEA
	Sep 11		Mar 11		
	\$bn	Mix %	\$bn	Mix %	
Business Banking	194.0	32.6	190.6	33.6	(1.0)
Personal Banking	134.2	22.6	123.8	21.8	0.8
Wholesale Banking	175.3	29.5	153.5	27.1	2.4
NZ Banking	44.8	7.5	43.5	7.7	(0.2)
UK Banking	64.4	10.8	66.2	11.7	(0.9)
Great Western Bank	6.6	1.1	7.1	1.3	(0.2)
Specialised Group Assets	9.8	1.6	11.8	2.1	(0.5)
Other <sup>(1)</sup>	(34.5)	(5.7)	(29.9)	(5.3)	(0.4)
<b>Group</b>	<b>594.6</b>	<b>100.0</b>	<b>566.6</b>	<b>100.0</b>	<b>-</b>

Net interest income and margins	Half Year to				NIM Change
	Sep 11		Mar 11		
	\$m	NIM %	\$m	NIM %	
Business Banking	2,587	2.66	2,446	2.57	9 bps
Personal Banking	1,458	2.17	1,368	2.22	(5 bps)
Wholesale Banking	708	0.81	522	0.68	13 bps
NZ Banking	528	2.35	487	2.24	11 bps
UK Banking	754	2.33	768	2.33	-
Great Western Bank	130	3.99	155	4.38	(39 bps)
Specialised Group Assets	58	1.18	65	1.10	8 bps
Other <sup>(1)</sup>	565	n/a	493	n/a	n/a
<b>Group - cash earnings basis</b>	<b>6,788</b>	<b>2.28</b>	<b>6,304</b>	<b>2.23</b>	<b>5 bps</b>
MLC net interest income	(33)	(0.01)	(25)	(0.01)	-
<b>Group - statutory basis</b>	<b>6,755</b>	<b>2.27</b>	<b>6,279</b>	<b>2.22</b>	<b>5 bps</b>

### Half year ended September 2011 v Half year ended March 2011

Contribution to Group Margin	Impact of		Impact on Group NIM
	Change in NIM <sup>(2)</sup>	Change in Mix <sup>(3)</sup>	
Business Banking	3 bps	-	3 bps
Personal Banking	(1 bps)	-	(1 bps)
Wholesale Banking	3 bps	(3 bps)	-
NZ Banking	1 bps	-	1 bps
UK Banking	-	-	-
Great Western Bank	(1 bps)	-	(1 bps)
Specialised Group Assets	-	1 bps	1 bps
Other <sup>(1)</sup>	-	2 bps	2 bps
<b>Group - cash earnings basis</b>	<b>5 bps</b>	<b>-</b>	<b>5 bps</b>
MLC net interest income	-	-	-
<b>Group - statutory basis</b>	<b>5 bps</b>	<b>-</b>	<b>5 bps</b>

<sup>(1)</sup> Includes MLC & NAB Wealth, Group Funding, other supporting units and eliminations.

<sup>(2)</sup> The increase/(decrease) in net interest margin assuming no change in mix of average interest earning assets (AIEA).

<sup>(3)</sup> The increase/(decrease) in net interest margin caused by changes in divisional mix of AIEA.

## 3. Loans and Advances by Industry and Geography

<b>As at 30 September 2011 <sup>(1)</sup></b>	<b>Australia \$m</b>	<b>Europe \$m</b>	<b>New Zealand \$m</b>	<b>United States \$m</b>	<b>Asia \$m</b>	<b>Total \$m</b>
Government and public authorities	1,589	53	288	72	-	2,002
Agriculture, forestry, fishing and mining	16,811	3,043	8,220	1,040	30	29,144
Financial, investment and insurance	11,768	3,925	579	1,177	88	17,537
Real estate - construction	1,729	7,428	450	179	-	9,786
Manufacturing	8,040	1,980	1,576	426	470	12,492
Instalment loans to individuals and other personal lending (including credit cards)	9,547	4,073	2,063	-	5	15,688
Real estate - mortgage	207,272	22,306	21,535	615	1,336	253,064
Asset and lease financing	12,877	2,407	16	-	7	15,307
Commercial property services	48,445	5,187	5,373	24	290	59,319
Other commercial and industrial	47,916	10,765	4,625	3,121	1,359	67,786
<b>Gross loans and advances including acceptances <sup>(2)</sup></b>	<b>365,994</b>	<b>61,167</b>	<b>44,725</b>	<b>6,654</b>	<b>3,585</b>	<b>482,125</b>
Deduct:						
Unearned income and deferred net fee income	(1,826)	(394)	(31)	(14)	(22)	(2,287)
Provisions for doubtful debts	(2,680)	(910)	(296)	(82)	(12)	(3,980)
<b>Total net loans and advances including acceptances</b>	<b>361,488</b>	<b>59,863</b>	<b>44,398</b>	<b>6,558</b>	<b>3,551</b>	<b>475,858</b>

<b>As at 31 March 2011</b>	<b>Australia \$m</b>	<b>Europe <sup>(3)</sup> \$m</b>	<b>New Zealand \$m</b>	<b>United States \$m</b>	<b>Asia \$m</b>	<b>Total \$m</b>
Government and public authorities	1,489	61	366	126	9	2,051
Agriculture, forestry, fishing and mining	14,851	2,781	7,276	919	19	25,846
Financial, investment and insurance	10,338	3,458	570	790	70	15,226
Real estate - construction	2,163	7,560	434	512	-	10,669
Manufacturing	7,705	1,810	1,659	22	88	11,284
Instalment loans to individuals and other personal lending (including credit cards)	9,542	4,072	1,936	127	5	15,682
Real estate - mortgage	195,319	20,464	19,783	586	1,160	237,312
Asset and lease financing	13,027	2,479	16	-	8	15,530
Commercial property services	45,050	5,322	5,098	36	152	55,658
Other commercial and industrial	50,945	10,508	4,197	2,913	1,425	69,988
<b>Gross loans and advances including acceptances <sup>(2)</sup></b>	<b>350,429</b>	<b>58,515</b>	<b>41,335</b>	<b>6,031</b>	<b>2,936</b>	<b>459,246</b>
Deduct:						
Unearned income and deferred net fee income	(1,750)	(481)	(30)	(11)	(14)	(2,286)
Provisions for doubtful debts	(2,835)	(872)	(290)	(73)	(10)	(4,080)
<b>Total net loans and advances including acceptances</b>	<b>345,844</b>	<b>57,162</b>	<b>41,015</b>	<b>5,947</b>	<b>2,912</b>	<b>452,880</b>

<b>As at 30 September 2010</b>	<b>Australia \$m</b>	<b>Europe \$m</b>	<b>New Zealand \$m</b>	<b>United States \$m</b>	<b>Asia \$m</b>	<b>Total \$m</b>
Government and public authorities	1,473	60	429	133	7	2,102
Agriculture, forestry, fishing and mining	15,898	2,987	7,426	1,045	20	27,376
Financial, investment and insurance	10,208	2,809	871	1,141	36	15,065
Real estate - construction	1,990	1,519	426	660	-	4,595
Manufacturing	7,364	2,086	1,615	40	69	11,174
Instalment loans to individuals and other personal lending (including credit cards)	9,204	4,498	1,708	160	7	15,577
Real estate - mortgage	181,997	20,941	20,101	772	1,089	224,900
Asset and lease financing	13,415	2,667	18	-	9	16,109
Commercial property services	47,255	13,099	5,253	26	227	65,860
Other commercial and industrial	45,824	11,371	4,282	2,959	787	65,223
<b>Gross loans and advances including acceptances</b> <sup>(2)</sup>	334,628	62,037	42,129	6,936	2,251	447,981
Deduct:						
Unearned income and deferred net fee income	(1,898)	(539)	(34)	(14)	(9)	(2,494)
Provisions for doubtful debts	(2,984)	(937)	(267)	(75)	(11)	(4,274)
<b>Total net loans and advances including acceptances</b>	329,746	60,561	41,828	6,847	2,231	441,213

<sup>(1)</sup> For the half year ended 30 September 2011, certain reclassifications have occurred to better align underlying loan balances with regulatory classifications.

<sup>(2)</sup> Includes loans at fair value.

<sup>(3)</sup> For the half year ended 31 March 2011, \$5,610 million has been reclassified from Commercial Property Services to Real Estate - Construction and \$935 million has been reclassified from Commercial Property Services to Financial, Investment and Insurance, due to changes to the Standard Industrial Classification of Economic Activities (SIC) 2007 codes issued by the UK Office for National Statistics.



#### 4. 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 incurred by the Group. Averages are predominantly daily averages. Amounts classified as Other International represent interest earning assets and interest bearing liabilities of the controlled entities and overseas branches domiciled in New Zealand, United States and Asia. Impaired assets are included within loans and advances in interest earning assets.

