

# **2012** **HALF YEAR** **RESULTS**

Incorporating the requirements of Appendix 4D

This half year results announcement incorporates the half year report given to the Australian Securities Exchange (ASX) under Listing Rule 4.2A.

This half year consolidated report is to be read in conjunction with the annual financial report 2011.

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



**National Australia Bank**

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## Results for Announcement to the Market

### Results for announcement to the market

Report for the half year ended 31 March 2012

**31 March 2012**

|   |         |      |            |  | <b>\$m</b> |
|---|---------|------|------------|--|------------|
| Revenue from ordinary activities <sup>(1)</sup>                                 | page 82 | up   | 8.1% * to  |  | 8,960      |
| Profit after tax from ordinary activities attributable to owners of the Company | page 82 | down | 15.5% * to |  | 2,052      |
| Net profit attributable to owners of the Company <sup>(2)</sup>                 | page 82 | down | 15.5% * to |  | 2,052      |

\* On prior corresponding period (six months ended 31 March 2011).

<sup>(1)</sup> Required to be disclosed by ASX Listing Rule Appendix 4D. 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 3.5%.

<sup>(2)</sup> Net profit attributable to owners of the Company was down 15.5% to \$2,052 million, reflecting higher charges for bad and doubtful debts, impairment of goodwill and capitalised software, an additional provision for potential claims relating to payment protection insurance in UK Banking and hedging costs on SCDOs, offset by a strong performance in Wholesale Banking.

|  | <b>Amount<br/>per<br/>share<br/>cents</b> | <b>Franked<br/>amount per<br/>share<br/>%</b> |
|--|---|---|
| <b>Dividends</b>   |   |   |
| Interim dividend   | 90  | 100   |
| Record date for determining entitlements to the final dividend |   | 6 June 2012                                   |

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

|   |         |         |   |
|---|---------|---------|---|
| Group cash earnings                     | up      | 6.0%    | Cash earnings of \$2,828 million for the March 2012 half year increased by \$160 million or 6.0% on the March 2011 half year. This was largely driven by stronger performances in Business Banking, Personal Banking, Wholesale Banking and NZ Banking, offset by weaker results in UK Banking and Specialised Group Assets (SGA) primarily due to higher bad and doubtful debt charges. The difference between cash earnings and statutory net profit attributable to the owners of the Company was primarily due to charges relating to the outcomes of the UK Banking strategic review referred to in the ASX announcement dated 30 April 2012, and accelerated hedging costs on SCDOs. Refer to note on cash earnings on page 13. |
| Cash return on equity (ROE)             | down to | 15.0%   | Cash ROE decreased by 10 basis points.  |
| Diluted cash earnings per share (cents) | up to   | 125.1   | Diluted cash earnings per share increased by 2.5%.  |
| Banking cost to income ratio            | down    | 210 bps | The Group's banking cost to income ratio improved by 210 basis points to 41.8%.   |
| Tier 1 capital ratio                    | up      | 98 bps  | The Tier 1 capital ratio has increased to 10.17%. It remains above the Group's target.  |
| Full time equivalent employees          | down    | 1,894   | Full time equivalent employees decreased to 43,399 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 (six months ended 31 March 2011).

A Glossary of Terms is included in Section 7.

A reference in this Appendix 4D 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 March 2012 half year are references to the six months ended 31 March 2012. Other six month periods are referred to in a corresponding manner. National Australia Bank Limited's half year consolidated financial report and directors' report, prepared in accordance with the *Corporations Act* 2001 (Cth), is located in Section 5.

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**ASX ANNOUNCEMENT***Thursday, 10 May 2012***NAB 2012 Half Year Results**  
**Solid result and progress against strategic agenda**Key Points

The 31 March 2012 half year results are compared with 31 March 2011 half year results unless otherwise stated.

- On a statutory basis, net profit attributable to owners of the Company<sup>1</sup> was \$2.052 billion, a decrease of \$376 million or 15.5%. The difference between net profit attributable to the owners of the company and cash earnings was primarily due to the charges relating to the outcomes of the UK Banking strategic review referred to in the ASX Announcement dated 30 April 2012, and accelerated amortisation of hedging costs on exited SCDO assets.
- On a cash earnings<sup>2</sup> basis:
  - Cash earnings were \$2.828 billion, an increase of \$160 million or 6.0%, largely due to strong results in Wholesale Banking and NZ Banking, and higher earnings in Business Banking and Personal Banking. This was a solid result, particularly considering the increasingly difficult operating conditions for UK Banking during the period. Challenging economic conditions, subdued credit growth, and a full regulatory agenda presented challenges across the industry and the Group.
  - Revenue grew by 3.5% to \$9.108 billion, an outcome reflecting subdued credit demand and higher funding costs. The growth was primarily driven by Wholesale Banking. Business Banking, Personal Banking and NZ Banking also had higher revenue, having recorded volume growth ahead of system.
  - Net interest margin decreased by 6 basis points, largely as a result of higher wholesale and deposit funding costs.
  - The Group again delivered positive 'jaws' with revenue continuing to grow faster than expenses. Costs were lower than in both the previous half and the prior corresponding period.
  - The charge to provide for bad and doubtful debts was \$1.131 billion<sup>3</sup>, an increase of \$143 million or 14.5%, primarily due to higher charges in UK Banking as a result of the further economic downturn, and increases in the specific provision for the SGA leveraged finance and commercial property portfolios. However, in aggregate, asset quality metrics were generally improved.
- Balance sheet strength remained a focus, with sound capital, funding and liquidity positions being maintained. During the half, the Group raised \$14.455 billion of term wholesale funding (including secured funding).
- The Stable Funding Index was 85% compared with 84% at March 2011. The Group's capital position also improved, with the Tier 1 ratio at 10.17% from 9.19% at March

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<sup>1</sup> Reviewed in accordance with Australian Auditing Standards

<sup>2</sup> Refer to note on cash earnings on page 6 of this document

<sup>3</sup> On a statutory basis, bad and doubtful debts were \$1.321 billion. The difference between the charge for bad and doubtful debts on a statutory basis and the charge for bad and doubtful debts on a cash earnings basis mainly relates to a charge arising from a default of two of the Group's SCDO's for which the Group has received off-setting compensation.

2011. Cash return on equity was 15.0%, a decrease of 10 basis points. The core tier 1 ratio was 8.03%.

- The interim dividend is 90 cents per share fully franked, an increase of 6 cents per share on the prior interim dividend.
- NAB continues to make progress on its corporate responsibility agenda and in March 2012, NAB was named as an Equal Opportunity for Women in the Workplace Agency (EOWA) Employer of Choice for Women for the sixth year in a row.

#### Executive Commentary

"The Group continues to make progress against its strategic agenda and transform the way it does business," NAB Group Executive Officer, Cameron Clyne, said today.

"The Australian franchise continued to perform well and market share was further strengthened during the period, despite an increasingly competitive environment. Business Banking maintained its position as Australia's leading business lender with a 70 basis point increase in market share reflecting its focus on supporting customers in all market conditions and strong relationship banking model. Personal Banking continued to benefit from its differentiated customer proposition, increasing its market share of home lending by 90 basis points. We have reiterated our commitment to maintain the lowest standard variable rate of the major Australian banks for 2012, and customer satisfaction is now at the highest level in 15 years<sup>4</sup>.

"Revenue momentum, sound cost management, and strong capital generation were key features of the Group's half-year performance. This was despite a challenging operating environment characterised by higher funding costs and subdued credit growth across all markets, and particularly difficult economic conditions in the UK.

"Wholesale Banking performed strongly, as momentum from the franchise focused strategy produced higher sales of risk management products to Group customers and Specialised Finance also performed well.

"Despite sluggish investment markets and an increase in insurance lapses, NAB Wealth grew both funds under management and premiums in force. The business continued to invest in the development of new products and services during the half, releasing a new insurance product, MLC Insurance, and a refresh of MasterKey fundamentals. Adviser numbers grew, with 84 net new advisers joining aligned networks. Costs were tightly managed.

"New Zealand Banking performed strongly, with improved market share across most categories.

"Great Western Bank moved to further strengthen its presence in Iowa, the second largest agricultural producing state in the US.

"SGA risk weighted assets were significantly reduced with the removal of the economic risk on the remaining two Synthetic Collateralised Debt Obligations.

"During the period the Group maintained its focus on balance sheet strength and further improved its capital and funding ratios. Cost growth was managed to below revenue growth in spite of subdued market conditions and the ongoing technology investment program, and the Group remains committed to pursuing sustainable productivity improvements.

"NAB is well positioned to continue to achieve its overall objective of delivering sustainable, satisfactory shareholder returns, despite an uncertain outlook," he said.

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<sup>4</sup> Roy Morgan Research, Australians 14+



## Business Commentary

### **Business Banking**

Cash earnings increased by \$83 million or 7.0%, despite higher funding costs and lower demand for credit. Income from sales of risk management products increased, reflecting improvements in cross-sell with Wholesale Banking.

Business Banking retained its position as Australia's leading business lender with a 70 basis points increase in market share<sup>5</sup>, reflecting the strength of its relationship focused banking model. Average retail deposits also grew by \$10.7 billion or 12.8%.

Net interest margin declined by 1 basis point due to higher funding and deposit costs, partly offset by repricing of the lending portfolio.

Operational efficiencies and effective expense management drove a reduction in expenses of \$4 million or 0.5%.

The asset quality of the portfolio was broadly stable and the charge for bad and doubtful debts fell by \$13 million or 3.4%.

### **Personal Banking**

Cash earnings increased by \$32 million or 7.4% due to strong volume growth over the year and good cost management, despite continued pressure on the net interest margin. The net interest margin decreased by 20 basis points, reflecting increases in funding and deposit costs, and changes in mix, as momentum in home lending continued, although partially offset by repricing.

Over the period Personal Banking continued to increase market share in housing lending<sup>6</sup> and household deposits<sup>7</sup>, despite a competitive market. Improving the customer experience remained a key focus and this was reflected in further improvements in customer satisfaction.

The increase in the charge to provide for bad and doubtful debts has been small, despite the growth in home lending volumes, as a result of continued improvements in loan origination quality.

### **Wholesale Banking**

Cash earnings increased strongly by \$125 million or 31.8% due to an increase in revenue in both the customer and risk businesses.

All businesses contributed to an increase in revenue, which was up by \$222 million or 22.3%, with costs up only 2.0% (costs fell excluding performance based remuneration), demonstrating strong cost management and operational efficiencies. There was improved performance in the customer businesses as the cross-sell agenda continued to gain traction, bringing higher sales of risk management products to Group customers. Specialised Finance performed well in infrastructure, energy and utilities, building on the positive momentum from the prior year. The Capital Markets business provided innovative funding solutions by taking clients direct to global capital markets and, with the Financial Institutions Group, developed a number of innovative deposit products for the Superannuation industry. Risk income also increased, following sluggish performance in the second half of 2011, with improved performances in both Treasury and trading.

The charge to provide for bad and doubtful debts was higher, mainly due to provisions raised against two customers.

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<sup>5</sup> APRA Banking System, as at March 2012

<sup>6</sup> RBA Financial System / NAB including Wholesale Banking, as at March 2012

<sup>7</sup> APRA Banking System / NAB including Wholesale Banking, as at March 2012

## **NAB Wealth**

Cash earnings before IoRE<sup>8</sup> were down \$10 million or 3.7% compared to March 2011, predominantly the result of an increase in insurance lapses. Compared to the September 2011 half, cash earnings before IoRE were 11.1% higher, despite subdued investment markets and a competitive operating environment. Expenses were tightly managed.

Funds under management (FUM) increased by \$4.589 billion or 3.9% as a result of acquisitions in the direct funds management business. This was partially offset by lower discretionary flows from retail and wholesale sources, as investors remained cautious. Inforce premiums grew by 4.0% to \$1,493 million. Investment margins were stable, with favourable earnings on the annuities portfolio offset by changes in the business mix.

Adviser interest in NAB Wealth's progressive business model remains strong and led to an 8.7% increase in aligned advisors since March 2011. The business continued to develop new products and services over the half including the launch of a new insurance product, MLC Insurance, and the acquisition of the direct funds management business, Antares Capital Partners Limited (formerly known as Aviva Investors Australia Ltd).

## **New Zealand Banking**

Cash earnings increased by NZ\$102 million or 36.0% driven by modest margin improvement, increased volumes and a lower charge to provide for bad and doubtful debts.

BNZ increased its market share in key segments including agribusiness<sup>9</sup>, while its market share of housing remained stable<sup>10</sup>. The average volumes of retail deposits also grew strongly, rising by NZ\$3.1 billion or 10.2%, further strengthening the balance sheet and growing market share by 70 basis points to 18.7%.

Net interest margin improved by 17 basis points to 2.41% largely due to repricing for market conditions and a favourable product mix, reflecting strong growth in the demand for variable rate mortgages.

The charge to provide for bad and doubtful debts was down NZ\$61 million or 64.2% to NZ\$34 million due to lower specific provisions on business exposures, strong credit card collections, and an overall improvement in asset quality across the lending portfolio as the economic recovery continues.

## **United Kingdom Banking**

UK Banking cash earnings for the first half of the 2012 financial year were a £25 million loss compared to a £77 million profit in the prior corresponding period. UK Banking's performance was adversely affected by a further deterioration in economic and operating conditions in the region and this has had an effect on asset quality. Results were also affected by an increase in the cost of retail and wholesale funding following Clydesdale Bank's credit rating downgrades and reflecting higher retail deposit costs.

The Commercial Real Estate (CRE) portfolio was the main driver of the increased charge to provide for bad and doubtful debts in UK Banking, as a result of renewed weakness in the property market and the prolonged economic downturn.

National Australia Bank announced the outcome of its strategic review into UK Banking on 30 April 2012 in response to the downgrade in growth prospects for the UK economy over the last half year, as the commercial property market experiences a "double dip" and the economic recovery stalls. The restructure will simplify the business model of the UK franchise, bringing it back to its core geographies of Scotland and Northern England and improve its balance sheet structure through the transfer and subsequent run-off of commercial real estate assets. These changes are needed to adapt to the changed

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<sup>8</sup> Investment earnings on shareholders' retained profits and capital in the life business

<sup>9</sup> Reserve Bank of New Zealand data, as at March 2012

<sup>10</sup> Reserve Bank of New Zealand data, as at March 2012

operating environment in the UK, and to reposition the UK Banking business to improve returns for the Group over the medium term<sup>11</sup>.

### **Great Western Bank**

Great Western Bank (GWB) cash earnings increased by US\$3 million or 6.4% over the half as the business continued to generate growth in lending volumes and credit quality improved, lowering the charge for bad and doubtful debts.

Net interest margin declined by 60 basis points due to increased competition and lower yields on investment securities. GWB remains fully deposit funded.

In March 2012 GWB announced the proposed acquisition of First Federal Savings Bank of Iowa, consistent with GWB's strategy to grow through strategically aligned, bolt-on acquisitions. The deal remains subject to the necessary approvals.

### **Specialised Group Assets**

Specialised Group Assets (SGA) cash earnings fell by \$80 million, mainly due to lower mark-to-market gains and a higher charge for bad and doubtful debts as a result of rises in specific provisions. Due to the run-off of the business, expenses decreased by \$6 million or 25.0%.

The ongoing performance of the portfolio remains closely linked to the state of the UK and US economies.

As announced on 22 March 2012, National Australia Bank removed the economic risk of the remaining two Synthetic Collateralised Debt Obligations, held as part of the portfolio. There has been a reduction in SGA risk weighted assets of \$17.3 billion since September 2009, \$7.0 billion of which was achieved during the last six months.

### **Balance Sheet Commentary**

#### **Capital**

The Group Tier 1 capital ratio of 10.17%, up 98 basis points from March 2011, was consistent with the Group's objective of maintaining a strong balance sheet. The total capital ratio was 11.52%. Balance sheet strength remains a strategic priority for the Group.

#### **Funding and Liquidity**

Global wholesale funding market conditions were fragile during the first quarter of the 2012 financial year as the European sovereign debt crisis worsened. While there has been an improvement in market conditions and greater access to funding since then, the market remains vulnerable to further disruptions.

Nevertheless, the Group raised \$14.455 billion of term wholesale funding (including secured funding) in the first half of the 2012 financial year. The weighted average maturity of term wholesale funding raised by the Group over the half year to 31 March 2012 was approximately 4.2 years, slightly higher than that of the September 2011 half year of 4.1 years.

The Group maintains well diversified and high quality liquid asset portfolios that are continually reassessed to support regulatory and internal requirements. Total liquid assets held at 31 March 2012 were \$90.061 billion.