##### Average assets and interest income

	Year ended Sep 11			Year ended Sep 10		
	Average balance \$m	Interest \$m	Average rate %	Average balance \$m	Interest \$m	Average rate %
<b>Average interest earning assets</b>						
Due from other banks						
Australia	15,248	597	3.9	14,057	510	3.6
Europe	24,851	113	0.5	22,260	110	0.5
Other International	5,209	68	1.3	3,851	54	1.4
Marketable debt securities						
Australia	28,503	1,502	5.3	24,197	973	4.0
Europe	15,963	215	1.3	13,756	144	1.0
Other International	15,040	249	1.7	10,174	218	2.1
Loans and advances - housing						
Australia	194,745	13,041	6.7	169,455	10,428	6.2
Europe	20,753	691	3.3	21,682	735	3.4
Other International	22,357	1,330	5.9	21,932	1,377	6.3
Loans and advances - non-housing						
Australia	107,487	8,448	7.9	96,214	7,197	7.5
Europe	38,147	1,651	4.3	44,860	1,827	4.1
Other International	29,625	1,728	5.8	31,176	1,576	5.1
Acceptances						
Australia	46,393	3,609	7.8	52,948	3,919	7.4
Europe	13	-	-	9	-	-
Other interest earning assets						
Australia	3,352	863	n/a	3,260	520	n/a
Europe	8,482	76	n/a	13,975	187	n/a
Other International	4,471	89	n/a	2,778	49	n/a
<b>Total average interest earning assets and interest revenue by:</b>						
<b>Australia</b>	<b>395,728</b>	<b>28,060</b>	<b>7.1</b>	<b>360,131</b>	<b>23,547</b>	<b>6.5</b>
<b>Europe</b>	<b>108,209</b>	<b>2,746</b>	<b>2.5</b>	<b>116,542</b>	<b>3,003</b>	<b>2.6</b>
<b>Other International</b>	<b>76,702</b>	<b>3,464</b>	<b>4.5</b>	<b>69,911</b>	<b>3,274</b>	<b>4.7</b>
<b>Total average interest earning assets and interest revenue</b>	<b>580,639</b>	<b>34,270</b>	<b>5.9</b>	<b>546,584</b>	<b>29,824</b>	<b>5.5</b>
<b>Average non-interest earning assets</b>						
Investments relating to life insurance business <sup>(1)</sup>						
Australia	65,787			60,304		
Other International	44			42		
Other assets	58,363			63,626		
<b>Total average non-interest earning assets</b>	<b>124,194</b>			<b>123,972</b>		
Provision for doubtful debts						
Australia	(2,983)			(3,142)		
Europe	(785)			(991)		
Other International	(375)			(361)		
<b>Total average assets</b>	<b>700,690</b>			<b>666,062</b>		
Percentage of total average interest earning assets applicable to international operations	31.8%			34.1%		

<sup>(1)</sup> 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 (Cth).

## Average liabilities and interest expense

	Year ended Sep 11			Year ended Sep 10		
	Average balance \$m	Interest \$m	Average rate %	Average balance \$m	Interest \$m	Average rate %
<b>Average interest bearing liabilities</b>						
Due to other banks						
Australia	21,203	965	4.6	17,452	688	3.9
Europe	12,783	34	0.3	15,861	27	0.2
Other International	4,321	97	2.2	5,154	80	1.6
On-demand and short-term deposits						
Australia	95,154	3,726	3.9	87,052	2,775	3.2
Europe	27,448	154	0.6	29,884	147	0.5
Other International	15,918	193	1.2	13,496	178	1.3
Certificates of deposit						
Australia	19,657	966	4.9	24,810	1,046	4.2
Europe	30,300	130	0.4	33,759	145	0.4
Other International	14,918	96	0.6	7,393	94	1.3
Term deposits						
Australia	93,004	5,438	5.8	80,960	4,147	5.1
Europe	16,490	317	1.9	18,190	394	2.2
Other International	29,466	919	3.1	27,895	851	3.1
Other borrowings						
Australia	5,143	207	4.0	8,199	318	3.9
Europe	801	2	0.2	144	1	0.7
Other International	13,386	37	0.3	13,409	53	0.4
Liability on acceptances						
Australia	11,695	906	7.7	15,413	1,122	7.3
Europe	13	-	-	9	-	-
Bonds, notes and subordinated debt						
Australia	88,449	6,182	7.0	80,266	4,570	5.7
Europe	6,311	99	1.6	8,217	111	1.4
Other International	8,654	338	3.9	7,200	255	3.5
Other interest bearing liabilities						
Australia	566	15	n/a	228	23	n/a
Europe	33	5	n/a	39	93	n/a
Other International	2,420	410	n/a	2,460	450	n/a
<b>Total average interest bearing liabilities and interest expense by:</b>						
<b>Australia</b>	<b>334,871</b>	<b>18,405</b>	<b>5.5</b>	<b>314,380</b>	<b>14,689</b>	<b>4.7</b>
<b>Europe</b>	<b>94,179</b>	<b>741</b>	<b>0.8</b>	<b>106,103</b>	<b>918</b>	<b>0.9</b>
<b>Other International</b>	<b>89,083</b>	<b>2,090</b>	<b>2.3</b>	<b>77,007</b>	<b>1,961</b>	<b>2.5</b>
<b>Total average interest bearing liabilities and interest expense</b>	<b>518,133</b>	<b>21,236</b>	<b>4.1</b>	<b>497,490</b>	<b>17,568</b>	<b>3.5</b>

## Average liabilities

	Year ended	
	Sep 11 \$m	Sep 10 \$m
<b>Average non-interest bearing liabilities</b>		
Deposits not bearing interest		
Australia	14,984	11,909
Europe	2,054	1,889
Other International	2,200	1,452
Life insurance policy liabilities		
Australia	55,481	51,702
Other International	1	-
Other liabilities	68,003	63,063
<b>Total average non-interest bearing liabilities</b>	<b>142,723</b>	<b>130,015</b>
<b>Total average liabilities</b>	<b>660,856</b>	<b>627,505</b>
<b>Average equity</b>		
Ordinary shares	19,508	17,831
Trust Preferred Securities	975	975
Trust Preferred Securities II	1,014	1,014
National Income Securities	1,945	1,945
National Capital Instruments	397	397
BNZ Income Securities	380	380
BNZ Income Securities 2	203	203
Contributed equity	24,422	22,745
Reserves	(1,135)	(143)
Retained profits	16,531	15,940
Parent entity interest	39,818	38,542
Non-controlling interest in controlled entities	16	15
<b>Total average equity</b>	<b>39,834</b>	<b>38,557</b>
<b>Total average liabilities and equity</b>	<b>700,690</b>	<b>666,062</b>
Percentage of total average interest bearing liabilities applicable to international operations	35.4%	36.8%

## Average assets and interest income

	Half Year ended Sep 11			Half Year ended Mar 11		
	Average balance \$m	Interest \$m	Average rate %	Average balance \$m	Interest \$m	Average rate %
<b>Average interest earning assets</b>						
Due from other banks						
Australia	16,935	337	4.0	13,552	260	3.8
Europe	25,562	55	0.4	24,137	58	0.5
Other International	5,926	34	1.1	4,488	34	1.5
Marketable debt securities						
Australia	30,192	810	5.4	26,805	692	5.2
Europe	16,863	121	1.4	15,058	94	1.3
Other International	15,521	125	1.6	14,557	124	1.7
Loans and advances - housing						
Australia	201,168	6,755	6.7	188,286	6,286	6.7
Europe	20,849	347	3.3	20,656	344	3.3
Other International	22,733	658	5.8	21,979	672	6.1
Loans and advances - non-housing						
Australia	110,467	4,333	7.8	104,626	4,115	7.9
Europe	37,598	818	4.3	38,699	833	4.3
Other International	29,966	858	5.7	29,281	870	6.0
Acceptances						
Australia	44,762	1,764	7.9	48,032	1,845	7.7
Europe	12	-	-	14	-	-
Other interest earning assets						
Australia	3,833	456	n/a	2,733	407	n/a
Europe	7,250	38	n/a	9,722	38	n/a
Other International	4,941	60	n/a	3,999	29	n/a
<b>Total average interest earning assets and interest revenue by:</b>						
<b>Australia</b>	<b>407,357</b>	<b>14,455</b>	<b>7.1</b>	<b>384,034</b>	<b>13,605</b>	<b>7.1</b>
<b>Europe</b>	<b>108,134</b>	<b>1,379</b>	<b>2.5</b>	<b>108,286</b>	<b>1,367</b>	<b>2.5</b>
<b>Other International</b>	<b>79,087</b>	<b>1,735</b>	<b>4.4</b>	<b>74,304</b>	<b>1,729</b>	<b>4.7</b>
<b>Total average interest earning assets and interest revenue</b>	<b>594,578</b>	<b>17,569</b>	<b>5.9</b>	<b>566,624</b>	<b>16,701</b>	<b>5.9</b>
<b>Average non-interest earning assets</b>						
Investments relating to life insurance business <sup>(1)</sup>						
Australia	65,808			65,767		
Other International	47			40		
Other assets	59,314			57,405		
<b>Total average non-interest earning assets</b>	<b>125,169</b>			<b>123,212</b>		
Provision for doubtful debts						
Australia	(2,961)			(3,006)		
Europe	(705)			(866)		
Other International	(384)			(366)		
<b>Total average assets</b>	<b>715,697</b>			<b>685,598</b>		
Percentage of total average interest earning assets applicable to international operations						
	31.5%			32.2%		

<sup>(1)</sup> 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 (Cth).

## Average liabilities and interest expense

	Half Year ended Sep 11			Half Year ended Mar 11		
	Average balance \$m	Interest \$m	Average rate %	Average balance \$m	Interest \$m	Average rate %
<b>Average interest bearing liabilities</b>						
Due to other banks						
Australia	21,650	524	4.8	20,753	441	4.3
Europe	14,111	22	0.3	11,448	12	0.2
Other International	4,732	53	2.2	3,908	44	2.3
On-demand and short-term deposits						
Australia	96,932	1,916	3.9	93,366	1,810	3.9
Europe	26,821	76	0.6	28,079	78	0.6
Other International	17,623	95	1.1	14,203	98	1.4
Certificates of deposit						
Australia	20,922	518	4.9	18,386	448	4.9
Europe	31,366	69	0.4	29,228	61	0.4
Other International	16,617	50	0.6	13,209	46	0.7
Term deposits						
Australia	94,268	2,781	5.9	91,734	2,657	5.8
Europe	15,880	155	1.9	17,104	162	1.9
Other International	29,956	452	3.0	28,974	467	3.2
Other borrowings						
Australia	4,865	70	2.9	5,423	137	5.1
Europe	1,345	1	0.1	254	1	0.8
Other International	14,592	20	0.3	12,174	17	0.3
Liability on acceptances						
Australia	10,700	421	7.8	12,696	485	7.7
Europe	12	-	-	14	-	-
Bonds, notes and subordinated debt						
Australia	87,938	3,172	7.2	88,964	3,010	6.8
Europe	5,788	48	1.7	6,837	51	1.5
Other International	9,186	182	4.0	8,120	156	3.9
Other interest bearing liabilities						
Australia	1,254	4	n/a	238	11	n/a
Europe	31	-	n/a	35	6	n/a
Other International	3,059	185	n/a	1,777	224	n/a
<b>Total average interest bearing liabilities and interest expense by:</b>						
<b>Australia</b>	<b>338,529</b>	<b>9,406</b>	<b>5.5</b>	<b>331,560</b>	<b>8,999</b>	<b>5.4</b>
<b>Europe</b>	<b>95,354</b>	<b>371</b>	<b>0.8</b>	<b>92,999</b>	<b>371</b>	<b>0.8</b>
<b>Other International</b>	<b>95,765</b>	<b>1,037</b>	<b>2.2</b>	<b>82,365</b>	<b>1,052</b>	<b>2.6</b>
<b>Total average interest bearing liabilities and interest expense</b>	<b>529,648</b>	<b>10,814</b>	<b>4.1</b>	<b>506,924</b>	<b>10,422</b>	<b>4.1</b>