#### **Group Asset Quality**

Asset quality metrics have been slightly stronger than at March 2011. The ratio of 90+ days past due loans to gross loans and acceptances was 0.49% at 31 March 2012, compared to 0.55% at 31 March 2011. Excluding the UK, this ratio was 0.45%, 7 basis points lower than March 2011.

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<sup>11</sup> Details of the outcomes of the UK Banking strategic review are included in the ASX Announcement dated 30 April 2012

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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.

**Note on Cash Earnings**

The Group's results and Review of Divisional Operations and Results are presented on a cash earnings basis unless otherwise stated. Cash earnings is a key financial performance measure used by NAB, the investment community and NAB's Australian peers with a similar business portfolio. NAB also uses cash earnings for its internal management reporting as it better reflects what NAB considers to be the underlying performance of the Group. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards nor audited or reviewed in accordance with Australian Auditing Standards. "Cash earnings" is calculated by excluding some items which are included within the statutory net profit attributable to owners of the Company. A definition of cash earnings is set out on page 150 of the 2012 Half Year Results Announcement. A discussion of non-cash earnings items and a full reconciliation of the cash earnings to statutory net profit attributable to owners of the Company for the March 2012 half year is included on pages 22 and 141 of the 2012 Half Year Results Announcement. The Group's financial statements, prepared in accordance with the *Corporations Act 2001* (Cth) and Australian Accounting Standards, and reviewed by the auditors in accordance with Australian Auditing Standards, are included in section 5 of the 2012 Half Year Results Announcement.

**Section 2****Highlights**

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## Group Performance

Cameron Clyne

### Net Profit Attributable to Owners of the Company

Net Profit attributable to owners of the Company (statutory net profit) for the March 2012 half year decreased by \$739 million or 26.5% against the September 2011 half year, and \$376 million or 15.5% against the March 2011 half year. Net Profit attributable to owners of the company is prepared and reviewed in accordance with the *Corporations Act 2001* (Cth), Australian Accounting Standards and Australian Auditing Standards.

### Shareholder Returns

The Group's cash return on equity has decreased by 10 basis points to 15.0% against the March 2011 half year, or 20 basis points against the September 2011 half year, primarily due to the higher level of capital more than offsetting the benefit from higher earnings.

The interim dividend for March 2012 is 90 cents per share, two cents higher than the September 2011 half year, and six cents higher than the March 2011 half year. This represents a dividend payout ratio of 71.3% for the March 2012 half year on a cash earnings basis. The dividend payment is 100% franked and will be paid on 16 July 2012. Shares will be quoted ex-dividend on 31 May 2012.

### Earnings per Share

Basic **statutory** earnings per share decreased by 35.6 cents or 28.6% and diluted earnings per share decreased by 34.8 cents or 28.2% on the September 2011 half year. This reflects the Group's decrease in statutory profit.

Basic **statutory** earnings per share decreased by 20 cents or 18.4% and diluted earnings per share decreased by 19.9 cents or 18.4% on the March 2011 half year. This reflects the Group's decrease in statutory profit.

Basic **cash earnings per share** decreased by 0.7 cents or 0.6% and diluted cash earnings per share decreased by 0.6 cents or 0.5% on the September 2011 half year. This reflects the Group's increase in cash earnings, more than offset by an increase in weighted average number of ordinary shares.

Basic **cash earnings per share** increased by 3.2 cents or 2.6% and diluted cash earnings per share increased by 3.0 cents or 2.5% on the March 2011 half year. This reflects the Group's increase in cash earnings, partially offset by an increase in weighted average number of ordinary shares.

### 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 it announced in 2009. These 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 Group continued to make good progress on its strategic agenda during the first half of the financial year. A sustained focus on its Australian franchise has resulted in market share gains in Personal Banking and Business Banking and improved the performance of Wholesale Banking and NAB Wealth (formerly known as MLC & NAB Wealth). Despite challenging conditions in global debt markets, balance sheet strength was maintained with sound capital, funding and liquidity positions. The Group continues to manage to positive 'Jaws' between revenue and expense growth and has maintained a disciplined approach to managing expenses. Good progress has been made in the Group's technology transformation and its initiatives to enhance its reputation and further differentiate itself from industry peers.

Earnings growth, revenue momentum and sound cost management were key features of the Group's half year performance, despite what continues to be a challenging operating environment. This has ensured that the Group remains well positioned despite an uncertain outlook in the foreseeable future.

Strategic highlights for the March 2012 half year include:

#### Focusing on the strong Australian franchise and managing international businesses for value

The Australian franchise continued to perform well and was further strengthened during the period.

Business Banking maintained its position as Australia's leading business lender by market share and delivered stable revenues, despite low credit growth and an increased cost of funds. Its focus on deepening customer relationships contributed to lending<sup>(1)</sup> and deposit<sup>(2)</sup> market share gains of 50 and 30 basis points respectively. Improving efficiency remained a priority with new measures put in place to allow bankers to spend more time with customers. Good progress was made on cross-sell initiatives, with sales of risk management products sold through Wholesale Banking growing during the half year.

Personal Banking continued to deliver strong results through its differentiated customer proposition and its commitment to being the bank that offers fair value to customers. Personal Banking's home lending growth was 2.2 times system<sup>(3)</sup> over the half year increasing NAB's market share by 17 basis points. Strong momentum in transaction accounts continued with net new account growth of 150,000 during the half year. There was also strong growth in retail deposits, up 7.2% from the September 2011 half year. Personal Banking's differentiated customer proposition also resulted in a 7.4% growth in customer numbers over the half year and strong improvements in customer satisfaction with NAB widening its lead on the peer average customer satisfaction result from 0.3% to 0.8%<sup>(4)</sup>, the highest increase amongst the majors, and achieving its highest ever Main Financial Institution (MFI) result during that period. NAB was awarded a series of Money Magazine's Best of the Best

<sup>(1)</sup> RBA Financial System - March 2012.

<sup>(2)</sup> APRA Banking System.

<sup>(3)</sup> RBA Financial System/ NAB including Wholesale Banking Data.

<sup>(4)</sup> Roy Morgan Research, Australians 14+, 6 month moving average. NAB compared to ANZ, Commonwealth and Westpac.

# 2012

Awards. Homeside Lending won the 'Cheapest Home Loan Packages' award, and for the third year running, UBank won the award for 'Best Term Deposits - Short Term' and 'Best Savings Accounts - Regular Deposit'.

NAB Wealth maintained its position in superannuation, insurance and private wealth, and continued to grow its presence in direct asset management. The level of claims improved over the half year following investments in technology and claims management resources. The Investment Platforms business was strengthened by the refresh of the core MasterKey Fundamentals offering and the migration of MasterKey Custom to the new discretionary investment platform, MLC Wrap. The asset management footprint expanded with the integration of Antares Capital Partners Limited (formerly known as Aviva Investors Australia Limited) and taking an equity stake in Redpoint Investment Management. Improving cross-sell with other parts of the Group remains a priority with a number of successful pilots now being rolled out more broadly across the bank. The businesses continued to grow adviser numbers as 32 new advisers joined aligned networks, reflecting both the strength of NAB's licensee offering and its preparedness for the new Future of Financial Advice (FoFA) reforms.

The ongoing success of Wholesale Banking's franchise focus strategy was demonstrated by revenue growth of 42% and strong sales of risk management products through Business Banking over the half year. Fixed Income, Currencies and Commodities (FICC) was also well positioned to take advantage of interest rate and foreign exchange market movements with increased customer flow. Wholesale Banking deepened penetration into the insurance, superannuation and fund sectors by leveraging its market position in Asset Servicing and its strong relationships held through the Financial Institutions franchise. Momentum in Debt Capital Markets continues to build with a number of key syndicated loan and securitisation transactions closed during the period, including a NAB covered bond issuance. Wholesale Banking strengthened its position in the infrastructure and natural resources sector, winning a series of pivotal deals by providing a broader commercial proposition to clients through its strong advisory capabilities and by widening cross-sell opportunities. The Group also maintained its position as a leading arranger to renewable power projects in Australia.

New Zealand Banking's strong performance for the half year reflects ongoing commitment to improving the customer experience through innovation, with BNZ winning the CANSTAR Innovation award for the second consecutive year. BNZ's continued focus on supporting local businesses saw the March opening of its Russley Partners Centre in Christchurch. The Centre reflects the Bank's most significant investment in Christchurch to date and will provide an unparalleled offering for businesses in the area. BNZ's customer-centred approach has contributed to growth in core lending volumes and improved market share in certain key segments. Balance sheet strength remains a priority which is reflected in 5.3% growth in customer deposits and the raising of \$NZ2.8 billion wholesale term funding during the period.

Operating conditions remain challenging for United Kingdom Banking. Earnings were lower, largely reflecting increased funding costs and a deterioration in credit quality. The ongoing sovereign debt crisis in the Eurozone and the continuing austerity of the UK government suggests that the UK economy is likely to

experience a prolonged period of subdued growth. The Group announced the outcome of the strategic review of UK Banking on 30 April 2012. The main outcomes of the review are to:

- Simplify the business model to focus on retail operations and SME business lending in Scotland and Northern England.
- Improve the UK Banking balance sheet structure by transferring the vast majority of its commercial real estate assets to NAB in the first half of the 2013 financial year.
- Place the transferred portfolio into run-off, to be managed separately.

Great Western Bank (GWB) continues to explore financially attractive opportunities for inorganic growth in selected markets and announced its entry into a merger agreement to acquire First Federal Savings Bank of Iowa. Whilst not a material acquisition for the Group, this acquisition increases the presence of GWB in Iowa, the second largest agricultural producing state in the US and a key target market. In addition, GWB delivered positive organic loan growth over the period and remains fully deposit funded.

## Maintaining Balance Sheet Strength

The Group held its focus on balance sheet strength and further improved its capital ratios over the period. This was achieved through an ongoing focus on capital efficiency. The Group's capital position improved with the Tier 1 ratio at 10.17% compared to 9.70% as at 30 September 2011. Despite difficult conditions in global debt markets, it successfully executed its funding program and accessed a diverse range of funding sources. During the March 2012 half year, NAB has raised approximately \$14.5 billion of term wholesale funding (including approximately \$3.6 billion of covered bonds) and the Stable Funding Index (SFI) at 31 March 2012 was unchanged from its 30 September 2011 level of 85%. Conservative liquidity settings were maintained. The balance sheet is moving towards Basel III compliance through a combination of growth, composition and maturity levers. Examples of the initiatives include aligning asset growth with deposit growth, reshaping the deposit book through product innovation, improving both the quality and quantity of the liquid asset portfolio, and extending the duration of short term wholesale funding.

## Reducing Cost and Complexity

The Group remains committed to carefully managing expenses and aggressively pursuing sustainable productivity improvements. Positive 'Jaws' of 4.4% were achieved in the sequential half as revenue continued to grow faster than expenses, in spite of subdued market conditions. The decrease in expenses for the sequential half year was 0.8%. The Group has made significant progress on its Kaizen@NAB agenda in order to reduce process complexity and improve its customer experience, while continuing to invest in core infrastructure projects.

Ongoing process simplification activities have underpinned significant increases in customer satisfaction. The transformation of the Group's technology operations environment gathered momentum and is on track to deliver improvements in cost efficiency and a reduction in operational risk. Notably, the Group's Next Generation Banking IT platform has successfully implemented a major foundational release of a broad set of underlying application components.

**Enhancing the Group's Reputation**

The Group is making significant progress in enhancing its reputation relative to peers. For the first time since the Sweeney Research Brand Tracker program began, NAB is ahead of the peer average on the reported brand perception metrics. Last years "Break Up" Campaign has received more accolades, most notably at the Australian Direct Marketing Association Awards. NAB took home the 'best of the best' ADMA Grand Prix award, as well as the Gold award for Creative Campaign and the Silver award for Effectiveness: Lending and Credit. NAB also won the Australian Human Resources Institute Wayne Cascio Award for Organisational Development and Leadership for its work in developing and executing the Personal Banking Capability Strategy.

NAB's ongoing commitment to creating a diverse and inclusive Workplace was demonstrated by NAB being recognised for the sixth year in a row as an Equal Opportunity for Women in the Workplace Agency (EOWA) Employer of Choice for Women. Employee engagement initiatives continued over the March 2012 half year, reflecting an ongoing focus on developing employees to realise their full potential. NAB continued the opening of its five virtual learning studios to make learning more accessible to employees in rural and regional areas. These will also deliver cost and productivity efficiencies by reducing the travel time and expenses associated with face-to-face learning.

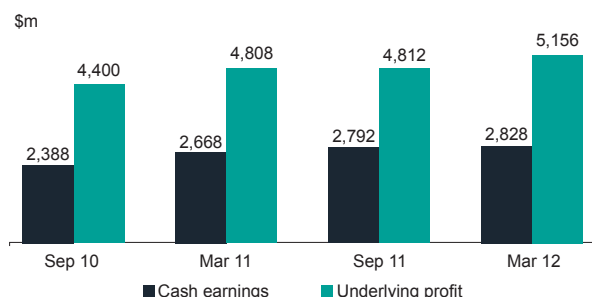
As part of the Group's continuing commitment to addressing its broader responsibility to society, the Academy and the Group's Corporate Responsibility function are leading NAB's commitment to support projects that create both positive social impacts and deliver financial returns. Strengthening efforts to manage its environmental impact, NAB is now one of two launch signatories to the United Nations Environment Program Finance Initiative (UNEP FI) 'National Capital Declaration'. The Declaration commits signatories to working towards integrating natural capital considerations into risk management, product and service development, and transactions with customers and suppliers. NAB is well positioned for these commitments as it has developed a preliminary understanding of environmental risks and opportunities and participated in UNEP FI projects related to understanding natural capital risk.



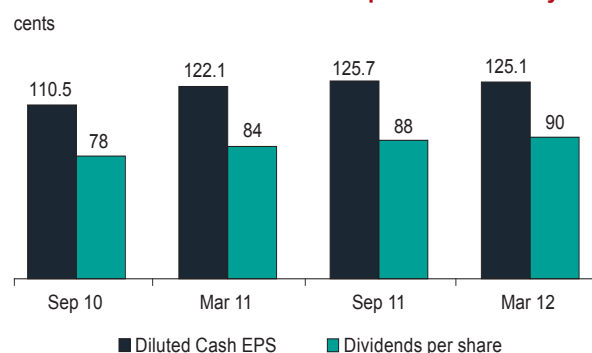
2012

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

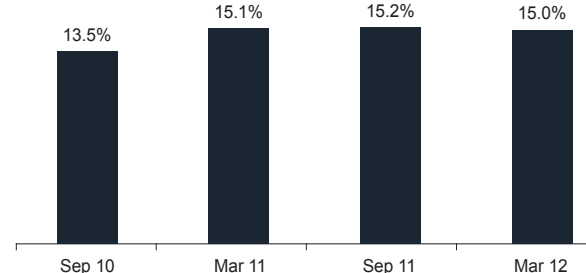
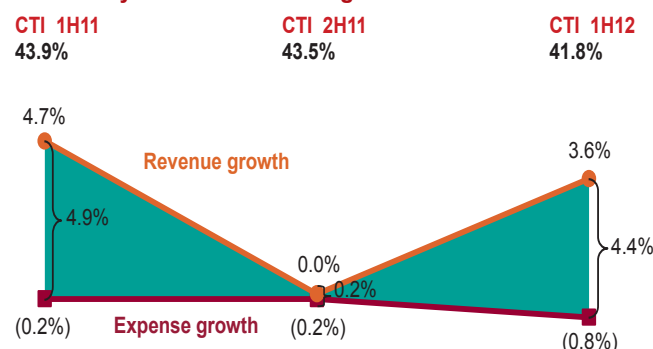
## Cash Earnings and Underlying Profit - half year



## Diluted Cash EPS and Dividend per Share - half year



## Cash Return on Equity (ROE) - half year

Half Yearly 'Jaws' and banking CTI momentum <sup>(2)</sup>Group Performance Indicators <sup>(1)</sup>

|   | Half Year to |         |         |
|---|--------------|---------|---------|
|   | Mar 12       | Sep 11  | Mar 11  |
| <b>Key Indicators</b>   |              |         |         |
| Statutory earnings per share (cents)  |              |         |         |
| - basic   | 88.8         | 124.4   | 108.8   |
| - diluted   | 88.4         | 123.2   | 108.3   |
| Cash earnings per share (cents)   |              |         |         |
| - basic   | 126.2        | 126.9   | 123.0   |
| - diluted   | 125.1        | 125.7   | 122.1   |
| Cash return on equity (ROE)   | 15.0%        | 15.2%   | 15.1%   |
| <b>Profitability, performance and efficiency measures</b>                                       |              |         |         |
| Dividend per share (cents)  | 90           | 88      | 84      |
| Dividend payout ratio   | 71.3%        | 69.3%   | 68.3%   |
| Cash earnings on average assets   | 0.76%        | 0.78%   | 0.78%   |
| Cash earnings on risk-weighted assets   | 1.67%        | 1.63%   | 1.54%   |
| Cash earnings per average FTE (\$'000)  | 129          | 123     | 118     |
| Banking cost to income (CTI) ratio  | 41.8%        | 43.5%   | 43.9%   |
| Net interest margin:  |              |         |         |
| - Group   | 2.17%        | 2.28%   | 2.23%   |
| - Business Banking  | 2.56%        | 2.66%   | 2.57%   |
| - Personal Banking  | 2.02%        | 2.17%   | 2.22%   |
| - NZ Banking  | 2.41%        | 2.35%   | 2.24%   |
| - UK Banking  | 2.09%        | 2.33%   | 2.33%   |
| - Great Western Bank  | 3.78%        | 3.99%   | 4.38%   |
| <b>Capital</b>  |              |         |         |
| Core Tier 1 ratio   | 8.03%        | 7.58%   | 7.12%   |
| Tier 1 ratio  | 10.17%       | 9.70%   | 9.19%   |
| Total capital ratio   | 11.52%       | 11.26%  | 11.33%  |
| Risk-weighted assets <sup>(4)</sup> (\$bn)  | 335.6        | 341.1   | 345.2   |
| <b>Volumes (\$bn)</b>   |              |         |         |
| Gross loans and acceptances <sup>(3) (4)</sup>  | 490.4        | 482.1   | 459.2   |
| Average interest earning assets   | 618.9        | 594.6   | 566.6   |
| Total average assets  | 745.1        | 715.7   | 685.6   |
| <b>Asset quality</b>  |              |         |         |
| Gross impaired assets to gross loans and acceptances  | 1.24%        | 1.32%   | 1.37%   |
| Collective provision to credit risk-weighted assets (ex. housing)                               | 1.36%        | 1.45%   | 1.46%   |
| Collective provision including GRCL (top-up) to credit risk-weighted assets (excluding housing) | 1.76%        | 1.86%   | 1.88%   |
| Specific provision to gross impaired assets   | 26.80%       | 24.20%  | 22.60%  |
| <b>Other</b>  |              |         |         |
| Funds under management and administration <sup>(5)</sup> (\$bn)                                 | 123.5        | 110.3   | 119.0   |
| Annual inforce premiums (\$m)   | 1,492.9      | 1,466.3 | 1,435.9 |
| Full Time Equivalent Employees (FTE) (no.)  | 43,399       | 44,645  | 45,293  |
| Full Time Equivalent Employees (FTE) (Average)  | 44,013       | 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 NAB Wealth.

## Group Results

|   | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|---|---------------|---------------|---------------|----------------------|----------------------|
|   | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Net interest income   | 6,708         | 6,788         | 6,304         | (1.2)                | 6.4                  |
| Other operating income  | 1,640         | 1,291         | 1,725         | 27.0                 | (4.9)                |
| NAB Wealth net operating income   | 760           | 716           | 770           | 6.1                  | (1.3)                |
| <b>Net operating income</b>   | <b>9,108</b>  | <b>8,795</b>  | <b>8,799</b>  | <b>3.6</b>           | <b>3.5</b>           |
| Operating expenses  | (3,952)       | (3,983)       | (3,991)       | 0.8                  | 1.0                  |
| <b>Underlying profit</b>  | <b>5,156</b>  | <b>4,812</b>  | <b>4,808</b>  | <b>7.1</b>           | <b>7.2</b>           |
| Charge to provide for bad and doubtful debts                                      | (1,131)       | (834)         | (988)         | (35.6)               | (14.5)               |
| <b>Cash earnings before tax, loRE, distributions and non-controlling interest</b> | <b>4,025</b>  | <b>3,978</b>  | <b>3,820</b>  | <b>1.2</b>           | <b>5.4</b>           |
| Income tax expense  | (1,121)       | (1,076)       | (1,066)       | (4.2)                | (5.2)                |
| <b>Cash earnings before loRE, distributions and non-controlling interest</b>      | <b>2,904</b>  | <b>2,902</b>  | <b>2,754</b>  | <b>0.1</b>           | <b>5.4</b>           |
| Net profit - non-controlling interest   | (1)           | -             | (1)           | large                | -                    |
| loRE  | 30            | 1             | 29            | large                | 3.4                  |
| Distributions   | (105)         | (111)         | (114)         | 5.4                  | 7.9                  |
| <b>Cash earnings <sup>(1)</sup></b>   | <b>2,828</b>  | <b>2,792</b>  | <b>2,668</b>  | <b>1.3</b>           | <b>6.0</b>           |
| Non-cash earnings items   | (776)         | (1)           | (240)         | large                | large                |
| <b>Net profit attributable to owners of the Company</b>                           | <b>2,052</b>  | <b>2,791</b>  | <b>2,428</b>  | <b>(26.5)</b>        | <b>(15.5)</b>        |

<sup>(1)</sup> Cash earnings is a key financial performance measure used by the Group, the investment community and Australian peers. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards. For a full reconciliation between the Group's cash earnings and net profit attributable to owners of the Company refer to Note 16 in Section 6. A Glossary of Terms is in Section 7.

## 2012

## Divisional Performance

## Divisional Results

|   | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|---|---------------|---------------|---------------|----------------------|----------------------|
|   | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Business Banking  | 1,264         | 1,264         | 1,181         | -                    | 7.0                  |
| Personal Banking  | 464           | 500           | 432           | (7.2)                | 7.4                  |
| Wholesale Banking   | 518           | 268           | 393           | 93.3                 | 31.8                 |
| NAB Wealth (before IoRE and after non-controlling interest) | 259           | 234           | 269           | 10.7                 | (3.7)                |
| NZ Banking  | 297           | 254           | 215           | 16.9                 | 38.1                 |
| UK Banking  | (36)          | 166           | 122           | large                | large                |
| Great Western Bank  | 48            | 41            | 47            | 17.1                 | 2.1                  |
| Specialised Group Assets                                    | (3)           | 33            | 77            | large                | large                |
| Corporate Functions and Other                               | 92            | 142           | 17            | (35.2)               | large                |
| IoRE  | 30            | 1             | 29            | large                | 3.4                  |
| Distributions   | (105)         | (111)         | (114)         | 5.4                  | 7.9                  |
| <b>Cash earnings</b>  | <b>2,828</b>  | <b>2,792</b>  | <b>2,668</b>  | <b>1.3</b>           | <b>6.0</b>           |
| Non-cash earnings items                                     | (776)         | (1)           | (240)         | large                | large                |
| <b>Net profit attributable to owners of the Company</b>     | <b>2,052</b>  | <b>2,791</b>  | <b>2,428</b>  | <b>(26.5)</b>        | <b>(15.5)</b>        |

## Divisional Performance Indicators

|  | Half Year to |        |        | Mar 12 v<br>Sep 11 | Mar 12 v<br>Mar 11 |
|--|--------------|--------|--------|--------------------|--------------------|
|  | Mar 12       | Sep 11 | Mar 11 |                    |                    |
| <b>Business Banking</b>                                      |              |        |        |                    |                    |
| Cash earnings (\$m)  | 1,264        | 1,264  | 1,181  | -                  | 7.0%               |
| Cash earnings on average assets                              | 1.29%        | 1.31%  | 1.25%  | (2 bps)            | 4 bps              |
| Cash earnings on risk-weighted assets                        | 1.78%        | 1.74%  | 1.61%  | 4 bps              | 17 bps             |
| Net interest margin  | 2.56%        | 2.66%  | 2.57%  | (10 bps)           | (1 bps)            |
| Net operating income (\$m)                                   | 3,047        | 3,101  | 2,938  | (1.7%)             | 3.7%               |
| Cost to income ratio   | 28.7%        | 28.5%  | 29.9%  | (20 bps)           | 120 bps            |
| <b>Personal Banking</b>                                      |              |        |        |                    |                    |
| Cash earnings (\$m)  | 464          | 500    | 432    | (7.2%)             | 7.4%               |
| Cash earnings on average assets                              | 0.65%        | 0.74%  | 0.70%  | (9 bps)            | (5 bps)            |
| Cash earnings on risk-weighted assets                        | 2.31%        | 2.43%  | 2.16%  | (12 bps)           | 15 bps             |
| Net interest margin  | 2.02%        | 2.17%  | 2.22%  | (15 bps)           | (20 bps)           |
| Net operating income (\$m)                                   | 1,731        | 1,747  | 1,669  | (0.9%)             | 3.7%               |
| Cost to income ratio   | 52.1%        | 51.5%  | 53.4%  | (60 bps)           | 130 bps            |
| <b>Wholesale Banking</b>                                     |              |        |        |                    |                    |
| Cash earnings (\$m)  | 518          | 268    | 393    | 93.3%              | 31.8%              |
| Cash earnings on risk-weighted assets                        | 2.60%        | 1.50%  | 2.30%  | 110 bps            | 30 bps             |
| Net operating income (\$m)                                   | 1,219        | 859    | 997    | 41.9%              | 22.3%              |
| Cost to income ratio   | 38.1%        | 53.4%  | 45.7%  | 1,530 bps          | 760 bps            |
| <b>NAB Wealth</b>  |              |        |        |                    |                    |
| Cash earnings before IoRE and non-controlling interest (\$m) | 260          | 234    | 270    | 11.1%              | (3.7%)             |
| Investment operating expenses to average FUM                 | 62 bps       | 65 bps | 64 bps | 3 bps              | 2 bps              |
| Insurance cost to average inforce premium                    | 16%          | 16%    | 17%    | -                  | 100 bps            |
| <b>NZ Banking (\$NZm)</b>                                    |              |        |        |                    |                    |
| Cash earnings (\$NZm)  | 385          | 329    | 283    | 17.0%              | 36.0%              |
| Cash earnings on average assets                              | 1.30%        | 1.12%  | 0.98%  | 18 bps             | 32 bps             |
| Cash earnings on risk-weighted assets                        | 1.93%        | 1.62%  | 1.44%  | 31 bps             | 49 bps             |
| Net interest margin  | 2.41%        | 2.35%  | 2.24%  | 6 bps              | 17 bps             |
| Net operating income (\$NZm)                                 | 944          | 910    | 865    | 3.7%               | 9.1%               |
| Cost to income ratio   | 39.7%        | 41.5%  | 42.7%  | 180 bps            | 300 bps            |
| <b>UK Banking (£)</b>  |              |        |        |                    |                    |
| Cash earnings/(deficit) (£m)                                 | (25)         | 106    | 77     | large              | large              |
| Cash earnings on average assets                              | (0.11%)      | 0.47%  | 0.34%  | (58 bps)           | (45 bps)           |
| Cash earnings on risk-weighted assets                        | (0.16%)      | 0.64%  | 0.46%  | (80 bps)           | (62 bps)           |
| Net interest margin  | 2.09%        | 2.33%  | 2.33%  | (24 bps)           | (24 bps)           |
| Net operating income (£m)                                    | 592          | 644    | 615    | (8.1%)             | (3.7%)             |
| Cost to income ratio   | 58.8%        | 56.4%  | 59.0%  | (240 bps)          | 20 bps             |
| <b>Great Western Bank (\$USm)</b>                            |              |        |        |                    |                    |
| Cash earnings (\$USm)  | 50           | 43     | 47     | 16.3%              | 6.4%               |
| Cash earnings on average assets <sup>(1)</sup>               | 1.27%        | 1.13%  | 1.22%  | 14 bps             | 5 bps              |
| Cash earnings on risk-weighted assets                        | 1.75%        | 1.40%  | 1.57%  | 35 bps             | 18 bps             |
| Net interest margin  | 3.78%        | 3.99%  | 4.38%  | (21 bps)           | (60 bps)           |
| Net operating income (\$USm)                                 | 173          | 182    | 193    | (4.9%)             | (10.4%)            |
| Cost to income ratio   | 49.7%        | 50.0%  | 46.6%  | 30 bps             | (310 bps)          |
| <b>Specialised Group Assets</b>                              |              |        |        |                    |                    |
| Cash earnings (\$m)  | (3)          | 33     | 77     | large              | large              |
| Net operating income (\$m)                                   | 87           | 28     | 139    | large              | (37.4%)            |

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

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**Section 3**

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

|  |    |
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## Review of Group Operating Environment

### Global Business Environment

The business environment facing the Group through the first half of the financial year was dominated by a period of renewed volatility and stress in global financial markets. Concerns about Greek sovereign debt and financial stability in several other Eurozone economies lay at the heart of this volatility. While funding support for European banks and new agreements on Greek sovereign debt stabilised the situation, by the time these measures had been taken business confidence around the world had already been eroded and a new slowdown in the pace of global economic growth had commenced. This renewed stress in the middle of 2011 occurred when recoveries in many big economies were vulnerable.

During the global financial crisis many of the big advanced economies had been partially offsetting falls in private demand with higher budget deficits. However, by mid-2011 rising public debt was bringing austerity measures to many countries. Consequently, private demand had not yet recovered and fiscal policy was no longer available to offset renewed weakness. In the meantime, the big emerging economies were slowing in response to a tightening in their monetary policies.

In essence, the net effect of these factors - renewed financial stress, lower confidence, tighter monetary policy in the emerging economies, and the withdrawal of fiscal stimulus in the advanced economies - led to a fairly synchronised slowing in the pace of growth. Interestingly, demand trends in the US economy have not followed this pattern, with growth accelerating through 2011, but slowing in the initial months of 2012.

Global growth began slowing last year to 3.75%, at only slightly below trend, and is forecast to slip further to under 3.5% in 2012. The outlook of moderate world economic growth in 2012 masks big differences in economic performance between its constituent regions.

In the December quarter, growth in the advanced economies slipped to around 1.25% year-on-year. However, while the main emerging market economies slowed sharply through 2011, their growth rate was still over 6% by the end of the year, supported by still-solid growth in the Chinese economy. This disparity is expected to continue throughout 2012, with the advanced economies experiencing growth of about 1.5%, while the emerging economies are forecast to grow at 6.5%. The emerging economies, with their commodity intensive pattern of development, should continue to expand quite rapidly and account for a large part of total global economic expansion. This growth should support global commodity prices which, while they are expected to fall with the arrival of increased supply, should remain high by historical standards.

### Australian Economy

Australia has been one of the main beneficiaries of the commodity intensive growth in the emerging economies. Its commodity export prices in US dollars are twice their 2005-2007 average and the terms of trade are at levels seldom seen in the past century. These exceptionally high export prices have pumped income into the economy and helped it continue growing through the last four years of global recession and financial stress.

The commodity boom is also producing structural change across the economy. High prices for mineral exports have driven an appreciation of the Australian dollar, eroding the international competitiveness of sectors such as manufacturing, tourism and education services. By late 2011, their competitive position was the worst it has been since the early 1970s, with many indicators showing that Australia is a comparatively high cost location.

Despite favourable economic performance overall, there are material differences between sectors and regions. Fixed investment and corporate profits outside the mining sector have been fairly flat. Western Australia has grown rapidly, while Tasmania and South Australia have lagged. Many industries outside mining are still growing. The flow-on effects of higher mining output and incomes are boosting some services, while the health and education sectors have continued their growth in output and employment.

Australia is experiencing the same sort of de-leveraging pressures as other advanced economies, at the same time as it undergoes this process of structural change. Households have continued to record solid gains in income, but much higher savings rates and a slowdown in borrowing has flowed into weak retail spending. The housing market has been quite soft and housing construction and loan growth has slipped to quite low levels.

### New Zealand Economy

New Zealand's economic position is quite similar to that of Australia. New Zealand's commodity export prices are also well above their 2005-2007 average and the terms of trade are at their highest levels since the early 1970s. Higher commodity prices have boosted the NZ dollar and the outcome has been a sharp fall in the competitiveness of the non-commodity sectors. As in Australia, the result has been pressure for structural change, with manufacturing output slipping to well below its 2007 levels. Domestic spending in New Zealand has also been curbed by de-leveraging, as the household debt-to-income ratio was very high prior to the onset of the global financial crisis. Household incomes have continued to grow, but savings have turned positive for only the second time since the early 1990s and the growth of household credit has slowed to around 1% since mid-2010.

The long period of de-leveraging has created problems for parts of the economy. In late 2011 the volume of per capita retail sales had started to recover, but it was still lower than in 2007. Nominal house prices in early 2012 were around the levels they were in 2007 and the number of sales was quite low. However, housing affordability has improved, the household debt-to-income ratio is well below its peak level and the rapid growth in household deposits is strengthening balance sheets.

As a result of the high commodity prices, the improved household balance sheet and the reconstruction in Christchurch, economic growth is forecast to accelerate from around 1.4% in 2011 to 2.1% in 2012 and 2.9% in 2013. Domestic demand should pick up and there are signs that retail spending and the housing market are already improving.