## Average liabilities

	Half year ended	
	Sep 11 \$m	Mar 11 \$m
<b>Average non-interest bearing liabilities</b>		
Deposits not bearing interest		
Australia	15,839	14,124
Europe	2,113	1,996
Other International	2,697	1,699
Life insurance policy liabilities		
Australia	55,258	55,706
Other International	10	-
Other liabilities	69,438	65,873
<b>Total average non-interest bearing liabilities</b>	<b>145,355</b>	<b>139,398</b>
<b>Total average liabilities</b>	<b>675,003</b>	<b>646,322</b>
<b>Average equity</b>		
Ordinary shares	19,996	19,017
Trust Preferred Securities	975	975
Trust Preferred Securities II	1,014	1,014
National Income Securities	1,945	1,945
National Capital Instruments	397	397
BNZ Income Securities	380	380
BNZ Income Securities 2	203	203
Contributed equity	24,910	23,931
Reserves	(1,390)	(1,044)
Retained profits	17,156	16,374
Parent entity interest	40,676	39,261
Non-controlling interest in controlled entities	18	15
<b>Total average equity</b>	<b>40,694</b>	<b>39,276</b>
<b>Total average liabilities and equity</b>	<b>715,697</b>	<b>685,598</b>
Percentage of total average interest bearing liabilities applicable to international operations	36.1%	34.6%

## 5. Capital Adequacy

Under APRA's Prudential Standards, life insurance and funds management activities are de-consolidated from the National Australia Bank Group for the purposes of calculating capital adequacy and excluded from the risk based capital adequacy framework. The intangible component of the investment in these controlled entities is deducted from Tier 1 capital, with the balance of the investment deducted 50% from Tier 1 and 50% from 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 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m
<b>Reconciliation to shareholders' funds</b>			
Contributed equity	25,274	24,365	23,551
Reserves	(773)	(1,491)	(639)
Retained profits	17,667	16,931	16,028
Non-controlling interest in controlled entities	20	15	14
<b>Total equity per consolidated balance sheet</b>	<b>42,188</b>	<b>39,820</b>	<b>38,954</b>
Liability-accounted Residual Tier 1 hybrid capital <sup>(1)</sup>	2,322	2,242	2,330
Treasury shares	782	1,040	1,064
Eligible deferred fee income	266	251	231
Revaluation reserves	(123)	(124)	(141)
General reserve for credit losses <sup>(2)</sup>	(716)	(751)	(698)
Estimated final dividend	(1,937)	(1,823)	(1,664)
Estimated reinvestment under dividend reinvestment plan and bonus share plan	800	720	582
Deconsolidation of Wealth Management profits (net of dividends)	(495)	(345)	(540)
<b>Adjusted total equity for capital purposes</b>	<b>43,087</b>	<b>41,030</b>	<b>40,118</b>
Banking goodwill	(1,695)	(1,667)	(1,747)
Wealth Management goodwill and other intangibles	(4,253)	(4,277)	(4,248)
DTA (excluding DTA on the collective provision for doubtful debts) <sup>(3)</sup>	(990)	(717)	(916)
Non qualifying non-controlling interest	(13)	(12)	(12)
Capitalised expenses <sup>(4)</sup>	(99)	(87)	(121)
Capitalised software (excluding Wealth Management)	(1,225)	(1,077)	(962)
Defined benefit superannuation plans surplus	(15)	(12)	(12)
Change in own creditworthiness	(97)	(37)	(32)
Cash flow hedge reserve <sup>(5)</sup>	(391)	(127)	(146)
Deductions taken 50% from Tier 1 and 50% from Tier 2:			
Investment in non-consolidated controlled entities (net of intangible component)	(801)	(866)	(791)
Expected loss in excess of eligible provisions	(348)	(252)	(312)
Other	(85)	(161)	(126)
<b>Tier 1 capital</b>	<b>33,075</b>	<b>31,738</b>	<b>30,693</b>

	As at		
	30 Sep 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m
Collective provision for doubtful debts <sup>(6)</sup>	681	682	720
Revaluation reserves	56	56	64
Perpetual floating rate notes	172	162	173
Eligible dated subordinated debt	5,658	7,761	8,749
Deductions taken 50% from Tier 1 and 50% from Tier 2:			
Investment in non-consolidated controlled entities (net of intangible component)	(801)	(866)	(791)
Expected loss in excess of eligible provisions	(348)	(252)	(312)
Other	(85)	(161)	(126)
<b>Tier 2 capital</b>	<b>5,333</b>	<b>7,382</b>	<b>8,477</b>
<b>Total capital</b>	<b>38,408</b>	<b>39,120</b>	<b>39,170</b>
Risk-weighted assets - credit risk	308,648	311,625	312,345
Risk-weighted assets - market risk	2,968	3,159	3,079
Risk-weighted assets - operational risk	22,255	21,862	22,234
Risk-weighted assets - interest rate risk in the banking book	7,198	8,565	7,000
<b>Total risk-weighted assets</b>	<b>341,069</b>	<b>345,211</b>	<b>344,658</b>
<b>Risk adjusted capital ratios</b>			
<b>Tier 1</b>	<b>9.70%</b>	<b>9.19%</b>	<b>8.91%</b>
<b>Total capital</b>	<b>11.26%</b>	<b>11.33%</b>	<b>11.36%</b>

Regulatory capital summary	As at		
	30 Sep 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m
<b>Fundamental Tier 1 capital</b>	<b>35,850</b>	<b>33,874</b>	<b>32,874</b>
Non-innovative residual Tier 1 capital	2,742	2,742	2,742
Innovative residual Tier 1 capital	4,495	4,414	4,502
<b>Total residual Tier 1 capital</b>	<b>7,237</b>	<b>7,156</b>	<b>7,244</b>
Tier 1 deductions	(10,012)	(9,292)	(9,425)
<b>Tier 1 capital</b>	<b>33,075</b>	<b>31,738</b>	<b>30,693</b>
<b>Tier 2 capital</b>	<b>5,333</b>	<b>7,382</b>	<b>8,477</b>
<b>Total capital</b>	<b>38,408</b>	<b>39,120</b>	<b>39,170</b>

<sup>(1)</sup> Residual Tier 1 capital that is classified as debt for accounting purposes but qualifies as Tier 1 capital for regulatory purposes. This includes National Capital Instruments issued in September 2006, Residual Tier 1 Convertible Notes issued in September 2008, Residual Tier 1 Stapled Securities issued in September 2008 and September 2009, and Residual Tier 1 Capital Notes issued in September 2009.

<sup>(2)</sup> The GRCL calculation methodology includes an additional reserve to cover those credit losses estimated but not certain to arise in the future extending over the life of all facilities. This additional reserve has been reflected as a transfer from retained earnings, and the portion relating to the IRB portfolio added to eligible provisions for the purpose of calculating the eligible provisions to expected loss capital deduction.

<sup>(3)</sup> 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.

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

<sup>(5)</sup> For regulatory capital purposes the cash flow hedge reserve is treated on a pre-tax basis.

<sup>(6)</sup> Under Basel II, this includes the component of the Group's collective provision relating to securitisation exposure and assets where RWAs are calculated under the standardised approach.



Basel II	Risk-Weighted Assets as at			Exposures as at		
	30 Sep 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m	30 Sep 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m
<b>Credit risk <sup>(1)</sup></b>						
<b>IRB approach</b>						
Corporate (including SME)	112,620	116,297	116,128	189,882	177,571	168,186
Sovereign <sup>(2)</sup>	1,170	1,028	1,044	35,881	26,913	25,287
Bank <sup>(3)</sup>	7,617	6,651	5,842	71,438	58,223	65,009
Residential Mortgage <sup>(3)</sup>	51,620	51,389	48,909	250,960	239,040	226,507
Qualifying revolving retail <sup>(3)</sup>	4,377	4,186	3,991	10,978	10,693	10,277
Retail SME	8,227	8,985	9,174	19,656	19,706	20,181
Other retail	3,594	3,699	3,749	4,590	4,542	4,629
<b>Total IRB approach</b>	<b>189,225</b>	<b>192,235</b>	<b>188,837</b>	<b>583,385</b>	<b>536,688</b>	<b>520,076</b>
<b>Specialised lending (SL)</b>	<b>41,752</b>	<b>41,762</b>	<b>40,606</b>	<b>49,406</b>	<b>46,842</b>	<b>47,433</b>
<b>Standardised approach</b>						
Australian and foreign governments	76	49	41	4,412	2,951	3,864
Bank	163	269	270	10,508	6,753	7,613
Residential mortgage	23,202	21,785	22,944	45,533	41,023	40,155
Corporate	32,863	27,698	29,333	33,202	28,065	29,800
Other	3,618	9,171	11,036	4,095	9,724	11,778
<b>Total standardised approach</b>	<b>59,922</b>	<b>58,972</b>	<b>63,624</b>	<b>97,750</b>	<b>88,516</b>	<b>93,210</b>
<b>Other</b>						
Securitisation	9,049	10,209	11,103	18,203	16,925	16,659
Equity	1,949	1,541	1,342	501	399	362
Other <sup>(4)</sup>	6,751	6,906	6,833	10,158	9,955	10,039
<b>Total other</b>	<b>17,749</b>	<b>18,656</b>	<b>19,278</b>	<b>28,862</b>	<b>27,279</b>	<b>27,060</b>
<b>Total credit risk</b>	<b>308,648</b>	<b>311,625</b>	<b>312,345</b>	<b>759,403</b>	<b>699,325</b>	<b>687,779</b>
<b>Market risk</b>	<b>2,968</b>	<b>3,159</b>	<b>3,079</b>			
<b>Operational risk</b>	<b>22,255</b>	<b>21,862</b>	<b>22,234</b>			
<b>Interest rate risk in the banking book</b>	<b>7,198</b>	<b>8,565</b>	<b>7,000</b>			
<b>Total risk-weighted assets &amp; exposures</b>	<b>341,069</b>	<b>345,211</b>	<b>344,658</b>			

<sup>(1)</sup> Risk Weighted Assets which are calculated in accordance with APRA's requirements under Basel II, are required to incorporate a scaling factor of 1.06 to assets that are not subject to specific risk weights.