### United Kingdom Economy

Growth has been much weaker in the UK than in any other major Group market, with output falling in late 2011 and early 2012 and remaining at around 4% below its early 2008 level. By contrast, over the same period Australian real GDP rose by 7.5% and New Zealand output was back around its pre-crisis level.

The UK economy has experienced the same de-leveraging pressures as many other advanced economies, which has resulted in a 5% decline in the volume of household consumption spending. This fall in spending reflects a drop in real disposable income, an upturn in household savings and a marked slowdown in household borrowing. Property markets have weakened through this period of de-leveraging, with house prices down by almost a fifth from their 2007 average, while commercial property values are down by one-third. The drift downwards in property markets resumed in the latter part of the 2011 calendar year and has continued into early 2012.

Private sector de-leveraging and public sector austerity measures mean that the structure of the UK economy needs to change and a long and difficult process of re-balancing economic growth is under way. The next few years should see a much lower contribution to growth from government, consumer spending and property investment than prior to the global financial crisis. Instead, there is likely to be greater reliance on exports and business investment in sectors like manufacturing and traded services. The big depreciation in Sterling is helping this re-balancing, as it has significantly increased the international competitiveness of UK business relative to Eurozone suppliers.

### United States of America Economy

The US economy is continuing its drawn out recovery from the 2008/2009 recession, with indicators generally pointing to the economy expanding at a modest-to-moderate pace. Similar trends are also evident in the states that Great Western Bank operates in and leading indicators for the region are positive. The Great Western region has benefited from strong growth in farm incomes over the last two years. The Great Western region unemployment rate remains clearly below the national average and, like the rest of the country, has been improving since around mid-2011.

### System Credit Growth

With de-leveraging in progress across key Group markets and an absence of property price inflation, weak system credit growth is to be expected. Household debt-to-income ratios grew rapidly across Australia, New Zealand and the UK prior to the onset of the financial crisis. Once it became clear that income growth and asset value prospects would have to be revised downwards and the risk environment had deteriorated, the process of adjusting sectoral balance sheets began. At the same time, the prospect of slower than expected demand growth and much greater uncertainty eroded business confidence and credit demand.

Australian credit growth is running at around 3.5% year-on-year and only the early 1990s recession and the period of financial market stress of 2008/2009 recorded lower rates of growth. Housing credit growth is the lowest on record, reflecting weakening national house prices and sluggish sales. Business credit remains well below its late 2008 levels and the upturn through the last year has

been surprisingly modest. This reflects the concentration of investment spending in the mining sector, which is not very reliant on bank funding, as well as a general hesitation to commit to investment in other sectors of the economy.

New Zealand credit growth has been even weaker but the corollary has been that the process of balance sheet adjustment has progressed more quickly. System credit growth has been running at 1% year-on-year recently and by early 2012 the stock of business credit was still lower than it had been in 2009.

UK system credit growth has been minimal. Housing credit growth has been under 1% since mid-2010, reflecting the soft residential property market, more difficult loan financing conditions, rising unemployment and the pressure on household incomes. Business credit has been particularly weak, reflecting a lack of credit demand and the use of market funding.

### System Asset quality

The global economic downturn led to deterioration in system asset quality across all Group markets, but the increase in bad debts in most economies was generally on a much smaller scale than was seen in the recessions of the early 1990s.

The Australian system impaired loan ratio increased from around 20 basis points in 2007 to peak at around 1.25% in the first half of 2010 and has since fallen back to just over 1.07% in December 2011. Asset quality trends in New Zealand have been quite similar. The system impaired asset ratio increased from around 10 basis points in 2007 to 1.6% in the latter half of 2010 and improved slightly through 2011. The impaired loan ratio for registered banks fell from 1.65% in March 2011 to 1.41% in September 2011.

System asset quality has also worsened in the UK. Bank loan write-off ratios and the corporate insolvency rate have risen since 2007, but they remain below their early 1990s peaks.

### Outlook

The Australian outlook is for growth to accelerate from 2% in calendar 2011 to 3.25% in 2012 and 3.75% in 2013. Mining investment will account for much of this growth, with growth in business fixed investment expected to continue through the forecast period. Moderate growth in employment is expected, after the loss of momentum evident in the last year, which is forecast to bring the unemployment rate down to 5% by 2013 – very low by international standards.

Employment growth is also expected to continue in New Zealand, taking the unemployment rate down from 6.25% to around 5% by 2013. The favourable outlook for economic activity alongside moderate inflation should allow the central bank to gradually move interest rates to more normal levels, with the cash rate expected to reach 4.25% by 2014.

The process of re-balancing the UK economy stalled in 2011 as the recovery trend in business investment stopped. The outlook for the UK is for modest growth, with output expected to grow by 0.4% in 2012, 1.5% in 2013 and 2.0% in 2014.

## Review of Group Operations and Results

Mark Joiner

## Group Results

|   | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|---|---------------|---------------|---------------|----------------------|----------------------|
|   | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Net interest income   | 6,708         | 6,788         | 6,304         | (1.2)                | 6.4                  |
| Other operating income  | 1,640         | 1,291         | 1,725         | 27.0                 | (4.9)                |
| NAB Wealth net operating income   | 760           | 716           | 770           | 6.1                  | (1.3)                |
| <b>Net operating income</b>   | <b>9,108</b>  | <b>8,795</b>  | <b>8,799</b>  | <b>3.6</b>           | <b>3.5</b>           |
| Operating expenses  | (3,952)       | (3,983)       | (3,991)       | 0.8                  | 1.0                  |
| <b>Underlying profit</b>  | <b>5,156</b>  | <b>4,812</b>  | <b>4,808</b>  | <b>7.1</b>           | <b>7.2</b>           |
| Charge to provide for bad and doubtful debts                                      | (1,131)       | (834)         | (988)         | (35.6)               | (14.5)               |
| <b>Cash earnings before tax, IoRE, distributions and non-controlling interest</b> | <b>4,025</b>  | <b>3,978</b>  | <b>3,820</b>  | <b>1.2</b>           | <b>5.4</b>           |
| Income tax expense  | (1,121)       | (1,076)       | (1,066)       | (4.2)                | (5.2)                |
| <b>Cash earnings before IoRE, distributions and non-controlling interest</b>      | <b>2,904</b>  | <b>2,902</b>  | <b>2,754</b>  | <b>0.1</b>           | <b>5.4</b>           |
| Net profit - non-controlling interest   | (1)           | -             | (1)           | large                | -                    |
| IoRE  | 30            | 1             | 29            | large                | 3.4                  |
| Distributions   | (105)         | (111)         | (114)         | 5.4                  | 7.9                  |
| <b>Cash earnings</b>  | <b>2,828</b>  | <b>2,792</b>  | <b>2,668</b>  | <b>1.3</b>           | <b>6.0</b>           |
| <i>Non-cash earnings items (after tax):</i>                                       |               |               |               |                      |                      |
| Distributions   | 105           | 111           | 114           | (5.4)                | (7.9)                |
| Treasury shares   | (92)          | 80            | (41)          | large                | large                |
| Fair value and hedge ineffectiveness  | (40)          | 146           | (327)         | large                | 87.8                 |
| IoRE discount rate variation  | (5)           | 48            | (22)          | large                | 77.3                 |
| UK Payment Protection Insurance provision   | (182)         | (117)         | -             | (55.6)               | large                |
| Hedging costs on SCDO assets  | (99)          | (127)         | -             | 22.0                 | large                |
| Litigation expense  | (24)          | (4)           | -             | large                | large                |
| Software impairment   | (54)          | -             | -             | large                | large                |
| Goodwill impairment   | (295)         | -             | -             | large                | large                |
| Refund of tax on exchangeable capital units (ExCaps) settlement                   | -             | -             | 142           | -                    | large                |
| Amortisation of acquired intangible assets  | (51)          | (41)          | (41)          | (24.4)               | (24.4)               |
| Due diligence, acquisition and integration costs                                  | (39)          | (97)          | (65)          | 59.8                 | 40.0                 |
| <b>Net profit attributable to owners of the Company</b>                           | <b>2,052</b>  | <b>2,791</b>  | <b>2,428</b>  | <b>(26.5)</b>        | <b>(15.5)</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

### Note on Cash earnings

The Group's results and Review of Divisional Operations and Results are presented on a cash earnings basis unless otherwise stated. Cash earnings is a key financial performance measure used by NAB, the investment community and NAB's Australian peers with a similar business portfolio. NAB also uses cash earnings for its internal management reporting as it better reflects what NAB considers to be the underlying performance of the Group. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards nor audited or reviewed in accordance with Australian Auditing Standards. "Cash earnings" is calculated by excluding some items which are included within the statutory net profit attributable to owners of the Company. A definition of cash earnings is set out on page 150. A discussion of non-cash earnings items and a full reconciliation of the cash earnings to statutory net profit attributable to owners of the Company for the March 2012 half year is included on pages 22 and 141. The Group's financial statements, prepared in accordance with the *Corporations Act 2001* (Cth) and Australian Accounting Standards, and reviewed by the auditors in accordance with Australian Auditing Standards, are included in section 5.

### Financial Analysis

#### March 2012 v March 2011

**Net profit attributable to owners of the Company** decreased by \$376 million or 15.5%, reflecting higher charges for bad and doubtful debts, hedging costs on exited SCDO assets, impairment of goodwill and capitalised software and an additional provision for potential claims relating to payment protection insurance in UK Banking, offset by a strong performance in Wholesale Banking. Net profit attributable to owners of the Company (statutory net profit) is prepared and reviewed in accordance with the *Corporations Act 2001* (Cth), Australian Accounting Standards and Australian Auditing Standards.

**Cash earnings** increased by \$160 million or 6.0% against the March 2011 half year. Excluding foreign exchange rate movements, cash earnings increased by \$150 million or 5.6%. This was largely driven by stronger performances in Business Banking, Personal Banking, Wholesale Banking and NZ Banking, offset by weaker results in UK Banking and Specialised Group Assets (SGA) primarily due to higher bad and doubtful debt charges.

**Cash earnings on risk-weighted assets** increased by 13 basis points reflecting higher earnings and lower RWAs as a result of optimisation activities.

**Net interest income** increased by \$404 million or 6.4%. Excluding foreign exchange rate movements, net interest income increased by \$452 million or 7.2%. This was driven by housing lending growth in Personal Banking and NZ Banking, together with above system growth in Business Banking. This was partially offset by higher deposit and wholesale funding costs. Wholesale Banking net interest income also increased by \$262 million or 50.2% driven by higher interest earning assets to support Group funding and liquidity requirements, coupled with improved yields and gains on economically hedged

positions of the Group's banking book interest rate risk largely offset in Other operating income.

**Other operating income** decreased by \$85 million or 4.9%. Excluding foreign exchange rate movements, other operating income decreased by \$80 million or 4.6%. This decrease was largely due to fair value movements on economic hedges relating to the Group's banking book interest rate risk, offset by higher sales of risk management products to customers in Wholesale Banking.

**NAB Wealth net operating income** decreased by \$10 million or 1.3% as a result of ongoing investment market uncertainty and an increase in lapses. This was offset by growth in average inforce premiums and favourable earnings on the annuities portfolio.

**Operating expenses** decreased by \$39 million or 1.0%. Excluding foreign exchange rate movements, operating expenses decreased by \$6.0 million or 0.2%. This reflects tight cost control, while continuing to invest in key strategic projects.

The **charge to provide for bad and doubtful debts** increased by \$143 million or 14.5%. Excluding foreign exchange rate movements, the charge to provide for bad and doubtful debts increased by \$173 million or 17.5%. This increase was primarily driven by UK Banking where asset quality in business lending has been adversely affected by economic and market uncertainty, combined with a deterioration in the commercial property market. SGA's bad and doubtful debt charge increased by \$50 million, primarily due to new impairments on a small number of UK related exposures.

#### March 2012 v September 2011

**Net profit attributable to owners of the Company** decreased by \$739 million or 26.5%, reflecting higher charges for bad and doubtful debts, impairment of goodwill and capitalised software and an additional provision for potential claims relating to payment protection insurance in UK Banking, offset by a strong performance in Wholesale Banking.

**Cash earnings** increased by \$36 million or 1.3% against the September 2011 half year. Excluding foreign exchange rate movements, cash earnings increased by \$39 million or 1.4%. This increase was largely attributable to improved performances in Wholesale Banking, NAB Wealth and NZ Banking, partially offset by a weaker performance in UK Banking and SGA. Wholesale Banking's strong performance was mainly due to higher revenue in both the customer and risk businesses, whilst NAB Wealth benefited from lower claims and lapse experiences. The deterioration in profitability in UK Banking was largely the result of increasing bad and doubtful debt charges and higher deposit and funding costs.

**Cash earnings on risk-weighted assets** increased by 4 basis points reflecting continued RWA optimisation activities.

**Net interest income** decreased by \$80 million or 1.2%. Excluding foreign exchange rate movements, net interest income decreased by \$80 million or 1.2%.

While Wholesale Banking's net interest income benefited from higher interest earning assets, net interest income in Business Banking and Personal Banking was lower reflecting increases in term funding and deposit costs.

**Other operating income** increased by \$349 million or 27.0%. Excluding foreign exchange rate movements, other operating income increased by \$358 million or 27.7%. This was mainly driven by increases in Wholesale Banking risk income reflecting more favourable market conditions and positive positioning in both Fixed Income, Currencies and Commodities (FICC) and Treasury businesses. Other operating income was also higher in SGA as a result of favourable mark-to-market movements in the Synthetic Collateralised Debt Obligation (SCDO) risk mitigation trades.

**NAB Wealth net operating income** increased by \$44 million or 6.1% due to favourable earnings on the annuities portfolio, lower insurance claims and a lower impact of unfavourable lapses and changes in the profile of the retail insurance book.

**Operating expenses** decreased by \$31 million or 0.8%. Excluding foreign exchange rate movements, operating expenses increased \$29 million or 0.7%. This reflects tight cost control, while continuing to invest in key strategic projects.

The **charge to provide for bad and doubtful debts** increased by \$297 million or 35.6%. Excluding foreign exchange rate movements, the increase was \$303 million or 36.3%. This increase reflects the significant deterioration in asset quality in UK Banking with its charge to provide for bad and doubtful debts increasing by \$207 million. In addition, SGA's charge to provide for bad and doubtful debts increased by \$51 million primarily due to new impairments on a small number of UK related exposures. These increases have been partially offset by lower bad and doubtful debt charges in Business Banking and NZ Banking. The lower bad and doubtful debts charge in Business Banking is a result of lower provisioning for the Small and Medium Enterprises (SME) portfolio, partly offset by increased charges for large corporates. NZ Banking has benefited from lower specific provisions and improved credit card collections.

### Impact of Foreign Exchange Rates Movements

Excluding foreign exchange rate movements, cash earnings increased by \$150 million or 5.6% on the March 2011 half year and increased by \$39 million or 1.4% against the September 2011 half year. Foreign exchange rate movements have had a favourable effect of \$10 million on the March 2012 half year result when compared to the March 2011 half year, and an adverse effect of \$3 million when compared to the September 2011 half year result.

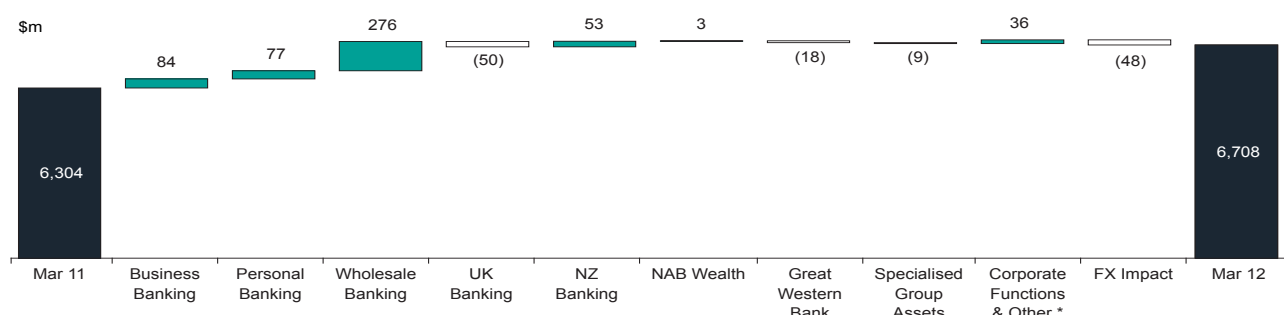
See page 146 to 147 for the half year divisional performance summaries excluding foreign exchange rate movements for the March 2012 half year and September 2011 half year.

## Net Interest Income

|   | Half Year to |              |              | Mar 12 v<br>Sep 11 | Mar 12 v<br>Mar 11 |
|---|--------------|--------------|--------------|--------------------|--------------------|
|   | Mar 12       | Sep 11       | Mar 11       |                    |                    |
| Net interest income (\$m)                 | 6,708        | 6,788        | 6,304        | (1.2%)             | 6.4%               |
| Average interest earning assets (\$bn)    | 618.9        | 594.6        | 566.6        | 4.1%               | 9.2%               |
| Net interest margin (%)                   | 2.17         | 2.28         | 2.23         | (11 bps)           | (6 bps)            |
| <b>Composition of Net Interest Income</b> |              |              |              |                    |                    |
| Banking (\$m)                             | 5,870        | 6,022        | 5,717        | (2.5%)             | 2.7%               |
| Wholesale Banking (\$m)                   | 784          | 708          | 522          | 10.7%              | 50.2%              |
| Specialised Group Assets (\$m)            | 54           | 58           | 65           | (6.9%)             | (16.9%)            |
| <b>Net interest income (\$m)</b>          | <b>6,708</b> | <b>6,788</b> | <b>6,304</b> | <b>(1.2%)</b>      | <b>6.4%</b>        |

Net interest income and margin management are key areas of focus for the divisions. The Group net interest margin represents 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.

### March 2012 v March 2011

**Net interest income** increased by \$404 million or 6.4% (\$452 million or 7.2% excluding foreign exchange).

**Banking net interest income** increased by \$153 million or 2.7% (\$185 million or 3.2% excluding foreign exchange). The key contributing factors were:

- 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.

These increases were partially offset by the rising cost of deposits and wholesale funding.

**Wholesale Banking's** net interest income increased by \$262 million or 50.2% (\$276 million or 52.9% excluding foreign exchange). Of the increase, \$154 million was driven by gains on economically hedged positions relating to the Group's banking book interest rate risk (offset in other operating income). The underlying increase of \$108 million was driven by higher interest earning assets to support the Group's funding and liquidity requirements, coupled with improved yields as part of optimising the Bank's funding and liquidity profile.

**Specialised Group Assets'** net interest income decreased by \$11 million or 16.9% (\$9 million or 13.8% excluding foreign exchange) as a result of the run-down of the lending portfolio.

### March 2012 v September 2011

**Net interest income** decreased by \$80 million or 1.2% (\$80 million or 1.2% excluding foreign exchange).

**Banking net interest income** decreased by \$152 million or 2.5% (\$152 million or 2.5% excluding foreign exchange). This decrease reflects increases in funding and deposit costs resulting in a higher average cost of funds, partially offset by repricing of the lending portfolio for current market conditions and volume growth.

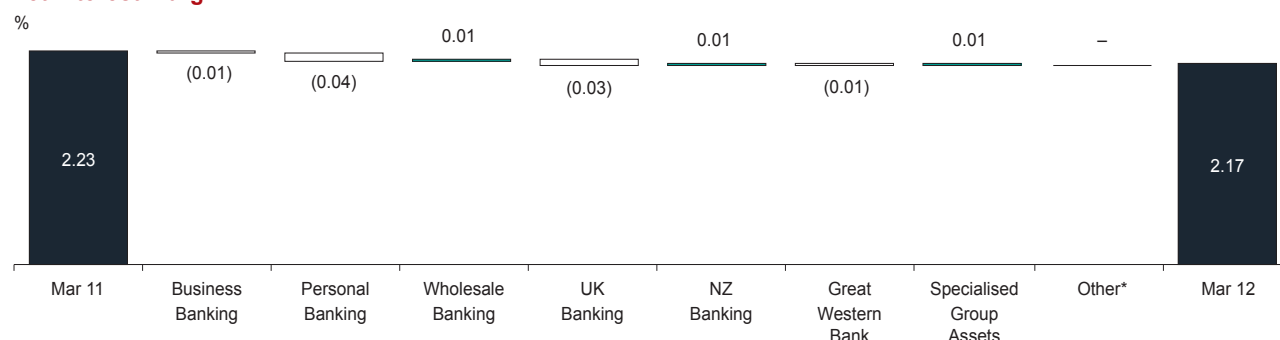
**Wholesale Banking's** net interest income increased by \$76 million or 10.7% (\$76 million or 10.7% excluding foreign exchange) mainly due to improved yields as part of optimising the Bank's funding and liquidity profile.

**Specialised Group Assets'** net interest income decreased by \$4 million or 6.9% (\$4 million or 6.9% excluding foreign exchange) due to the run-down of the lending portfolio.

## Net Interest Margin

|                                  | Half Year to |             |             | Mar 12 v<br>Sep 11 | Mar 12 v<br>Mar 11 |
|----------------------------------|--------------|-------------|-------------|--------------------|--------------------|
|                                  | Mar 12<br>%  | Sep 11<br>% | Mar 11<br>% |                    |                    |
| Business Banking                 | 2.56         | 2.66        | 2.57        | (10 bps)           | (1 bps)            |
| Personal Banking                 | 2.02         | 2.17        | 2.22        | (15 bps)           | (20 bps)           |
| NZ Banking                       | 2.41         | 2.35        | 2.24        | 6 bps              | 17 bps             |
| UK Banking                       | 2.09         | 2.33        | 2.33        | (24 bps)           | (24 bps)           |
| Great Western Bank               | 3.78         | 3.99        | 4.38        | (21 bps)           | (60 bps)           |
| <b>Group net interest margin</b> | <b>2.17</b>  | <b>2.28</b> | <b>2.23</b> | <b>(11 bps)</b>    | <b>(6 bps)</b>     |

## Net interest margin



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

## March 2012 v March 2011

The Group's **net interest margin** decreased by six basis points over the March 2011 half year. Key contributions to the Group net interest margin movements were:

- A one basis point decrease attributable to Business Banking due to changes in lending mix in the Group's lending portfolio.
- A four basis point decrease attributable to Personal Banking primarily due to higher funding and deposit costs, together with the mix impact of growth in mortgages.
- A one basis point increase attributable to Wholesale Banking due to an improvement in yields, partially offset by an increase in liquid assets.
- A three basis point decrease attributable to UK Banking driven by higher liquidity and higher deposit and funding costs.
- A one basis point increase attributable to NZ Banking driven by volume growth in higher margin variable rate housing products and progressive repricing of the portfolio.
- A one basis point decrease attributable to Great Western Bank resulting from the tightening of lending margins due to highly competitive pricing.
- A one basis point increase attributable to SGA that has improved the Group's mix, as this lower margin portfolio reduces in size.

## March 2012 v September 2011

The Group's **net interest margin** decreased by 11 basis points over the September 2011 half year.

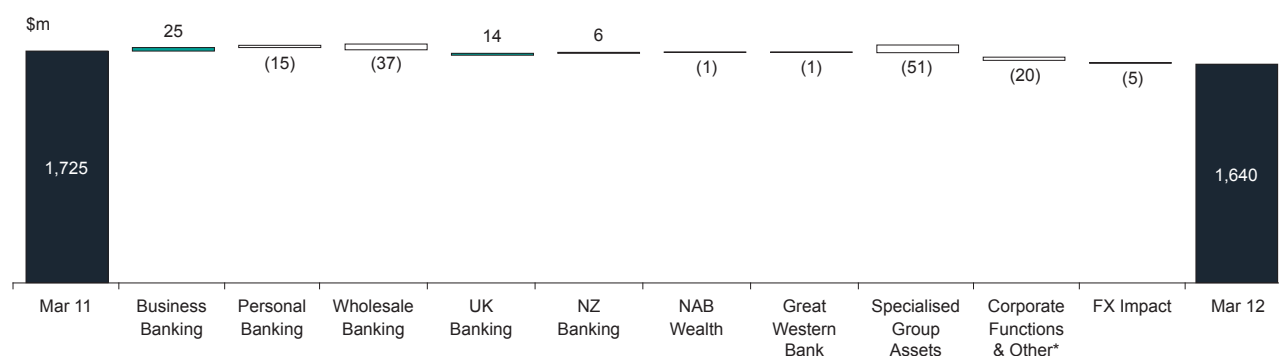
Key movements in the Group net interest margin were:

- A four basis point decrease attributable to Business Banking due to higher funding and deposit costs.
- A three basis point decrease attributable to Personal Banking due to higher funding costs, together with the mix impact of growth in mortgages.
- A one basis point increase attributable to the Wholesale Banking margin driven by improved yields as part of optimising the Bank's funding and liquidity profile.
- A three basis point decrease attributable to UK Banking driven by higher deposit and funding costs.
- A two basis point decrease attributable to Other driven by changes in portfolio mix.

## Other Operating Income

|   | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|---|---------------|---------------|---------------|----------------------|----------------------|
|   | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Fees and commissions                                | 1,234         | 1,222         | 1,285         | 1.0                  | (4.0)                |
| Trading income                                      | 295           | (107)         | 341           | large                | (13.5)               |
| Other   | 111           | 176           | 99            | (36.9)               | 12.1                 |
| <b>Other operating income</b>                       | <b>1,640</b>  | <b>1,291</b>  | <b>1,725</b>  | <b>27.0</b>          | <b>(4.9)</b>         |
| <b>Composition of Trading Income <sup>(1)</sup></b> |               |               |               |                      |                      |
| Wholesale Banking                                   | 268           | (24)          | 289           | large                | (7.3)                |
| Specialised Group Assets                            | 21            | (73)          | 65            | large                | (67.7)               |
| Group Treasury                                      | (64)          | (49)          | (51)          | (30.6)               | (25.5)               |
| Other   | 70            | 39            | 38            | 79.5                 | 84.2                 |
| <b>Trading income</b>                               | <b>295</b>    | <b>(107)</b>  | <b>341</b>    | <b>large</b>         | <b>(13.5)</b>        |

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

Other Operating Income - Contribution to Net Decrease <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.

## March 2012 v March 2011

**Other operating income** decreased by \$85 million or 4.9% from March 2011 (\$80 million or 4.6% excluding foreign exchange).

**Fees and commissions** decreased by \$51 million or 4.0% (\$39 million or 3.0% excluding foreign exchange). This decrease was mainly due to lower fees and commission income in UK Banking.

**Trading income** decreased by \$46 million (\$55 million excluding foreign exchange).

*Wholesale Banking's* <sup>(1)</sup> contribution to trading income decreased by \$21 million or 7.3% (\$20 million or 6.9% excluding foreign exchange) as a result of mark-to-market losses of \$154 million on economic hedges relating to the Group's banking book interest rate risk (offset in net interest income). Excluding this, the increase of \$133 million was mainly the result of higher sales of risk management products to the Group's business customers.

*Specialised Group Assets'* contribution decreased by \$44 million or 67.7% (\$55 million or 84.6% excluding foreign exchange) largely due to lower mark-to-market gains on the SCDO risk mitigation trades.

**Other income** increased by \$12 million or 12.1% (\$14 million excluding foreign exchange or 14.1%) mainly due to a charge of \$21 million relating to payment protection insurance (PPI) in the prior period. This effect was partly offset by the sale of the Flybuys investment in the prior period.

## March 2012 v September 2011

**Other operating income** increased by \$349 million or 27.0% (\$358 million or 27.7% excluding foreign exchange) from September 2011.

**Fees and commissions** increased by \$12 million or 1.0% (\$14 million or 1.1% excluding foreign exchange). This increase was largely driven by Wholesale Banking through stronger capital market flows in both Australia and the United States.

**Trading income** increased by \$402 million (\$407 million excluding foreign exchange).

*Wholesale Banking's* <sup>(1)</sup> contribution to trading income increased by \$292 million (\$295 million excluding foreign exchange). The increase was due to higher sales of risk management products to the Group's business customers, combined with increased flow and improved trading conditions in the Fixed Income, Currencies and Commodities (FICC) business.

*Specialised Group Assets'* contribution increased by \$94 million (\$99 million excluding foreign exchange). This increase was mainly due to unfavourable mark-to-market movements on the SCDO risk mitigation trades in the September 2011 half year.

**Other income** decreased by \$65 million or 36.9% (\$63 million or 35.8% excluding foreign exchange) mainly due to the gains on sale of an equity investment obtained through a restructure of debt in Specialised Group Assets in the September 2011 half year.

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

## NAB Wealth Net Operating Income

|  | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|--|---------------|---------------|---------------|----------------------|----------------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Investments net operating income       | 510           | 498           | 501           | 2.4                  | 1.8                  |
| Insurance net operating income         | 250           | 218           | 269           | 14.7                 | (7.1)                |
| <b>NAB Wealth net operating income</b> | <b>760</b>    | <b>716</b>    | <b>770</b>    | <b>6.1</b>           | <b>(1.3)</b>         |

**March 2012 v March 2011**

**Investments net operating income** increased by \$9 million or 1.8% compared to March 2011 as a result of growth in average funds under management (FUM) and favourable earnings on the annuities portfolio, partly offset by changes in business mix.

**Insurance net operating income** decreased by \$19 million or 7.1% compared to the March 2011 half year. This result was largely driven by an increase in lapses, partially offset by growth in average inforce premiums.

**March 2012 v September 2011**

**Investments net operating income** increased by \$12 million or 2.4% against the September 2011 half year as a result of growth in average FUM and favourable earnings on the annuities portfolio, partly offset by changes in business mix.

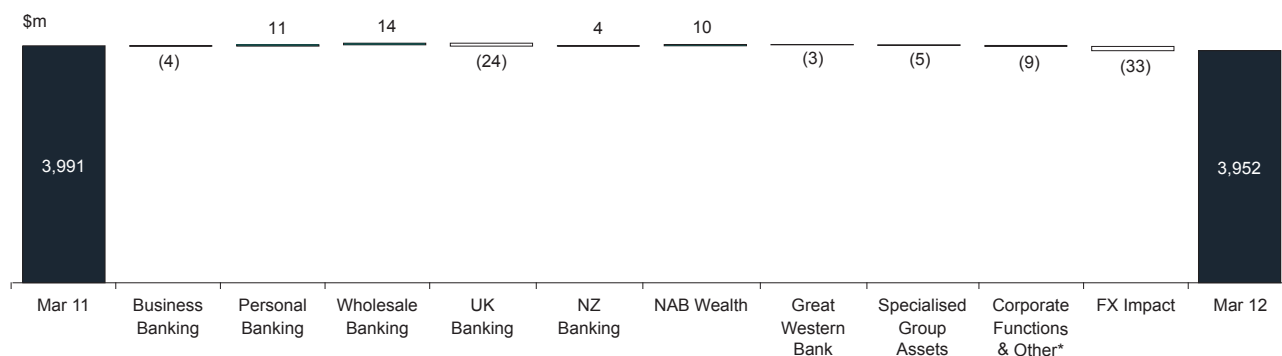
**Insurance net operating income** increased by \$32 million or 14.7% due to growth in average inforce premiums, lower claims and lower unfavourable lapses and changes in the profile of the retail insurance book.



## Operating Expenses

|  | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|--|---------------|---------------|---------------|----------------------|----------------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Personnel expenses                           | 2,040         | 1,978         | 2,058         | (3.1)                | 0.9                  |
| Occupancy related expenses                   | 341           | 345           | 367           | 1.2                  | 7.1                  |
| General expenses                             | 1,078         | 1,167         | 1,078         | 7.6                  | -                    |
| NAB Wealth operating expenses <sup>(1)</sup> | 493           | 493           | 488           | -                    | (1.0)                |
| <b>Total operating expenses</b>              | <b>3,952</b>  | <b>3,983</b>  | <b>3,991</b>  | <b>0.8</b>           | <b>1.0</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.

## March 2012 v March 2011

**Operating expenses** decreased by \$39 million or 1.0% against March 2011 (\$6 million or 0.2% excluding foreign exchange). The Group continues to tightly manage expenses while continuing to invest in key strategic projects.

**Personnel expenses** decreased by \$18 million or 0.9% (\$4 million or 0.2% excluding foreign exchange). This decrease was primarily driven by a reduction in FTEs, through the Group's focus on productivity and process simplification, offset by the impact of higher redundancy costs and higher performance based compensation.

**Occupancy related expenses** decreased by \$26 million or 7.1% (\$22 million or 6.0% excluding foreign exchange) due to disciplined cost management during the period.

**General expenses** remained flat (increased \$15 million or 1.4% excluding foreign exchange). Excluding foreign exchange, the movement was due to higher depreciation and amortisation charges associated with the continued investment in key strategic projects, partially offset by a reduction in discretionary spending (i.e. travel, professional fees, communication costs).

**NAB Wealth operating expenses** increased by \$5 million or 1.0% mainly due to growth in advisers, the development of new products and services and the acquisition of the direct funds management business Antares Capital Partners Limited (Antares), formerly known as Aviva Investors Australia Limited, largely offset by a reduction of FTEs in the business.