<sup>(2)</sup> 'Sovereign' includes government guaranteed exposures.

<sup>(3)</sup> For IRB approach: 'Bank' includes ADIs and overseas banks. 'Residential mortgage' includes exposures that are partly or fully secured by residential properties. 'Qualifying revolving retail' exposures are revolving, unsecured and unconditionally cancellable (both contractually and in practice), for individuals and not explicitly for business purposes.

<sup>(4)</sup> 'Other' includes non-lending asset exposures.

### 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.

## 6. Earnings per Share

Earnings per Share	Year to			
	Sep 11		Sep 10	
	Basic	Diluted	Basic	Diluted
<b>Earnings (\$m)</b>				
Net profit attributable to owners of the Company	5,219	5,219	4,224	4,224
Distributions on other equity instruments	(262)	(262)	(253)	(253)
Potential dilutive adjustments:				
Interest expense on convertible notes (after tax)	-	91	-	75
Adjusted earnings	4,957	5,048	3,971	4,046
<b>Weighted average ordinary shares (no. '000)</b>				
Weighted average ordinary shares (net of treasury shares)	2,121,905	2,121,905	2,070,897	2,070,897
Potential dilutive ordinary shares:				
Performance options and performance rights	-	1,348	-	3,065
Partly paid ordinary shares	-	97	-	118
Employee share plans	-	8,830	-	7,116
Convertible notes	-	47,964	-	41,589
Total weighted average ordinary shares	2,121,905	2,180,144	2,070,897	2,122,785
<b>Earnings per share (cents)</b>	233.6	231.5	191.8	190.6

Earnings per Share	Half Year to			
	Sep 11		Mar 11	
	Basic	Diluted	Basic	Diluted
<b>Earnings (\$m)</b>				
Net profit attributable to owners of the Company	2,791	2,791	2,428	2,428
Distributions on other equity instruments	(130)	(130)	(132)	(132)
Potential dilutive adjustments:				
Interest expense on convertible notes (after tax)	-	46	-	45
Adjusted earnings	2,661	2,707	2,296	2,341
<b>Weighted average ordinary shares (no. '000)</b>				
Weighted average ordinary shares (net of treasury shares)	2,138,995	2,138,995	2,109,971	2,109,971
Potential dilutive ordinary shares:				
Performance options and performance rights	-	1,294	-	1,646
Partly paid ordinary shares	-	97	-	114
Employee share plans	-	8,830	-	6,550
Convertible notes	-	47,519	-	44,207
Total weighted average ordinary shares	2,138,995	2,196,735	2,109,971	2,162,488
<b>Earnings per share (cents)</b>	124.4	123.2	108.8	108.3

Cash Earnings per Share	Year to			
	Sep 11		Sep 10	
	Basic	Diluted	Basic	Diluted
<b>Earnings (\$m)</b>				
Cash earnings - ongoing operations <sup>(1)</sup>	5,460	5,460	4,581	4,581
Distributions on other equity instruments	(37)	(37)	(38)	(38)
Potential dilutive adjustments:				
Interest expense on convertible notes (after tax)	-	91	-	75
Adjusted cash earnings	5,423	5,514	4,543	4,618
<b>Weighted average ordinary shares (no. '000)</b>				
Weighted average ordinary shares	2,169,716	2,169,716	2,118,328	2,118,328
Potential dilutive weighted average ordinary shares:				
Performance options and performance rights	-	1,348	-	3,065
Partly paid ordinary shares	-	97	-	118
Employee share plans	-	8,830	-	7,116
Convertible notes	-	47,964	-	41,589
Total weighted average ordinary shares	2,169,716	2,227,955	2,118,328	2,170,216
<b>Cash earnings per share (cents)</b>	249.9	247.5	214.5	212.8

<sup>(1)</sup> Refer to Section 6 'Supplementary Information' for a reconciliation of cash earnings to Group net profit.

Cash Earnings per Share	Half Year to			
	Sep 11		Mar 11	
	Basic	Diluted	Basic	Diluted
<b>Earnings (\$m)</b>				
Cash earnings - ongoing operations <sup>(1)</sup>	2,792	2,792	2,668	2,668
Distributions on other equity instruments	(19)	(19)	(18)	(18)
Potential dilutive adjustments:				
Interest expense on convertible notes (after tax)	-	46	-	45
Adjusted cash earnings	2,773	2,819	2,650	2,695
<b>Weighted average ordinary shares (no. '000)</b>				
Weighted average ordinary shares	2,184,494	2,184,494	2,154,891	2,154,891
Potential dilutive weighted average ordinary shares:				
Performance options and performance rights	-	1,294	-	1,646
Partly paid ordinary shares	-	97	-	114
Employee share plans	-	8,830	-	6,550
Convertible notes	-	47,519	-	44,207
Total weighted average ordinary shares	2,184,494	2,242,234	2,154,891	2,207,408
<b>Cash earnings per share (cents)</b>	126.9	125.7	123.0	122.1

<sup>(1)</sup> Refer to Section 6 'Supplementary Information' for a reconciliation of cash earnings to Group net profit.

## 7. Life Insurance Operations

Income statement items	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
Premium and related revenue	1,359	1,294	693	666
Investment revenue	(447)	2,769	(3,975)	3,528
Fee income	553	479	276	277
Claims expense	(794)	(695)	(427)	(367)
Change in policy liabilities	475	(1,724)	3,298	(2,823)
Policy acquisition and maintenance expense	(914)	(930)	(459)	(455)
Investment management expense	(5)	(35)	1	(6)
Movement in external unitholders' liability	133	(345)	657	(524)
<b>Net life insurance income</b>	<b>360</b>	<b>813</b>	<b>64</b>	<b>296</b>
Profit before income tax expense attributable to the life insurance statutory funds and their controlled trusts	363	690	17	346
Income tax (benefit)/expense attributable to the statutory funds of the life insurance business	(60)	251	(209)	149

Related balance sheet items	As at		
	30 Sep 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m
Investments relating to life insurance business	63,920	67,155	64,560
Life policy liabilities	53,608	56,810	54,354
External unitholders' liability	9,959	10,229	10,241

Investment revenue includes returns on assets held in the Group's investment-linked business and returns on assets held in the life insurance business.

Life policy liabilities and external unitholders' liability on issue represent amounts owed to policyholders and unitholders of consolidated trusts. Movements in these liabilities reflect policy and unitholders' share in the performance of investment assets and their share of net life insurance income.

Overall negative investment market experience within domestic and global financial markets over the course of the financial year, has affected individual components of the Group's life insurance operations as follows:

- Negative investment revenue attributable to investment-linked and life insurance business that is largely offset by movements in amounts owing to policyholders.
- Negative investment revenue attributable to equity investment holdings in consolidated trusts. The external unitholders of the trusts share in these returns; their share is reflected as the movement in external unitholders' liability.
- The income tax expense attributable to life insurance business includes both policyholder and shareholder tax across a range of products and fluctuates in line with earnings for both policyholders and shareholders.

## 8. Other Income Excluding Wealth

	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>Gains less losses on financial instruments at fair value</b>				
Trading securities	917	713	677	240
Trading derivatives				
Trading and risk management purposes	(1,026)	(915)	(1,399)	373
Recovery on SCDO risk mitigation trades	-	528	-	-
Assets, liabilities and derivatives designated in hedge relationships <sup>(1)</sup>	(109)	(308)	235	(344)
Assets and liabilities designated at fair value	(100)	92	375	(475)
Impairment of investments - available for sale	(10)	(3)	-	(10)
Other	(1)	15	(17)	16
	(329)	122	(129)	(200)
<b>Other operating income</b>				
Dividend revenue	17	14	7	10
Gains from sale of investments - available for sale	20	28	11	9
Gains from sale of loans and advances	-	3	-	-
Gains from sale of property, plant and equipment and other assets	3	10	2	1
Banking fees	906	930	458	448
Money transfer fees	647	652	324	323
Fees and commissions	905	959	423	482
Investment management fees	6	8	3	3
Fleet management fees	23	22	13	10
Rentals received on leased vehicle assets	19	19	9	10
Revaluation gains on investment properties	4	6	1	3
Other income	(49)	(52)	(32)	(17)
	2,501	2,599	1,219	1,282
<b>Total other income</b>	<b>2,172</b>	<b>2,721</b>	<b>1,090</b>	<b>1,082</b>

<sup>(1)</sup> Represents hedge ineffectiveness of designated hedging relationships, plus economic hedges of long-term funding that do not meet the requirements for hedge accounting.

## 9. Operating Expenses Excluding Wealth

	Year to		Half Year to	
	Sep 11 \$m	Sep 10 \$m	Sep 11 \$m	Mar 11 \$m
<b>Personnel expenses</b>				
Salaries and related on-costs	3,023	2,824	1,505	1,518
Superannuation costs - defined contribution plans	225	213	113	112
Superannuation costs - defined benefit plans	41	49	18	23
Performance-based compensation				
Cash	361	416	166	195
Equity-based compensation	58	190	28	30
Other expenses	472	507	230	242
	4,180	4,199	2,060	2,120
<b>Occupancy-related expenses</b>				
Operating lease rental expense	380	342	192	188
Other expenses	191	221	85	106
	571	563	277	294
<b>General expenses</b>				
Fees and commission expense	67	62	35	32
Depreciation and amortisation of property, plant and equipment	267	297	124	143
Amortisation of intangible assets	280	295	134	146
Depreciation on leased vehicle assets	9	9	5	4
Operating lease rental expense	26	33	13	13
Advertising and marketing	198	213	111	87
Charge to provide for operational risk event losses	53	51	34	19
Communications, postage and stationery	278	287	148	130
Computer equipment and software	415	327	221	194
Data communication and processing charges	118	117	62	56
Transport expenses	78	71	41	37
Professional fees	301	288	191	110
Travel	77	84	43	34
Loss on disposal of property, plant and equipment and other assets	19	36	16	3
Impairment losses recognised	16	7	16	-
Other expenses	167	398	71	96
	2,369	2,575	1,265	1,104
<b>Total</b>	<b>7,120</b>	<b>7,337</b>	<b>3,602</b>	<b>3,518</b>

## 10. Asset Funding

	As at			Sep 11 vs Sep 10 %	Sep 11 vs Mar 11 %
	30 Sep 11 \$m	31 Mar 11 \$m	30 Sep 10 \$m		
<b>Customer deposits</b>					
On demand and savings deposits	145,947	138,455	134,250	8.7	5.4
Term deposits	144,675	137,958	131,739	9.8	4.9
Deposits not bearing interest	21,324	18,415	17,393	22.6	15.8
Due to other banks	7,634	6,052	4,935	54.7	26.1
<b>Total customer deposits <sup>(1)</sup></b>	<b>319,580</b>	<b>300,880</b>	<b>288,317</b>	<b>10.8</b>	<b>6.2</b>
<b>Wholesale funding</b>					
Bonds, notes and subordinated debt <sup>(1)</sup>	110,591	100,317	100,933	9.6	10.2
Other debt issues	2,494	2,404	2,502	(0.3)	3.7
Preference shares and other contributed equity	4,914	4,914	4,914	-	-
Certificates of deposit	76,945	61,501	60,178	27.9	25.1
Due to other banks	32,528	31,397	32,677	(0.5)	3.6
Other borrowings <sup>(1)</sup>	18,160	13,411	15,475	17.4	35.4
Securities sold under repurchase agreements	6,379	3,220	4,410	44.6	98.1
Liability on acceptances	10,633	11,774	12,549	(15.3)	(9.7)
Securities sold short	1,583	1,682	1,587	(0.3)	(5.9)
Other financial liabilities at fair value	855	358	358	large	large
<b>Total wholesale funding <sup>(1)</sup></b>	<b>265,082</b>	<b>230,978</b>	<b>235,583</b>	<b>12.5</b>	<b>14.8</b>
<b>Total funded liabilities</b>	<b>584,662</b>	<b>531,858</b>	<b>523,900</b>	<b>11.6</b>	<b>9.9</b>
Total equity excluding preference shares and other contributed equity	37,274	34,906	34,040	9.5	6.8
Life insurance liabilities <sup>(2)</sup>	63,567	67,039	64,595	(1.6)	(5.2)
Other liabilities	68,254	55,660	63,417	7.6	22.6
<b>Total liabilities and equity</b>	<b>753,757</b>	<b>689,463</b>	<b>685,952</b>	<b>9.9</b>	<b>9.3</b>
<b>Wholesale funding by maturity</b>					
Short-term funding	147,083	123,343	127,234	15.6	19.2
Term funding:					
less than 1 year residual maturity	22,459	21,925	20,041	12.1	2.4
greater than 1 year residual maturity	95,540	85,710	88,308	8.2	11.5
<b>Total wholesale funding by maturity</b>	<b>265,082</b>	<b>230,978</b>	<b>235,583</b>	<b>12.5</b>	<b>14.8</b>

<sup>(1)</sup> Includes balances at fair value.<sup>(2)</sup> Comprises life policy liabilities and external unitholders' liability.

## 11. Number of Ordinary Shares

	Year to	
	Sep 11 No. '000	Sep 10 No. '000
<b>Ordinary shares, fully paid</b>		
Balance at beginning of period	2,133,341	2,095,595
Shares issued		
Dividend reinvestment plan	57,620	30,185
Bonus share plan	1,925	1,730
Employee share plans	7,983	5,536
Executive option plan no. 2	294	275
Paying up of partly paid shares	26	20
	2,201,189	2,133,341
<b>Ordinary shares, partly paid to 25 cents</b>		
Balance at beginning of period	183	203
Paying up of partly paid shares	(26)	(20)
	157	183
<b>Total number of ordinary shares on issue at end of period (including treasury shares)</b>	2,201,346	2,133,524
Less: Treasury shares	(48,390)	(47,232)
<b>Total number of ordinary shares on issue at end of period (excluding treasury shares)</b>	2,152,956	2,086,292
	Half Year to	
	Sep 11 No. '000	Mar 11 No. '000
<b>Ordinary shares, fully paid</b>		
Balance at beginning of period	2,169,658	2,133,341
Shares issued		
Dividend reinvestment plan	30,347	27,273
Bonus share plan	976	949
Employee share plans	82	7,901
Executive option plan no. 2	100	194
Paying up of partly paid shares	26	-
	2,201,189	2,169,658
<b>Ordinary shares, partly paid to 25 cents</b>		
Balance at beginning of period	183	183
Paying up of partly paid shares	(26)	-
	157	183
<b>Total number of ordinary shares on issue at end of period (including treasury shares)</b>	2,201,346	2,169,841
Less: Treasury shares	(48,390)	(42,608)
<b>Total number of ordinary shares on issue at end of period (excluding treasury shares)</b>	2,152,956	2,127,233

## 12. Exchange Rates

One Australian dollar equals	Income Statement - average				Balance Sheet - spot		
	Year to		Half Year to		As at		
	Sep 11	Sep 10	Sep 11	Mar 11	30 Sep 11	31 Mar 11	30 Sep 10
British pounds	0.6390	0.5776	0.6519	0.6261	0.6268	0.6417	0.6103
Euros	0.7358	0.6654	0.7405	0.7311	0.7206	0.7304	0.7120
United States dollars	1.0262	0.9002	1.0563	0.9962	0.9764	1.0335	0.9660
New Zealand dollars	1.3058	1.2609	1.2955	1.3161	1.2756	1.3578	1.3138



## 13. Australian Life Company Margins

Sources of Operating Profit from Australian Life Companies life insurance funds	Year to			Half Year to		
	Sep 11 \$m	Sep 10 \$m	Sep 11 v Sep 10 %	Sep 11 \$m	Mar 11 \$m	Sep 11 v Mar 11 %
Life company - planned profit margins	309	297	4.0	156	153	2.0
Life company - experience profit	12	(16)	large	(8)	20	large
Life company operating margins <sup>(1)</sup>	321	281	14.2	148	173	(14.5)
loRE (after tax) <sup>(2)</sup>	103	125	(17.6)	73	30	large
<b>Net profit of life insurance funds after non-controlling interest</b>	<b>424</b>	<b>406</b>	<b>4.4</b>	<b>221</b>	<b>203</b>	<b>8.9</b>

<sup>(1)</sup> Reflects operation profit of all business types (investment or insurance) written through life insurance funds.

<sup>(2)</sup> Includes investment earnings on shareholders' retained profits and capital from life businesses after non-controlling interest of \$77 million (September 2010 \$91 million, Half Year September 2011 \$25 million, Half Year March 2011 \$52 million) and loRE discount rate variation of \$26 million (September 2010 \$34 million, Half Year September 2011 \$48 million, Half Year March 2011 (\$22 million)), loRE attributable to non life insurance funds of (\$47 million) (September 2010 (\$30 million), Half Year September 2011 (\$24 million), Half Year March 2011 (\$23 million)) is excluded.

## 14. ASX Appendix 4E

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

Year ended 30 September 2011	Statutory Profit \$m	MLC adj. <sup>(1)</sup> \$m	Distri- butions \$m	Treasury shares \$m	Fair value and hedge ineffec. \$m	loRE disc. rate \$m	UK Payment Protection Insurance provision \$m	Hedging costs on SCDO assets \$m	Litigation expense \$m	Amortisation of acquired intangible assets \$m	ExCaps taxation assmt. \$m	Due diligence, acquisition and integration costs \$m	Cash Earnings \$m
Net interest income	13,034	58	-	-	-	-	-	-	-	-	-	-	13,092
Net life insurance income	360	(275)	-	(48)	-	(37)	-	-	-	-	-	-	-
Other operating income	3,449	(1,146)	-	-	338	-	156	219	-	-	-	-	3,016
MLC net operating income	-	1,486	-	-	-	-	-	-	-	-	-	-	1,486
Net operating income	16,843	123	-	(48)	338	(37)	156	219	-	-	-	-	17,584
Operating expenses	(8,365)	51	-	-	-	-	-	-	7	104	-	229	(7,974)
Operating profit pre-charge to provide for doubtful debts	8,478	174	-	(48)	338	(37)	156	219	7	104	-	229	9,620
Charge to provide for bad and doubtful debts	(1,750)	-	-	-	(72)	-	-	-	-	-	-	-	(1,822)
Operating profit before tax	6,728	174	-	(48)	266	(37)	156	219	7	104	-	229	7,798
Income tax (expense)/benefit	(1,508)	(204)	-	9	(85)	11	(39)	(92)	(3)	(22)	(142)	(67)	(2,142)
<b>Operating profit before distributions and non-controlling interest</b>	<b>5,220</b>	<b>(30)</b>	<b>-</b>	<b>(39)</b>	<b>181</b>	<b>(26)</b>	<b>117</b>	<b>127</b>	<b>4</b>	<b>82</b>	<b>(142)</b>	<b>162</b>	<b>5,656</b>
Net profit - non-controlling interest	(1)	-	-	-	-	-	-	-	-	-	-	-	(1)
loRE (after tax)	-	30	-	-	-	-	-	-	-	-	-	-	30
Distributions	-	-	(225)	-	-	-	-	-	-	-	-	-	(225)
<b>Net profit attributable to owners of the Company</b>	<b>5,219</b>	<b>-</b>	<b>(225)</b>	<b>(39)</b>	<b>181</b>	<b>(26)</b>	<b>117</b>	<b>127</b>	<b>4</b>	<b>82</b>	<b>(142)</b>	<b>162</b>	<b>5,460</b>

<sup>(1)</sup> Refer to Note 16 in Section 6 for further details regarding the MLC adjustment.