## March 2012 v September 2011

**Operating expenses** decreased by \$31 million or 0.8% against September 2011 (\$29 million or 0.7% excluding foreign exchange). The Group continues to tightly manage expenses while continuing to invest in key strategic projects.

**Personnel expenses** increased by \$62 million or 3.1% (\$61 million or 3.1% excluding foreign exchange) largely due to higher performance-based compensation, partially offset by the Group's focus on productivity and process simplifications driving a reduction in FTEs.

**Occupancy related expenses** decreased by \$4 million or 1.2% (\$3 million or 0.9% excluding foreign exchange) mainly due to disciplined cost management.

**General expenses** decreased by \$89 million or 7.6% (\$87 million or 7.5% excluding foreign exchange), due to a reduction in discretionary spending (i.e. travel, professional fees, marketing and communication costs), partially offset by higher depreciation and amortisation charges associated with the continued investment in key strategic projects.

**NAB Wealth operating expenses** remained flat due to disciplined cost management during the period. The impact of lower FTEs has been offset by the expense relating to the acquisition of Antares Capital Partners Limited.

## Full Time Equivalent Employees

|  | As at         |               |               | Mar 12 v<br>Sep 11% | Mar 12 v<br>Mar 11% |
|--|---------------|---------------|---------------|---------------------|---------------------|
|  | 31 Mar 12     | 30 Sep 11     | 31 Mar 11     |                     |                     |
| Business Banking                                   | 5,081         | 5,427         | 5,493         | 6.4                 | 7.5                 |
| Personal Banking                                   | 8,493         | 8,705         | 8,826         | 2.4                 | 3.8                 |
| Wholesale Banking                                  | 2,819         | 2,889         | 3,005         | 2.4                 | 6.2                 |
| NAB Wealth   | 5,635         | 5,909         | 5,924         | 4.6                 | 4.9                 |
| NZ Banking   | 4,554         | 4,641         | 4,578         | 1.9                 | 0.5                 |
| UK Banking   | 8,146         | 8,351         | 8,684         | 2.5                 | 6.2                 |
| Great Western Bank                                 | 1,478         | 1,492         | 1,515         | 0.9                 | 2.4                 |
| Specialised Group Assets                           | 28            | 41            | 42            | 31.7                | 33.3                |
| Corporate Functions and Other                      |               |               |               |                     |                     |
| Group Business Services                            | 5,001         | 5,065         | 5,093         | 1.3                 | 1.8                 |
| Other <sup>(1)</sup>                               | 2,164         | 2,125         | 2,133         | (1.8)               | (1.5)               |
| <b>Total full time equivalent employees (FTEs)</b> | <b>43,399</b> | <b>44,645</b> | <b>45,293</b> | <b>2.8</b>          | <b>4.2</b>          |
| <b>Average half year FTEs</b>                      | <b>44,013</b> | <b>45,094</b> | <b>45,236</b> | <b>2.4</b>          | <b>2.7</b>          |

<sup>(1)</sup> Other includes Group Funding, other supporting units and Asia Banking.

## March 2012 v March 2011

Total FTEs have decreased by 1,894 since the March 2011 half year. The decrease was achieved through a continued focus on efficiency programs and convergence activities which were implemented across the Group's divisions, as well as a focus on productivity improvements and process simplifications (Kaizen@NAB).

Key FTE movements in each business were as follows:

- Business Banking decreased FTEs by 412, mainly due to the implementation of productivity and convergence initiatives.
- Personal Banking FTEs fell by 333, mainly due to productivity and convergence initiatives.
- Wholesale Banking FTEs decreased by 186 through efficiency savings across Support Functions and Technology and Operations. This was partially offset by investment in front office roles.
- NAB Wealth lowered FTEs by 289 primarily through the completion of integration projects and efficiency savings. These savings were partially offset by the acquisition of Antares Capital Partners Limited, formerly known as Aviva Investors Australia Limited.
- UK Banking lowered FTEs by 538 as a result of productivity improvements, the continued strategic focus on cost control and the completion of a number of significant projects.
- Specialised Group Assets FTEs fell by 14 in line with the continued run-down of the lending portfolio.
- Group Business Services FTEs fell by 92 as a result of operational efficiencies, partially offset by an increase due to convergence activity moving support roles from revenue generating businesses.

## March 2012 v September 2011

Total FTEs have decreased by 1,246 since the September 2011 half year.

Key FTE movements in each business were as follows:

- Business Banking FTEs were reduced by 346, mainly due to the implementation of productivity and convergence initiatives.
- Personal Banking FTEs fell by 212 as a result of productivity and convergence initiatives.
- Wholesale Banking FTEs decreased by 70, primarily due to efficiency savings across Support Functions and Technology and Operations. This was partially offset by investment in front office roles.
- NAB Wealth reduced FTEs by 274 mainly through the completion of integration projects and efficiency savings. These savings were partially offset by the acquisition of Antares Capital Partners Limited by nabInvest.
- NZ Banking decreased FTEs by 87 mainly as a result of the completion of several strategic projects.
- UK Banking reduced FTEs by 205 through productivity improvements, the continued strategic focus on cost control and the completion of a number of significant projects.
- Specialised Group Assets reduced FTEs by 13 in line with the continued run-down of the lending portfolio.
- Group Business Services FTEs fell by 64 as a result of operational efficiencies, partially offset by an increase due to convergence activity moving support roles from revenue generating businesses.



## Investment Spend

|                                    | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|------------------------------------|---------------|---------------|---------------|----------------------|----------------------|
|                                    | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Infrastructure                     | 309           | 414           | 305           | (25.4)               | 1.3                  |
| Compliance / Operational Risk      | 57            | 53            | 66            | 7.5                  | (13.6)               |
| Efficiency and Sustainable Revenue | 120           | 158           | 130           | (24.1)               | (7.7)                |
| Other                              | 30            | 13            | 21            | large                | 42.9                 |
| <b>Total Investment Spend</b>      | <b>516</b>    | <b>638</b>    | <b>522</b>    | <b>(19.1)</b>        | <b>(1.1)</b>         |

Investment spend decreased by \$6 million or 1.1% on the March 2011 half year and fell by \$122 million or 19.1% on the September 2011 half year. The Group continues to invest in initiatives that support its strategic objectives.

Investment in infrastructure projects increased by \$4 million or 1.3% compared to the March 2011 half year. The Group maintains a 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 decreased by \$9 million or 13.6% against the March 2011 half year. Initiatives include activities to support financial planning in NAB Wealth and to ensure compliance with the Personal Property Securities Act in Australia, the Foreign Account Tax Compliance Act in the US, the Financial Advisors Act and Anti-Money Laundering legislation in New Zealand and Basel III across the organisation.

Investment in efficiency and sustainable revenue decreased by \$10 million or 7.7% compared to the March 2011 half 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 in fraud protection. NAB Wealth continue to enhance customer facing technology and back office infrastructure. Activities in Wholesale Banking include the continued development of software platforms to assist in achieving cross-sell. NZ Banking activities include the enhancement of banking services and improvements to NZ Partners' products and services.

## Taxation

|                          | Half Year to |        |        | Mar 12 v<br>Sep 11 | Mar 12 v<br>Mar 11 |
|--------------------------|--------------|--------|--------|--------------------|--------------------|
|                          | Mar 12       | Sep 11 | Mar 11 |                    |                    |
| Income tax expense (\$m) | 1,121        | 1,076  | 1,066  | (4.2%)             | (5.2%)             |
| Effective tax rate (%)   | 27.9         | 27.0   | 27.9   | (90 bps)           | -                  |

### March 2012 v March 2011

**Income tax expense** for the March 2012 half year was \$55 million or 5.2% higher than the March 2011 half year, mainly due to an increase in cash earnings before tax. Excluding foreign exchange rate movements, the income tax expense for the half year was \$53 million or 5.0% higher than the March 2011 half year.

The **effective income tax rate** for the March 2012 half year of 27.9% is the same as the effective income tax rate of the March 2011 half year.

### March 2012 v September 2011

**Income tax expense** for the March 2012 half year was \$45 million or 4.2% higher than the September 2011 half year. Excluding foreign exchange rate movements, the income tax expense for the half year was \$44 million or 4.1% higher than the September 2011 half year.

The **effective income tax rate** for the March 2012 half year of 27.9% is comparable to the effective income tax rate of the September 2011 half year of 27.0%.

## 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 statutory 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 March 2012 half year was a net gain of \$103 million (\$92 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 March 2012 half year there was a reduction in statutory profit of \$39 million (\$40 million after tax) from fair value and hedge ineffectiveness. This was largely due to changes in the fair value of assets and liabilities designated at fair value, partially offset by changes in the fair value of derivatives used to hedge 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 inflation and the risk free discount rate. In the March 2012 half year the discount rate was steady but the inflation rate increased. This resulted in a decrease in the present value of deferred acquisition costs, resulting in a pre-tax loss of \$7 million (\$5 million after tax).

### UK Payment Protection Insurance Provision

In response to a substantial increase in the volume of payment protection insurance (PPI) claims since January 2012, an additional provision of \$182 million (£120 million) for potential claims relating to PPI was announced on 30 April 2012. This additional provision reflects an updated assessment of future PPI claims based upon estimates, statistical analysis and assumptions in relation to a wide range of factors that remain uncertain, 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.

### Litigation Expense

The Group recognised \$32 million (\$24 million after tax) in non-recurring litigation expenses during the March 2012 half year.

### Hedging Costs on SCDO Assets

As announced on 22 March 2012, the Group entered into transactions to remove the economic risk on the Group's two remaining Synthetic Collateralised Debt Obligation (SCDO) assets.

As previously disclosed, the recognition of remaining hedging costs related to the SCDO risk mitigation trades have been accelerated by expensing the carrying value of these hedge costs to non-cash earnings. During the March 2012 half year, \$141 million (\$99 million after tax), of such costs were expensed through non-cash earnings.

### Goodwill and Software impairment

On 30 April 2012 the Group announced the outcome of the UK Banking strategic review. The outcomes of this review include the write-off of \$295 million of goodwill relating to UK Banking and the impairment of capitalised software of \$54 million relating to assets that will be used in a substantially reduced form from what had been originally planned.

### 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, 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 March 2012 half year amounted to \$24 million.

The strategic alliance with Goldman Sachs JBWere (GSJBW) was completed on 1 November 2009 after 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 March 2012 half year were \$28 million.

The Challenger Mortgage Management acquisition, now branded Advantedge, was completed on 30 October 2009. This integration is now complete, with \$4 million of expenditure recognised in the March 2012 half year.

Due diligence costs of \$3 million were incurred during the March 2012 half year.

|                      | Half year to  |               |               |
|----------------------|---------------|---------------|---------------|
|                      | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| Aviva                | 24            | 74            | 49            |
| JBWere               | 28            | 43            | 16            |
| Advantedge           | 4             | 6             | 23            |
| Great Western Bank   | 1             | -             | 3             |
| Due diligence costs  | 3             | 10            | 5             |
| <b>Pre-tax total</b> | <b>60</b>     | <b>133</b>    | <b>96</b>     |

## Lending

|   | As at            |                  |                  | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|---|------------------|------------------|------------------|----------------------|----------------------|
|   | 31 Mar 12<br>\$m | 30 Sep 11<br>\$m | 31 Mar 11<br>\$m |                      |                      |
| <b>Housing</b>  |                  |                  |                  |                      |                      |
| Business Banking                                      | 60,346           | 60,215           | 58,908           | 0.2                  | 2.4                  |
| Personal Banking                                      | 136,221          | 130,465          | 120,223          | 4.4                  | 13.3                 |
| Wholesale Banking                                     | 421              | 487              | 578              | (13.6)               | (27.2)               |
| NAB Wealth  | 16,087           | 16,104           | 15,610           | (0.1)                | 3.1                  |
| NZ Banking  | 21,954           | 21,535           | 19,783           | 1.9                  | 11.0                 |
| UK Banking  | 22,466           | 22,306           | 20,464           | 0.7                  | 9.8                  |
| Great Western Bank                                    | 540              | 615              | 586              | (12.2)               | (7.8)                |
| Corporate Functions and Other                         | 1,399            | 1,337            | 1,160            | 4.6                  | 20.6                 |
| Total housing   | 259,434          | 253,064          | 237,312          | 2.5                  | 9.3                  |
| <b>Non-housing</b>                                    |                  |                  |                  |                      |                      |
| Business Banking                                      | 138,309          | 135,856          | 133,847          | 1.8                  | 3.3                  |
| Personal Banking                                      | 9,196            | 9,086            | 8,950            | 1.2                  | 2.7                  |
| Wholesale Banking                                     | 17,144           | 15,464           | 13,226           | 10.9                 | 29.6                 |
| NAB Wealth  | 2,690            | 2,757            | 2,817            | (2.4)                | (4.5)                |
| UK Banking  | 29,030           | 31,481           | 30,611           | (7.8)                | (5.2)                |
| NZ Banking  | 23,803           | 23,057           | 21,455           | 3.2                  | 10.9                 |
| Great Western Bank                                    | 4,677            | 4,728            | 4,453            | (1.1)                | 5.0                  |
| Specialised Group Assets                              | 3,603            | 4,863            | 5,284            | (25.9)               | (31.8)               |
| Corporate Functions and Other                         | 2,521            | 1,769            | 1,291            | 42.5                 | 95.3                 |
| Total non-housing                                     | 230,973          | 229,061          | 221,934          | 0.8                  | 4.1                  |
| <b>Gross loans and advances including acceptances</b> | <b>490,407</b>   | <b>482,125</b>   | <b>459,246</b>   | <b>1.7</b>           | <b>6.8</b>           |
| <i>Represented by:</i>                                |                  |                  |                  |                      |                      |
| Loans and advances at fair value                      | 56,596           | 50,472           | 41,567           | 12.1                 | 36.2                 |
| Loans at amortised cost                               | 394,039          | 388,636          | 371,744          | 1.4                  | 6.0                  |
| Acceptances   | 39,772           | 43,017           | 45,935           | (7.5)                | (13.4)               |
| <b>Gross loans and advances including acceptances</b> | <b>490,407</b>   | <b>482,125</b>   | <b>459,246</b>   | <b>1.7</b>           | <b>6.8</b>           |

### March 2012 v March 2011

**Lending** (gross loans and advances including acceptances) increased by \$31.2 billion or 6.8% on March 2011. Excluding foreign exchange, lending increased by \$29.2 billion or 6.1%. This increase was primarily due to continuing momentum in housing lending.

**Housing lending** increased by \$22.1 billion or 9.3% during the half. Excluding foreign exchange, the increase was \$21.0 billion or 8.3%. This growth was due to the Group's strategy to remain competitive in this sector. Growth was achieved through continued momentum in Personal Banking, UK Banking and NZ Banking as a result of the effective execution of this strategy.

**Non-housing lending** increased by \$9.1 billion or 4.1% over the period. Excluding foreign exchange, the increase was \$8.1 billion or 3.6% this growth was mainly due to:

- An increase of \$4.5 billion or 3.3% in Business Banking, with growth above credit system across most segments.
- An increase of \$4.0 billion or 25.9% in Wholesale Banking, mainly reflecting growth in warehouse facilities in the Global Capital Markets business and lending in Specialised Finance.
- Growth of \$0.8 billion or 3.6% in NZ Banking, despite weak demand for business credit. NZ Banking increased its market share in key segments, including agribusiness.
- An increase in Corporate Functions and Other of \$1.2 billion or 74.4% due to growth in Asia Banking. This was mainly in the Corporate Loan Portfolio.
- A decline of \$1.6 billion or 34.6% in Specialised Group Assets (SGA) due to the repayment of loans as the business is being managed down.

- A decline of \$1.1 billion or 3.8% in UK Banking due to subdued demand for credit, together with a focus on managing down commercial property and unsecured personal lending exposures.

### March 2012 v September 2011

**Lending** increased by \$8.3 billion or 1.7% on September 2011. Excluding foreign exchange, lending increased by \$10.9 billion or 2.3% on September 2011. This growth was due to:

**Housing lending** increasing by \$6.4 billion or 2.5%. Excluding foreign exchange, the increase was \$7.2 billion or 2.9%. Growth was achieved in Personal Banking, UK Banking and NZ Banking. Modest growth was also achieved in Business Banking.

**Non-housing lending** increasing by \$1.9 billion or 0.8%. Excluding foreign exchange, there was an increase of \$3.7 billion or 1.6%, reflecting growth in Business Banking, Wholesale Banking, NZ Banking and Asia Banking, partially offset by declines in SGA and UK Banking. The increase in Business Banking reflected continued growth in the SME and most specialised business segments. The growth in Wholesale Banking was mainly in warehouse facilities in the Global Capital Markets business and in Specialised Finance. The growth in NZ Banking was largely due to increased agricultural lending. There was also growth in Asia Banking largely driven by growth in the Corporate Loan Portfolio. The decline in SGA was due to the continued efforts to manage down the business. The decline in UK Banking was due to subdued demand for credit and the focus on reshaping the loan portfolio by managing down commercial property and unsecured personal lending exposures.