Year ended 30 September 2010	Statutory Profit \$m	MLC adj. <sup>(1)</sup> \$m	MLC adj. <sup>(1)</sup> \$m	Distri- butions \$m	Treasury shares \$m	Fair value and hedge ineffec. \$m	loRE disc. rate \$m	Efficiency, quality and service initiatives \$m	Litiga- tion expense \$m	Property revaluation \$m	Provision for tax on NZ struct. fin. trans. \$m	MLC reinsurance dispute - interest & expenses \$m	Amortisation of intangible assets \$m	Due diligence, acquisition and integration costs \$m	Cash Earnings \$m
Net interest income	12,256	32	-	-	-	-	-	-	-	-	-	-	-	-	12,288
Net life insurance income	813	(632)	-	(133)	-	-	(48)	-	-	-	-	-	-	-	-
Other operating income	3,939	(1,070)	-	-	501	-	-	-	-	-	-	-	(4)	-	2,838
MLC net operating income	-	1,512	-	-	-	-	-	-	-	-	-	-	-	-	1,512
Net operating income	17,008	(158)	-	(133)	501	-	(48)	-	-	-	-	-	(4)	-	16,638
Operating expenses	(8,541)	29	-	-	-	-	-	339	18	7	4	-	101	181	(7,862)
Operating profit pre-charge to provide for doubtful debts	8,467	(129)	-	(133)	501	-	(48)	339	18	7	4	-	97	181	8,776
Charge to provide for bad and doubtful debts	(2,791)	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,263)
Operating profit before tax	5,676	(129)	-	(133)	501	-	(48)	339	18	7	4	-	97	181	6,513
Income tax (expense)/benefit	(1,451)	68	-	27	(148)	-	14	(102)	(6)	(3)	(132)	36	(24)	(56)	(1,777)
<b>Operating profit before distributions and non- controlling interest</b>	4,225	(61)	-	(106)	353	-	(34)	237	12	4	(128)	36	73	125	4,736
Net profit - non-controlling interest	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	(1)
loRE (after tax)	-	61	-	-	-	-	-	-	-	-	-	-	-	-	61
Distributions	-	-	-	(215)	-	-	-	-	-	-	-	-	-	-	(215)
<b>Net profit attributable to owners of the Company</b>	4,224	-	-	(215)	(106)	353	(34)	237	12	4	(128)	36	73	125	4,581

<sup>(1)</sup> Refer to Note 16 in Section 6 for further details regarding the MLC adjustment.

Half Year ended 30 September 2011	Statutory Profit \$m	MLC adj. (1) \$m	Distri- butions \$m	Treasury shares \$m	Fair value and hedge ineffec. \$m	IoRE disc. rate \$m	UK Protection Insurance provision \$m	Hedging costs on SCDO assets \$m	Litigation expense \$m	Amortisation of intangible assets \$m	Due diligence, acquisition and integration costs \$m	Cash Earnings \$m
Net interest income	6,755	33	-	-	-	-	-	-	-	-	-	6,788
Net life insurance income	64	99	-	(95)	-	(68)	-	-	-	-	-	-
Other operating income	1,737	(627)	-	-	(194)	-	156	219	-	-	-	1,291
MLC net operating income	-	716	-	-	-	-	-	-	-	-	-	716
Net operating income	8,556	221	-	(95)	(194)	(68)	156	219	-	-	-	8,795
Operating expenses	(4,248)	73	-	-	-	-	-	-	7	52	133	(3,983)
Operating profit pre-charge to provide for doubtful debts	4,308	294	-	(95)	(194)	(68)	156	219	7	52	133	4,812
Charge to provide for bad and doubtful debts	(827)	-	-	-	(7)	-	-	-	-	-	-	(834)
Operating profit before tax	3,481	294	-	(95)	(201)	(68)	156	219	7	52	133	3,978
Income tax (expense)/benefit	(690)	(295)	-	15	55	20	(39)	(92)	(3)	(11)	(36)	(1,076)
<b>Operating profit before distributions and non-controlling interest</b>												
Net profit - non-controlling interest	2,791	(1)	-	(80)	(146)	(48)	117	127	4	41	97	2,902
IoRE (after tax)	-	-	-	-	-	-	-	-	-	-	-	-
Distributions	-	1	-	-	-	-	-	-	-	-	-	1
	-	-	(111)	-	-	-	-	-	-	-	-	(111)
<b>Net profit attributable to owners of the Company</b>	2,791	-	(111)	(80)	(146)	(48)	117	127	4	41	97	2,792

(1) Refer to Note 16 in Section 6 for further details regarding the MLC adjustment.

Half Year ended 31 March 2011	Statutory Profit \$m	MLC Adj. <sup>(1)</sup> \$m	Distri- butions \$m	Treasury shares \$m	Fair value and hedge ineffec. \$m	IoRE disc. rate \$m	Amortisation of acquired intangible assets \$m	ExCaps taxation assmt. \$m	Acquisition and Integration costs \$m	Cash Earnings \$m
Net interest income	6,279	25	-	-	-	-	-	-	-	6,304
Net life insurance income	296	(374)	-	47	-	31	-	-	-	-
Other operating income	1,712	(519)	-	-	532	-	-	-	-	1,725
MLC net operating income	-	770	-	-	-	-	-	-	-	770
Net operating income	8,287	(98)	-	47	532	31	-	-	-	8,799
Operating expenses	(4,117)	(22)	-	-	-	-	52	-	96	(3,991)
Operating profit pre charge to provide for doubtful debts	4,170	(120)	-	47	532	31	52	-	96	4,808
Charge to provide for doubtful debts	(923)	-	-	-	(65)	-	-	-	-	(988)
Operating profit before tax	3,247	(120)	-	47	467	31	52	-	96	3,820
Income tax (expense)/benefit	(818)	91	-	(6)	(140)	(9)	(11)	(142)	(31)	(1,066)
<b>Operating profit before distributions and non-controlling interest</b>	<b>2,429</b>	<b>(29)</b>	<b>-</b>	<b>41</b>	<b>327</b>	<b>22</b>	<b>41</b>	<b>(142)</b>	<b>65</b>	<b>2,754</b>
Net profit - non-controlling interest	(1)	-	-	-	-	-	-	-	-	(1)
IoRE (after tax)	-	29	-	-	-	-	-	-	-	29
Distributions	-	-	(114)	-	-	-	-	-	-	(114)
<b>Net profit attributable to owners of the Company</b>	<b>2,428</b>	<b>-</b>	<b>(114)</b>	<b>41</b>	<b>327</b>	<b>22</b>	<b>41</b>	<b>(142)</b>	<b>65</b>	<b>2,668</b>

<sup>(1)</sup> Refer to Note 16 in Section 6 for further details regarding the MLC adjustment.

## 16. MLC &amp; NAB Wealth Reconciling Items

Year ended 30 September 2011	Life Reclassification <sup>(a)</sup>				Other \$m	MLC adj \$m
	Cash IoRE <sup>(i)</sup> \$m	Policy- holder tax <sup>(ii)</sup> \$m	Other NLII reclass- ification <sup>(iii)</sup> \$m	Non-life reclass- ification <sup>(b)</sup> \$m		
Net interest income	67	-	-	(9)	-	58
Net life insurance income	(116)	254	(413)	-	-	(275)
Other operating income	-	-	44	(1,190)	-	(1,146)
MLC net operating income	-	-	715	771	-	1,486
Net operating income	(49)	254	346	(428)	-	123
Operating expenses	-	-	(369)	428	(8)	51
Operating profit pre-charge to provide for doubtful debts	(49)	254	(23)	-	(8)	174
Charge to provide for doubtful debts	-	-	-	-	-	-
Operating profit before tax	(49)	254	(23)	-	(8)	174
Income tax expense	19	(254)	23	-	8	(204)
<b>Operating profit before distributions and non-controlling interest</b>	(30)	-	-	-	-	(30)
Net profit - non-controlling interest	-	-	-	-	-	-
IoRE (after tax)	30	-	-	-	-	30
Distributions	-	-	-	-	-	-
<b>Net profit attributable to owners of the Company</b>	-	-	-	-	-	-

Year ended 30 September 2010	Life Reclassification <sup>(a)</sup>				Other \$m	MLC adj \$m
	Cash IoRE <sup>(i)</sup> \$m	Policy- holder tax <sup>(ii)</sup> \$m	Other NLII reclass- ification <sup>(iii)</sup> \$m	Non-life reclass- ification <sup>(b)</sup> \$m		
Net interest income	44	-	-	(12)	-	32
Net life insurance income	(134)	(15)	(483)	-	-	(632)
Other operating income	-	-	40	(1,112)	2	(1,070)
MLC net operating income	-	-	797	714	1	1,512
Net operating income	(90)	(15)	354	(410)	3	(158)
Operating expenses	-	-	(383)	410	2	29
Operating profit pre-charge to provide for doubtful debts	(90)	(15)	(29)	-	5	(129)
Charge to provide for doubtful debts	-	-	-	-	-	-
Operating profit before tax	(90)	(15)	(29)	-	5	(129)
Income tax expense	29	15	29	-	(5)	68
<b>Operating profit before distributions and non-controlling interest</b>	(61)	-	-	-	-	(61)
Net profit - non-controlling interest	-	-	-	-	-	-
IoRE (after tax)	61	-	-	-	-	61
Distributions	-	-	-	-	-	-
<b>Net profit attributable to owners of the Company</b>	-	-	-	-	-	-