**Goodwill and Other Intangible Assets**

*Goodwill* decreased by \$288 million, or 5.2% from September 2011. The decrease in goodwill from September 2011 was attributable to a \$295 million impairment of UK Banking Goodwill, as well as a decline of \$43 million due to the effect of foreign exchange. This was offset by an increase of \$50 million from the acquisition of Antares Capital Partners Limited, formerly known as Aviva Investors Australia Limited.

*Intangible assets* comprise capitalised software and other intangible assets. Intangible assets decreased by \$17 million from September 2011. The decrease from September 2011 was mainly due to amortisation and impairment of UK internally generated software. This was offset by investment in internally generated software.

The Group continues to invest in software to support its strategic objectives. Major investments during the March 2012 half year were:

- In Australia, investment of \$116 million during the March 2012 half year in software related to the Next Generation Banking IT Platform.
- In the UK, continued investment in software to support regulatory and compliance initiatives, as well as investment in the refreshing of key banking systems.

- In Wholesale Banking, continued focus on efficiency and revenue generating projects, including the continued development of software platforms for FICC, Markets Sales, Asset Servicing 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 banking capability.

The movement in capitalised software is as follows:

|  | Half year ended |               |               |
|--|-----------------|---------------|---------------|
|  | Mar 12<br>\$m   | Sep 11<br>\$m | Mar 11<br>\$m |
| Balance at beginning of period           | 1,252           | 1,106         | 998           |
| Additions                                | 243             | 280           | 264           |
| Disposals and write-offs                 | (1)             | (11)          | (7)           |
| Amortisation                             | (132)           | (129)         | (129)         |
| Impairment losses recognised             | (54)            | -             | -             |
| Foreign currency translation adjustments | (17)            | 6             | (20)          |
| <b>Capitalised software</b>              | <b>1,291</b>    | <b>1,252</b>  | <b>1,106</b>  |

## Retail Deposits

|                               | As at            |                  |                  |                      |                      |
|-------------------------------|------------------|------------------|------------------|----------------------|----------------------|
|                               | 31 Mar 12<br>\$m | 30 Sep 11<br>\$m | 31 Mar 11<br>\$m | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
| <b>Retail deposits</b>        |                  |                  |                  |                      |                      |
| Business Banking              | 95,951           | 89,777           | 84,889           | 6.9                  | 13.0                 |
| Personal Banking              | 80,779           | 75,408           | 70,375           | 7.1                  | 14.8                 |
| NAB Wealth                    | 11,730           | 10,238           | 10,119           | 14.6                 | 15.9                 |
| NZ Banking                    | 26,873           | 24,977           | 23,072           | 7.6                  | 16.5                 |
| UK Banking                    | 38,315           | 37,738           | 35,619           | 1.5                  | 7.6                  |
| Great Western Bank            | 6,312            | 6,425            | 6,241            | (1.8)                | 1.1                  |
| Corporate Functions and Other | 3,605            | 4,420            | 5,126            | (18.4)               | (29.7)               |
| <b>Total retail deposits</b>  | <b>263,565</b>   | <b>248,983</b>   | <b>235,441</b>   | <b>5.9</b>           | <b>11.9</b>          |

### March 2012 v March 2011

Retail deposits have increased by \$28.1 billion or 11.9% since March 2011. Excluding foreign exchange, retail deposits have increased by \$27.1 billion or 11.5%, driven by the Group's strategy to focus on sustainable customer deposits as a source of funding to strengthen the balance sheet. This growth excluding foreign exchange was mainly due to:

- An increase of \$11.1 billion or 13.0% in Business Banking, largely driven by growth in term deposits and transaction accounts.
- An increase of \$10.4 billion or 14.8% in Personal Banking, due to growth in both UBank and in the proprietary network, as a result of growth in term deposits and online savings accounts.
- An increase of \$1.6 billion or 15.9% in NAB Wealth, largely as a result of growth in term deposits.
- An increase of \$2.2 billion or 8.8% in NZ Banking, mainly due to growth in term deposits and savings deposits.
- An increase of \$3.2 billion or 9.1% in UK Banking, mainly driven by growth in term deposits which was partially offset by a decline in savings deposits.
- A decrease of \$1.5 billion or 29.2% in Corporate Functions and Other from a decline in Asia Banking, largely driven by a decline in term deposits, mainly due to intense competition for and pricing of deposits across Asia.

### March 2012 v September 2011

Retail deposits have increased by \$14.6 billion or 5.9% since September 2011. Excluding foreign exchange, retail deposits have increased by \$16.5 billion or 6.7%. This growth excluding foreign exchange was mainly attributable to:

- An increase of \$6.2 billion or 6.9% in Business Banking, reflecting the continued focus on increasing customer deposits.
- An increase of \$5.4 billion or 7.1% in Personal Banking, through continued momentum in UBank and the proprietary network, driven by growth in term deposits.
- An increase of \$1.5 billion or 14.6% in NAB Wealth, due to growth in term deposits.
- An increase of \$1.8 billion or 7.0% in NZ Banking, due to growth in term deposits and savings deposits.
- An increase of \$2.0 billion or 5.4% in UK Banking, largely as a result of growth in term deposits which was partially offset by a decline in savings deposits.

## Asset Quality

Despite the challenging economic and operating conditions in the United Kingdom (UK) property sector and the subdued Australian economy, asset quality metrics have remained broadly stable during the March 2012 half year.

### Bad and Doubtful Debt Charge

|  | Half Year to  |               |               |
|--|---------------|---------------|---------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| Specific charge to provide for bad and doubtful debts                | 1,278         | 1,123         | 1,004         |
| Collective (write-back)/charge to provide for bad and doubtful debts | (142)         | (297)         | (35)          |
| Total charge on investments - held to maturity                       | 214           | 8             | 19            |
| Recovery from SCDO risk mitigation trades                            | (219)         | -             | -             |
| <b>Total charge to provide for bad and doubtful debts</b>            | <b>1,131</b>  | <b>834</b>    | <b>988</b>    |

|   | Half Year to |        |        |
|---|--------------|--------|--------|
|   | Mar 12       | Sep 11 | Mar 11 |
| Bad and doubtful debts charge to gross loans and acceptances (annualised) | 0.46%        | 0.35%  | 0.43%  |
| Net write-offs to gross loans and acceptances (annualised)                | 0.47%        | 0.40%  | 0.45%  |

The total charge to provide for bad and doubtful debts for the March 2012 half year was \$1,131 million, which is an increase of \$297 million when compared to the September 2011 half year.

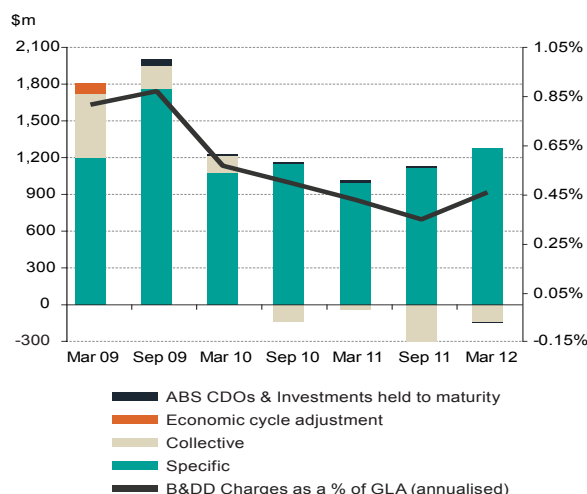
The higher charge was attributable to an increase in specific provision charges, combined with a lower write-back in the collective charge to provide for bad and doubtful debts, when compared with the September 2011 half year.

The increase in the specific provision charges of \$155 million from \$1,123 million in the September 2011 half year to \$1,278 million in the March 2012 half year was primarily attributable to the increases to existing specific provisions in UK Banking, and provisions to new impaired UK related exposures within SGA and Wholesale Banking.

The collective provision write-back of \$142 million during the March 2012 half year was mainly driven by Business Banking, SGA and UK Banking, partially offset by a collective provision charge in the unsecured portfolio in Personal Banking. Write-backs were lower when compared with the September 2011 half year due to reduced flow of new impaired assets and a more stable credit risk portfolio.

With respect to the Synthetic Collateralised Debt Obligations (SCDOs), there was one credit event during the March 2012 half year. The SCDOs hedges worked as intended, with NAB recovering the loss amounts from the hedge counterparty. The Group has removed the economic risk associated with the remaining two of the original six SCDO assets held as part of the SGA portfolio.

### Half Yearly Total Bad and Doubtful Debt Charge



The ratio of the total charge to provide for bad and doubtful debts to gross loans and acceptances (annualised) for the March 2012 half year increased by 11 basis points to 0.46% when compared to the September 2011 half year ratio of 0.35% (annualised). The increase in the ratio was mainly due to the difficult conditions in the UK economy which has adversely affected the performance of UK Banking and related exposures in SGA and Wholesale Banking.



## Provisioning Coverage

|  | As at         |               |               |
|--|---------------|---------------|---------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| <b>Provisions for bad and doubtful debts</b>                     |               |               |               |
| Collective provision on loans at amortised cost                  | 2,333         | 2,505         | 2,781         |
| Collective provision on loans and derivatives at fair value      | 725           | 893           | 707           |
| Collective provision for bad and doubtful debts                  | 3,058         | 3,398         | 3,488         |
| Specific provision on loans at amortised cost                    | 1,552         | 1,475         | 1,299         |
| Specific provision on loans at fair value                        | 82            | 71            | 120           |
| Specific provision for bad and doubtful debts                    | 1,634         | 1,546         | 1,419         |
| <b>Total provision for bad and doubtful debts <sup>(1)</sup></b> | <b>4,692</b>  | <b>4,944</b>  | <b>4,907</b>  |

<sup>(1)</sup> Not included in total provisions for doubtful debts are provisions on investments - held to maturity of \$91 million (September 2011 \$204 million, March 2011 \$187 million).

|  | As at  |        |        |
|--|--------|--------|--------|
|  | Mar 12 | Sep 11 | Mar 11 |
| Total provision to gross loans and acceptances   | 0.96%  | 1.03%  | 1.07%  |
| Specific provision to gross impaired assets  | 26.8%  | 24.2%  | 22.6%  |
| Collective provision to credit risk-weighted assets (excluding housing)  | 1.36%  | 1.45%  | 1.46%  |
| Collective provision including GRCL on a pre-tax basis (top-up) to credit risk-weighted assets (excluding housing) | 1.76%  | 1.86%  | 1.88%  |

Total provision for doubtful debts decreased by \$252 million from \$4,944 million at September 2011 to \$4,692 million at March 2012. The decrease was largely due to lower collective provision balances, partially offset by higher specific provision balances as at March 2012.

The Group's collective provision at March 2012 includes a NZ\$50 million overlay for potential credit losses arising from the major New Zealand earthquakes.

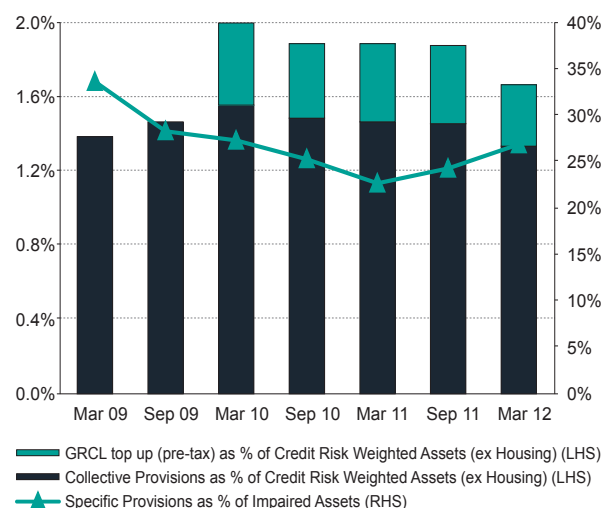
The ratio of specific provisions to gross impaired assets increased from 24.2% at September 2011 to 26.8% at March 2012 largely due to the increase in existing specific provisions to longstanding exposures in Business Banking and UK Banking as conditions in the UK commercial property sector deteriorated further during the March 2012 half year.

The Group's collective provision to credit risk-weighted assets (excluding housing) ratio decreased by nine basis points to 1.36% at March 2012, when compared to September 2011. The decrease reflects the reduction in the collective provision.

The general reserve for credit losses ("GRCL") top-up decreased from \$716 million at September 2011 to \$710 million (\$911 million on pre-tax basis) at March 2012.

When the GRCL is added to the Group's ratio of collective provision to credit risk-weighted assets (excluding housing), the ratio increases from 1.36% to 1.76% as at March 2012, and is lower when compared to September 2011 (1.86%).

## Provision and GRCL Coverage



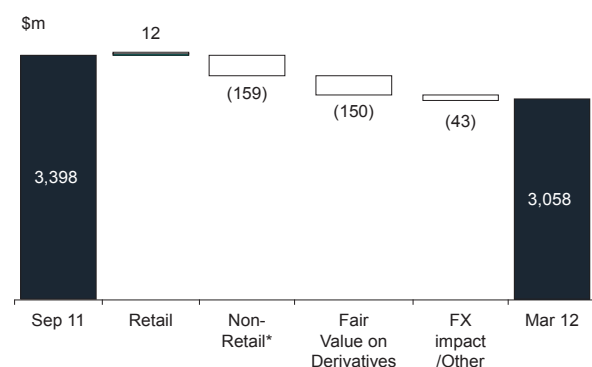
## Specific Provisions

The specific provision balance increased from \$1,546 million at September 2011 to \$1,634 million as at March 2012. The increase was driven by higher specific provision balances in UK Banking and Business Banking.

## Collective Provisions

The collective provision balance has continued to trend down since September 2010. Collective provision was \$3,058 million as at March 2012, compared to \$3,398 million as at September 2011. The decrease of \$340 million is attributable as follows:

## Collective Provision Attribution Analysis



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

## Retail

The collective provision on the retail portfolio has increased by \$12 million since September 2011, mainly due to the post Christmas seasonality which had adversely affected the delinquency profile of Personal Banking credit cards. This increase was partially offset by improvements in the UK Banking delinquency profile and the continued reduction in size of the unsecured retail portfolio.

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

The Collective provision on the non-retail portfolio has decreased by \$159 million since September 2011. The decrease was attributable to:

- Improvement in collateral matching, mainly in Business Banking.
- Refinement of the Group's collective provision model parameters.
- Write-back of collective provision overlays, which includes the partial release of the New Zealand earthquakes provisions of NZ\$10 million.
- The migration of customers to impaired status.
- The continued run-off in the SGA portfolio.

## Derivatives at Fair Value

The Collective provision on derivatives at fair value has decreased by \$150 million since September 2011. The decrease relates to the exit of the remaining two of the original six SCDOs and the utilisation of a \$160 million conduit overlay raised during the March 2009 half year to reflect the uncertainty created by the rapidly deteriorating economic conditions and any consequent default. This has had no impact to the Group's charge for bad and doubtful debts. The decrease was partially offset by an increase in the potential credit exposure on a number of smaller exposures within Wholesale Banking and SGA.

## Economic Cycle Adjustment

Due to deteriorating economic conditions in the UK, \$230 million of the \$300 million economic cycle overlay has been assigned to UK Banking to provide for losses arising from deterioration evident in the UK commercial property portfolio. The remaining \$70 million economic cycle overlay has been retained at a Group level.

## Asset Quality

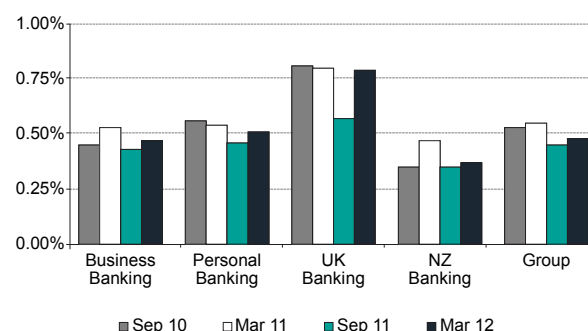
|  | As at        |              |              |
|--|--------------|--------------|--------------|
|  | Mar 12       | Sep 11       | Mar 11       |
| 90+ days past due loans (\$m)                            | 2,373        | 2,150        | 2,541        |
| Gross impaired assets (\$m)                              | 6,088        | 6,386        | 6,275        |
| <b>90+ days past due and gross impaired assets (\$m)</b> | <b>8,461</b> | <b>8,536</b> | <b>8,816</b> |

|  | As at  |        |        |
|--|--------|--------|--------|
|  | Mar 12 | Sep 11 | Mar 11 |
| 90+ days past due loans to gross loans and acceptances                     | 0.49%  | 0.45%  | 0.55%  |
| Gross impaired assets to gross loans and acceptances                       | 1.24%  | 1.32%  | 1.37%  |
| 90+ days past due and gross impaired assets to gross loans and acceptances | 1.73%  | 1.77%  | 1.92%  |

## 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) increased by four basis points from 0.45% at September 2011 to 0.49% at March 2012, and was six basis points lower when compared to March 2011. 90+ DPD volumes increased during the March 2012 half year mainly due to the challenging conditions in the UK commercial property and Australian SME sectors, and higher secured 90+ DPD volumes in Personal Banking.