Half Year ended 30 September 2011	Life Reclassification <sup>(a)</sup>					Other \$m	MLC adj \$m
	Cash loRE <sup>(i)</sup> \$m	Policy- holder tax <sup>(ii)</sup> \$m	Other NLII reclass- ification <sup>(iii)</sup> \$m	Non-life reclass- ification <sup>(b)</sup> \$m			
Net interest income	35	-	-	(2)	-	33	
Net life insurance income	(46)	318	(173)	-	-	99	
Other operating income	-	-	23	(650)	-	(627)	
MLC net operating income	-	-	323	386	7	716	
Net operating income	(11)	318	173	(266)	7	221	
Operating expenses	-	-	(185)	266	(8)	73	
Operating profit pre-charge to provide for doubtful debts	(11)	318	(12)	-	(1)	294	
Charge to provide for doubtful debts	-	-	-	-	-	-	
Operating profit before tax	(11)	318	(12)	-	(1)	294	
Income tax expense	10	(318)	12	-	1	(295)	
<b>Operating profit before distributions and non-controlling interest</b>	(1)	-	-	-	-	(1)	
Net profit - non-controlling interest	-	-	-	-	-	-	
loRE (after tax)	1	-	-	-	-	1	
Distributions	-	-	-	-	-	-	
<b>Net profit attributable to owners of the Company</b>	-	-	-	-	-	-	

Half Year ended 31 March 2011	Life Reclassification <sup>(a)</sup>					Other \$m	MLC adj \$m
	Cash loRE <sup>(i)</sup> \$m	Policy- holder tax <sup>(ii)</sup> \$m	Other NLII reclass- ification <sup>(iii)</sup> \$m	Non-life reclass- ification <sup>(b)</sup> \$m			
Net interest income	32	-	-	(7)	-	25	
Net life insurance income	(70)	(64)	(240)	-	-	(374)	
Other operating income	-	-	21	(540)	-	(519)	
MLC net operating income	-	-	392	385	(7)	770	
Net operating income	(38)	(64)	173	(162)	(7)	(98)	
Operating expenses	-	-	(184)	162	-	(22)	
Operating profit pre-charge to provide for doubtful debts	(38)	(64)	(11)	-	(7)	(120)	
Charge to provide for doubtful debts	-	-	-	-	-	-	
Operating profit before tax	(38)	(64)	(11)	-	(7)	(120)	
Income tax expense	9	64	11	-	7	91	
<b>Operating profit before distributions and non-controlling interest</b>	(29)	-	-	-	-	(29)	
Net profit - non-controlling interest	-	-	-	-	-	-	
loRE (after tax)	29	-	-	-	-	29	
Distributions	-	-	-	-	-	-	
<b>Net profit attributable to owners of the Company</b>	-	-	-	-	-	-	

<sup>(a)</sup> *Reclassification of Net Life Insurance Income (NLII).*

NLII is a statutory disclosure only and as such all items shown under NLII are reclassified for management reporting purposes. A summary of the respective NLII adjustments is provided below:

<sup>(i)</sup> *Cash loRE:*

*Interest on Retained Earnings is a separate disclosable item for management reporting purposes. Under the statutory view, components of loRE are disclosed in the following lines:*

- *Net interest income: this is the net interest cost of subordinated and senior debt raised for capital management purposes.*

- *NLII: includes interest earnings on insurance VARC (Value of Acquisition Recovery Components) and investment earnings on surplus assets.*

<sup>(ii)</sup> *Policyholder tax reclassification:*

*The MLC investment linked business is written within statutory funds. As a result NLII includes both shareholder and policyholder amounts for statutory reporting purposes. For management reporting purposes only the shareholder component is disclosed. From a statutory reporting disclosure point of view all policyholder amounts offset within the NLII disclosure, except for tax on the investment-linked business. As a result there is a reclassification between NLII and tax for these amounts.*

<sup>(iii)</sup> *Other NLII Reclassification:*

*These are all other components of NLII, not adjusted for above, which are included in MLC net operating income, operating expenses and income tax expense in the management view. These include premiums, investment earnings, claims, change in policy liabilities, policy acquisition and maintenance costs and investments management costs.*

<sup>(b)</sup> *Non-Life Reclassifications:*

*Non-life net interest income, other operating income and volume related expenses (included in operating expenses) are reclassified to MLC net operating income for management reporting purposes.*

## 17. Divisional Performance Summary Excluding Foreign Currency Movements

Year ended 30 September 2011 at 30 September 2010 FX rates	Business Banking \$m	Personal Banking \$m	Wholesale Banking \$m	MLC & NAB Wealth \$m	NZ Banking \$m	UK Banking \$m	GWB \$m	Specialised Group Assets \$m	Corporate Functions and Other <sup>(1)</sup> \$m	Distributions & Eliminations \$m	Group Cash Earnings \$m
Net interest income	5,033	2,826	1,287	328	1,051	1,684	325	136	750	-	13,420
Other operating income	1,006	590	621	35	358	496	92	67	(71)	(83)	3,111
MLC net operating income	-	-	-	1,486	-	-	-	-	-	-	1,486
Net operating income	6,039	3,416	1,908	1,849	1,409	2,180	417	203	679	(83)	18,017
Operating expenses	(1,764)	(1,791)	(940)	(1,128)	(593)	(1,258)	(202)	(54)	(533)	83	(8,180)
Underlying profit	4,275	1,625	968	721	816	922	215	149	146	-	9,837
Charge to provide for bad and doubtful debts	(802)	(301)	(21)	(18)	(120)	(512)	(65)	(52)	(4)	-	(1,895)
Cash earnings before tax, IoRE, distribution and non-controlling interest	3,473	1,324	947	703	696	410	150	97	142	-	7,942
Income tax (expense)/benefit	(1,028)	(392)	(266)	(199)	(209)	(93)	(51)	30	32	-	(2,176)
<b>Cash earnings before IoRE, distribution and non-controlling interest</b>	2,445	932	681	504	487	317	99	127	174	-	5,766
Net profit - non-controlling interest	-	-	-	(1)	-	-	-	-	-	-	(1)
IoRE	-	-	-	30	-	-	-	-	-	-	30
Distributions	-	-	-	-	-	-	-	-	-	(242)	(242)
<b>Cash earnings</b>	2,445	932	681	533	487	317	99	127	174	(242)	5,553

<sup>(1)</sup> Corporate Functions includes Group Funding, Group Business Services, other supporting units and Asia Banking.



Half Year ended 30 September 2011 at 31 March 2011 FX rates	Business	Personal	Wholesale	MLC &	NZ	UK	GWB	Specialised	Corporate	Group
	Banking	Banking	Banking	NAB	Banking	Banking	Banking	Group	Functions	Cash
	\$m	\$m	\$m	Wealth	\$m	\$m	\$m	Assets	and	Earnings
				\$m				\$m	Other <sup>(1)</sup>	\$m
									Eliminations	
									\$m	
Net interest income	2,587	1,458	719	168	520	785	139	61	402	6,839
Other operating income	514	289	149	16	172	244	45	(25)	(53)	1,303
MLC net operating income	-	-	-	716	-	-	-	-	-	716
Net operating income	3,101	1,747	868	900	692	1,029	184	36	349	8,858
Operating expenses	(885)	(900)	(464)	(567)	(287)	(581)	(92)	(26)	(261)	(4,015)
Underlying profit	2,216	847	404	333	405	448	92	10	88	4,843
(Charge to provide for)/benefit from bad and doubtful debts	(417)	(138)	(33)	(7)	(43)	(231)	(27)	(22)	71	(847)
Cash earnings before tax, IoRE, distribution and non-controlling interest	1,799	709	371	326	362	217	65	(12)	159	3,996
Income tax (expense)/benefit	(535)	(209)	(100)	(92)	(111)	(47)	(22)	50	(13)	(1,079)
<b>Cash earnings before IoRE, distribution and non-controlling interest</b>	1,264	500	271	234	251	170	43	38	146	2,917
Net profit - non-controlling interest	-	-	-	-	-	-	-	-	-	-
IoRE	-	-	-	1	-	-	-	-	-	1
Distributions	-	-	-	-	-	-	-	-	-	(114)
<b>Cash earnings</b>	1,264	500	271	235	251	170	43	38	146	2,804

<sup>(1)</sup> Corporate Functions includes Group Funding, Group Business Services, other supporting units and Asia Banking.

Section 7

**Glossary of Terms**

Term	Description
ABCP	Asset-backed commercial paper.
ABS	Asset-backed securities.
ABS CDO - Super-senior note holder	CDO of ABS where a conduit has invested in the most senior note.
ABS CDO - Junior note holder	CDO of ABS where a conduit has invested in a note which is subordinated to other note(s).
Alt-A	In USA, residential mortgage loans advanced to borrowers falling just outside prime lending criteria, but without the more significant credit or debt servicing limitations seen in subprime lending.
APRA	Australian Prudential Regulation Authority.
ASX	Australian Securities Exchange.
ATO	Australian Taxation Office.
Auto / Equipment	Automotive and equipment receivables.
Average assets	Represents the average of assets over the period adjusted for disposed operations.
Banking	Banking operations include the Group's: <ul style="list-style-type: none"> <li>- Retail, business, institutional and agri-business banking operations operating in Business Banking, Personal Banking, UK Banking, NZ Banking, MLC and NAB Wealth and Great Western Bank.</li> <li>- Wholesale Banking</li> <li>- Asian operations and Group Funding within Corporate Functions.</li> </ul>
Banking Cost to Income Ratio	Represents banking operating expenses (before inter-segment eliminations) plus the operating expenses of Specialised Group Assets (SGA) as a percentage of total banking operating revenue (before inter-segment eliminations) inclusive of the operating revenue of SGA.
Cash earnings	Is a non Generally Accepted Accounting Principles (GAAP) key performance measure that excludes certain items within the calculation of net profit attributable to owners of the Company. 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. These specified items are excluded in order to better reflect what NAB considers to be the underlying performance of the Group. Many of the adjustments below are more effectively applied on a consolidated basis and therefore at a divisional level cash earnings reflects the performance of the business segment as it is managed. 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: <p style="margin-left: 40px;">Net profit attributable to owners of the Company</p> <p style="margin-left: 40px;">Adjusted for:</p> <ul style="list-style-type: none"> <li>Distributions</li> <li>Treasury shares</li> <li>Fair value and hedge ineffectiveness</li> <li>IoRE discount rate variation</li> <li>UK Payment Protection Insurance provision</li> <li>Hedging costs on SCDO assets</li> <li>Efficiency, quality and service initiatives (EQS)</li> <li>Litigation expense</li> <li>Property revaluation</li> <li>Provision for tax NZ structured finance transactions</li> <li>MLC reinsurance dispute</li> <li>Refund of tax on exchangeable capital units (ExCaps) settlement</li> <li>Amortisation of acquired intangible assets</li> <li>Due diligence, acquisition and integration costs</li> <li>Net profit/(loss) on sale of controlled entities</li> <li>Significant items</li> </ul>
Cash earnings on average equity	Calculated as cash earnings – ongoing divided by average shareholders' equity, excluding non-controlling 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.
Cash return on equity	Calculated as cash earnings divided by average shareholders' equity, excluding non-controlling interests and other equity instruments and adjusted for treasury shares.
CDO	Collateralised Debt Obligation.
CDS	Credit Default Swap.
CLO	Collateralised Loan Obligations.
CMBS	Commercial Mortgage-Backed Securities.
Conduit	SPE used to fund assets through the issuance of ABCP or MTN.
Core Assets	Represents loans and advances to customers and banks (including leases and acceptances), investments held to maturity, other financial assets at fair value, fixed assets and other assets; net of other liabilities.
Credit wrapped ABS	Securities backed by monoline-guaranteed portfolios of ABS.
Credit wrapped bonds	Monoline-guaranteed infrastructure, utility and energy related corporate bonds.
Customer Deposits	Deposits (Interest Bearing, Non-Interest Bearing, Term Deposits, Central Bank Deposits).
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.
Due diligence, acquisition and integration costs	Represent costs relating to due diligence on business acquisition and disposal activities and costs associated with integrating acquisitions with the NAB operating model and reporting platforms.
Earnings Per Share	Calculated in accordance with the requirements of AASB 133 "Earnings per Share."
Efficiency, quality and services initiatives	Represent those costs that the Group accelerated in response to the economic downturn to bring forward efficiency gains that would otherwise have been realised in subsequent periods.
ExCaps taxation assessment	Represents the reduction, in the year ended 30 September 2009, of the carrying value of the \$309 million receivable due from the Australian Taxation Office in relation to its exchangeable capital units (ExCaps) to nil. The ATO disallowed the Group's objections to the ExCaps taxation assessments. Subsequently the Group settled and obtained a refund of \$142 million previously paid to the Australian Taxation Office in relation to the ExCaps assessment.
Fair value	Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between willing parties in an arms length transaction.
Fair value and hedge ineffectiveness	Represents volatility attributable to the Group's application of the fair value option, ineffectiveness from designated accounting and economic hedge relationships and economic hedges of significant approved funding activities where hedge accounting has not been applied.
FDIC	Federal Deposit Insurance Corporation.
FSB	Financial Stability Board.
FSCS	United Kingdom Financial Services Compensation Scheme.
Full time equivalent employees (FTEs)	Includes all full time staff, part time, fixed term and casual staff equivalents, as well as agency temps and external contractors either self employed or employed by a third party agency. Note: This does not include consultants, IT professional services, outsourced service providers and non executive directors.
GAAP	Represents generally accepted accounting principles.
GSJBW	Goldman Sachs JBWere.
GWB	Great Western Bank.
Impaired Assets	Consist of: <ul style="list-style-type: none"> <li>- retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue;</li> <li>- non retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest; and</li> <li>- impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.</li> </ul> Unsecured portfolio managed facilities are also classified as impaired assets when they become 180 days past due (if not written off).
Impairment of MLC & NAB Wealth re-insurance tax receivable	Represents a settlement with the Australian Tax Office (ATO) in relation to a dispute.
Insurance	Includes the provision of personal and Group insurance by MLC.
Insurance value of acquisition expense recovery component (Insurance VARC)	A component, net of reinsurance costs, of insurance policy liabilities. It is the current termination value less insurance policy liabilities, and represents the value of acquisition costs recoverable from future premiums.
Investments	Includes funds managed in the provision of investment and superannuation solutions by MLC.
IoRE	Investment earnings (net of tax) on shareholders retained profits and capital from life businesses, net of capital funding costs (IoRE) is comprised of three items: <ul style="list-style-type: none"> <li>- investment earnings on surplus assets which are held in the Statutory Funds to meet capital adequacy requirements under the Life Insurance Act 1995 (Cth).</li> <li>- interest on deferred acquisition costs (net of reinsurance) included in insurance policy liabilities resulting from the unwind of discounting.</li> <li>- less the borrowing costs of any capital funding initiatives.</li> </ul>
IoRE discount rate variation	The profit impact of a change in value of deferred acquisition costs (net of reinsurance) included in insurance policy liabilities resulting from a movement in the inflation adjusted risk free discount rate.
IRB approach	The internal ratings based approach refers to the processes employed by the Group to estimate credit risk. This is achieved through the use of internally developed models to assess the potential credit losses using the outputs from the probability of default, loss given default and exposure at default models.
'Jaws'	The difference between the percentage growth in revenue on the preceding period and the percentage growth in the expenses on the preceding period.
Leveraged loans CLOs	CLOs backed by pools of broadly syndicated commercial bank loans.
Litigation expense	Represents litigation expenses in relation to non-recurring litigation matters.
LMI	Lenders Mortgage Insurance.
Marketable debt securities	Comprises trading securities, investments - available for sale and investments - held to maturity.
Monolines	Monoline Insurers (monoline insurance companies) guarantee the timely payment of interest and repayment of principal in case an issuer of the guaranteed instrument defaults. They are so named because they provide service to only one industry.
MTN	Medium Term Notes.
Net interest margin	Net interest income as a percentage of average interest earning assets.
Net profit attributable to owners of the Company	Represents the Group's statutory profit after tax and reflects the amount of net profit that is attributable to owners.
Net profit attributable to non-controlling interest	Reflects the allocation of profit to non-controlling interests in the Group, and is adjusted from net profit to reflect the amount of net profit that is attributable to owners.
Net Tangible Assets per Share	Net assets excluding intangible assets, non-controlling interests, preference shares and other equity instruments divided by ordinary shares on issue at the end of the period.
Non-conforming residential mortgage	In Australia and UK, residential mortgage loans that are advanced to borrowers who do not generally meet prime lending guidelines and LMI eligibility.
Non-LMI prime residential mortgage	Prime residential mortgages but without LMI cover.

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.
Non-retail deposits and other borrowings	Comprises deposits held by Wholesale Banking and Specialised Group Assets, certificates of deposits, securities sold under agreements to repurchase, and borrowings.
Prime residential mortgages	In Australia, residential mortgage loans advanced by traditional residential mortgage lenders and eligible to be covered by an LMI policy.
Property revaluation	Represents revaluation decrements of land and buildings based on directors' valuations to reflect fair value.
Provision for tax NZ structured finance transactions	Represents the provision established in the year ended 30 September 2009 relating to the amended tax assessments issued by the New Zealand Inland Revenue Department (IRD) regarding certain structured finance transactions undertaken by the business. As a result of settlement with the IRD on 23 December 2009, BNZ released the unused portion of the provision previously made within income tax expense in the Group's results as at 31 March 2010.
Retail deposits	Comprises on-demand and savings deposits, term deposits and non-interest bearing deposits in Personal Banking, Business Banking (excluding institutional customers), UK Banking, NZ Banking, MLC and nabWealth, Great Western Bank and Asia Banking.
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. Under Basel II the Group calculates risk weighted assets for credit risk, market risk, operational risk and interest rate risk in the banking book.
SCDO	Synthetic Collateralised Debt Obligation.
Scorecards	A decision model incorporating algorithms that calculates a customer risk score, the outcome of which is used in the credit assessment process.
Securitisation	Structured finance technique which involves pooling and packaging cash-flow converting financial assets into securities that can be sold to investors.
Special Purpose Entity (SPE)	An entity created to accomplish a narrow well-defined objective (eg securitisation of financial assets). An SPE may take the form of a corporation, trust, partnership or unincorporated entity. SPEs are often created with legal arrangements that impose strict limits on the activities of the SPE.
Stable Funding Index (SFI)	Term Funding Index (TFI) plus Customer Funding Index (CFI).
Sub-prime residential mortgages	In USA, residential mortgage loans advanced to borrowers unable to qualify under traditional lending criteria due to poor credit history or debt payment capacity.
Subscription loans	Investment loans to equity investment funds.
Term Funding Index (TFI)	Term Wholesale Funding (with a remaining maturity to first call date 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.
Total Shareholder Return (TSR)	Total Shareholder Return (TSR) is a concept used to compare the performance of different companies' stocks and shares over time. It combines share price appreciation and dividends paid to show the total return to the shareholder. The absolute size of the TSR will vary with stock markets, but the relative position reflects the market perception of overall performance relative to a reference group.
Treasury shares	Shares in National Australia Bank Limited held by the Group's life insurance business and in trust by a controlled entity of the Group to meet the requirements of employee incentive schemes. The unrealised mark-to-market movements arising from changes in the share price, dividend income and realised profit and losses arising from share sales from shares held by the Group's life insurance business are eliminated for statutory reporting purposes.
Weighted Average Number of Shares	Calculated in accordance with the requirements of AASB 133 'Earnings per Share.'

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