The **Business Banking** 90+ DPD ratio increased by four basis points from 0.43% at September 2011 to 0.47% at March 2012, and was six basis points lower when compared to March 2011. The increase during the March 2012 half year was mainly due to customers operating under challenging economic conditions.

The **Personal Banking** 90+ DPD ratio increased by five basis points from 0.46% at September 2011 to 0.51% at March 2012, and was three basis points lower when compared to March 2011. The increase in 90+ DPD volumes during the March 2012 half year was in line with seasonality.

The **UK Banking** 90+ DPD ratio increased by 22 basis points from 0.57% at September 2011 to 0.79% at March 2012, and was one basis point lower when compared to March 2011. The increase during the March 2012 half year was primarily due to the default of commercial property exposures, while the retail portfolio has continued to improve.

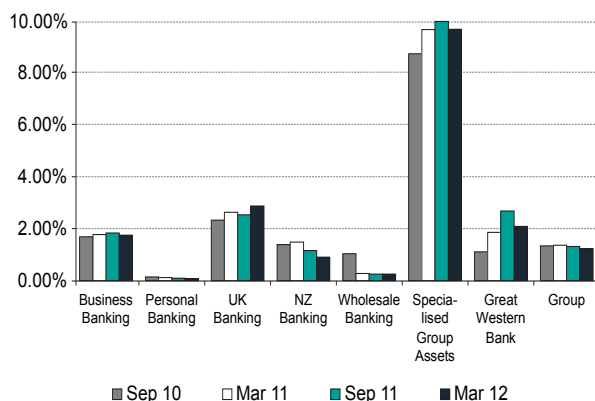
The **NZ Banking** 90+ DPD ratio increased by two basis points from 0.35% at September 2011 to 0.37% at March 2012, and was ten basis points lower when compared to March 2011. The increase during the March 2012 half year was due to higher business and mortgage 90+ DPD volumes.



The **Great Western Bank** 90+ DPD ratio decreased by 125 basis points from 2.11% at September 2011 to 0.86% at March 2012, and was 291 basis points lower when compared to March 2011. The decrease in the 90+ DPD volumes was reflective of the continued work-out strategies in this portfolio and run-off of the TierOne portfolio. All 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).

### 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 eight basis points from 1.32% at September 2011 to 1.24% at March 2012, and was 13 basis points lower when compared to March 2011. The decrease in the ratio was across all divisions, apart from Wholesale Banking, which remained stable, and UK Banking. During the March 2012 half year, the level of new impaired assets decreased by 19% when compared to the prior half year. However, impaired volumes remained at elevated levels at March 2012.

For **Business Banking**, the impaired asset ratio decreased by nine basis points from 1.85% at September 2011 to 1.76% at March 2012, and was two basis points lower than at March 2011. The key driver was lower levels of new impaired assets in the March 2012 half year, down by 30% when compared to the September 2011 half year, while the volume of gross write-offs and loans returning to performing or repaid status remained broadly stable.

**Personal Banking's** impaired asset ratio continued to improve, down marginally by one basis point from 0.10% at September 2011 to 0.09% at March 2012, and was three basis points lower when compared to March 2011. The decrease was mainly due to lower impaired mortgage volumes.

The **UK Banking** impaired asset ratio increased by 34 basis points from 2.55% at September 2011 to 2.89% at March 2012, and was 24 basis points higher than March 2011. The increase reflected the deterioration in market conditions, which has adversely affected the commercial property portfolio. The flow of new impaired assets during the March 2012 half year was lower when compared to the September 2011 half year. Impaired asset volumes increased as market conditions made disposal of property assets increasingly difficult and affected collateral values.

The **NZ Banking** impaired asset ratio decreased by 25 basis points from 1.16% at September 2011 to 0.91% at March 2012, and was 58 basis points lower when compared to March 2011. The decrease was mainly driven by lower business impaired volumes as a

result of loans being repaid or returned to performing, combined with write-offs. This was partially offset by new impaired assets for the March 2012 half year, which have decreased by 39% when compared with the September 2011 half year.

The **Wholesale Banking** impaired asset ratio remained broadly stable during the March 2012 half year at 0.24% compared to the September half year, and was four basis points lower when compared to March 2011. During the March 2012 half year, there were two new impairments, offset by a number of write-offs and the repayment of a previously impaired facility.

The **SGA** impaired ratio decreased by 32 basis points from 10.03% at September 2011 to 9.71% at March 2012, and was steady when compared to March 2011. The decrease was mainly driven by the write-offs of large specific defaults, combined with loans returning to performing or repaid status.

The **Great Western Bank** impaired asset ratio decreased by 61 basis points from 2.70% at September 2011 to 2.09% at March 2012, and was 22 basis points higher when compared to March 2011. The decrease in the ratio was a result of new impaired assets being offset to a greater extent by loans returning to performing or repaid status and loans being written-off.

### Net Write-Offs

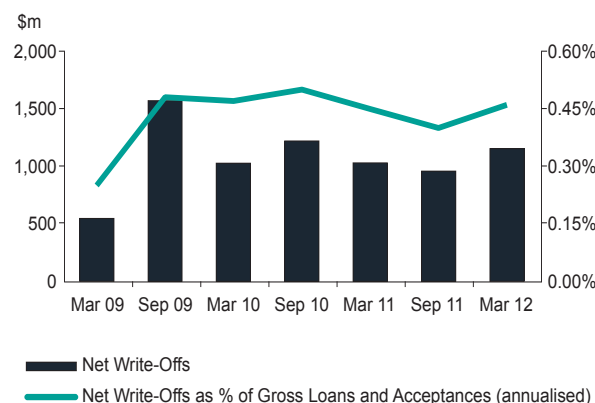
Net write-offs increased by 21% from \$958 million for the September 2011 half year to \$1,155 million for the March 2012 half year. The increase in volumes was mainly due to the write-off of large UK related exposures within SGA and Wholesale Banking, followed by higher write-offs in UK Banking.

The ratio of net write-offs as a proportion of gross loans and acceptances (annualised) has increased by seven basis points from 0.40% at September 2011 half year to 0.47% at the March 2012 half year.

The gross 12 month rolling write-off rate for the Group's retail portfolio was steady at 0.21% at March 2012 when compared to September 2011, with the mortgage gross write-off rate steady at 0.06% during the March 2012 half year.

The ratio of total provisions to net write-offs (annualised) decreased from 249% at September 2011 to 203% as at March 2012.

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



### Commercial Property Portfolio

The Group's commercial property portfolio decreased from \$60.9 billion at September 2011 to \$60.0 billion at March 2012 <sup>(1)</sup>. The decrease of \$0.9 billion includes \$0.5 billion foreign currency translation effect across the UK and US, and reductions were observed across Residential – Other, Land Development and Subdivisions, and Tourism and Leisure. This portfolio represents 12.2% of the Group's gross loans and acceptances at March 2012, a decline of forty basis points when compared to September 2011. All geographies apart from Asia observed a decrease in commercial property exposure to their respective gross loans and acceptances during the half year.

The **Business Banking** commercial property portfolio was broadly stable when compared to September 2011. At March 2012, the portfolio totalled \$42.9 billion, representing 11.4% of gross loans and acceptances in the Australian geography. Asset quality within the commercial property portfolio remained stable during the half year.

The **UK Banking** commercial property portfolio decreased marginally when compared to September 2011. At March 2012, the portfolio totalled £6.0 billion, representing

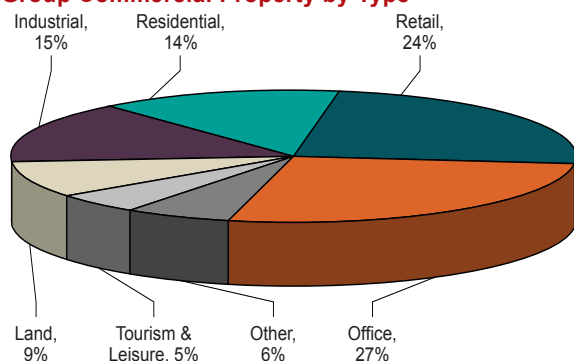
<sup>(1)</sup> Measured as balances outstanding at March 2012 per APRA Commercial Property Return ARF230.

17.8% of the division's gross loans and acceptances. The asset quality of the commercial property portfolio was challenged by deteriorating economic market conditions in the UK, as levels of default and impairment rose during the March 2012 half year. Provisioning levels in commercial property have increased as a result of new impairments and the increase of provisions to existing impaired assets, as commercial property values have continued to decline.

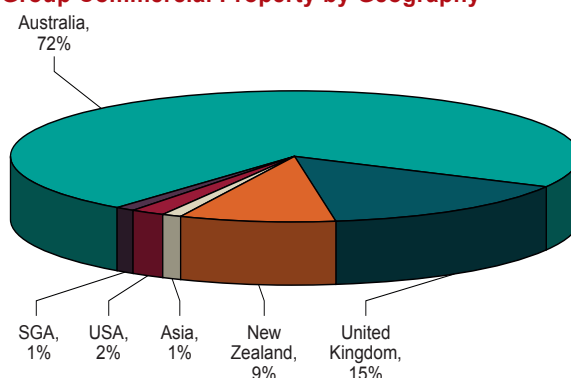
The **NZ Banking** commercial property portfolio was NZ\$6.9 billion at March 2012, marginally lower when compared to September 2011 as a result of one large repayment. This portfolio represents 11.9% of the division's gross loans and acceptances at March 2012. The commercial property 90+ DPD and impaired ratio decreased during the March 2012 half year, mainly due to the write-off to one large exposure.

The **SGA** commercial property portfolio totals \$0.4 billion at March 2012, a decrease of \$0.4 billion when compared to September 2011.

### Group Commercial Property by Type



### Group Commercial Property by Geography



## Capital Management and Funding

### Balance Sheet Management Overview

During the March 2012 half year, market conditions were characterised by heightened periods of instability, particularly in the first quarter as the European sovereign debt crisis worsened. Market conditions improved in the New Year and the Group was able to consistently access term wholesale funding markets, including senior debt markets.

The Group remains vigilant in its evaluation of economic and market conditions, and continues to ensure the balance sheet remains strong.

### Regulatory Reform

#### Basel Regulatory Reforms

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

#### Capital Reforms

In September 2011, the Australian Prudential Regulatory Authority (APRA) released a discussion paper outlining its proposed implementation of the Basel III capital reforms. This was followed by a Basel III response paper and updated draft capital standards in late March 2012. APRA's broad approach to capital adequacy remains unchanged after the update. The proposals may be amended prior to final implementation.

As currently drafted, the reforms are estimated to have a net impact on the Group's Core Tier 1 position of approximately 45 basis points. Further consultation is expected over 2012. APRA proposes to phase in changes to minimum capital levels from 1 January 2013.

APRA's changes to market risk and securitisation (Basel 2.5) became effective on 1 January 2012.

#### Liquidity Reforms

APRA released its draft liquidity standard and discussion paper on the implementation of the Basel III liquidity reforms in Australia during November 2011. Consultation

between APRA, industry and market participants continues.

The Group will gradually transition to the proposed liquidity 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 the liquidity and stability of the funding that underpins these measures.

In addition, the RBA announced details of its Committed Liquidity Facility (CLF), which is designed to address the shortfall of Level 1 liquid assets within Australia. The CLF will cost participants a fee of 15 basis points for both drawn and undrawn commitments.

#### 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 consider 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 Act on the Group's operations.
- The UK Independent Commission on Banking which may affect the structure of banks and the amount of capital held in the UK business.

### 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.

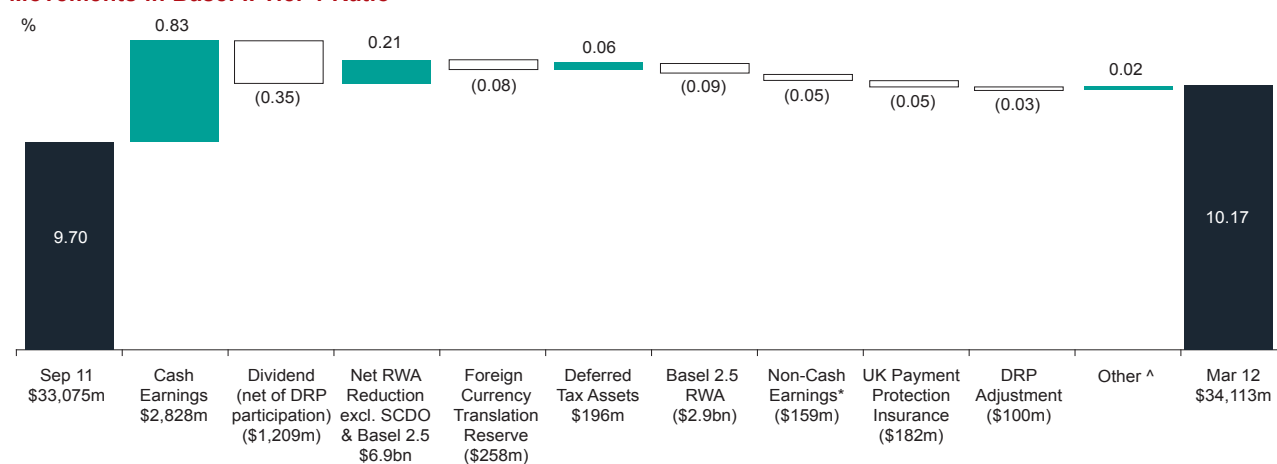
### Capital ratios

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

| Basel II                         | Target Ratio % | As at       |             |             | Mar 12 v Sep 11 | Mar 12 v Mar 11 |
|----------------------------------|----------------|-------------|-------------|-------------|-----------------|-----------------|
|                                  |                | 31 Mar 12 % | 30 Sep 11 % | 31 Mar 11 % |                 |                 |
| Core Tier 1 ratio <sup>(1)</sup> |                | 8.03        | 7.58        | 7.12        | 45 bps          | 91 bps          |
| Tier 1 ratio                     | above 8.00%    | 10.17       | 9.70        | 9.19        | 47 bps          | 98 bps          |
| Total capital ratio              |                | 11.52       | 11.26       | 11.33       | 26 bps          | 19 bps          |

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

| Basel II  | As at          |                |                | Mar 12 v Sep 11 % | Mar 12 v Mar 11 % |
|---|----------------|----------------|----------------|-------------------|-------------------|
|   | 31 Mar 12 \$m  | 30 Sep 11 \$m  | 31 Mar 11 \$m  |                   |                   |
| Risk-weighted assets - credit risk                            | 300,185        | 308,648        | 311,625        | (2.7)             | (3.7)             |
| Risk-weighted assets - market risk                            | 5,277          | 2,968          | 3,159          | 77.8              | 67.0              |
| Risk-weighted assets - operational risk                       | 23,810         | 22,255         | 21,862         | 7.0               | 8.9               |
| Risk-weighted assets - interest rate risk in the banking book | 6,281          | 7,198          | 8,565          | (12.7)            | (26.7)            |
| <b>Total risk-weighted assets</b>                             | <b>335,553</b> | <b>341,069</b> | <b>345,211</b> | <b>(1.6)</b>      | <b>(2.8)</b>      |

**Movements in Basel II Tier 1 Ratio**

\* Non-cash earnings impact after adjusting for distributions, treasury shares, UK goodwill, software impairment, and separately disclosed items.

^ 'Other' includes non-cash earnings impact of SCDO hedging costs expense offset by the related RWA reduction, and other immaterial movements.

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 and rating agency and investor expectations. Board approved targets will be recalibrated when the regulatory environment becomes clearer.

**Capital Movements During the Period**

The Group's Tier 1 ratio of 10.17% at 31 March 2012 is consistent with the Group's objective of maintaining a strong capital position.

The key movements in capital in the March 2012 half year were:

- Earnings less dividend net of Dividend Reinvestment Plan (DRP) participation (48 basis points).
- Foreign Currency Translation Reserve (FCTR) (eight basis points).
- Net RWA reduction of \$6.9 billion (excludes the removal of economic risk relating to the remaining SCDO exposures and impacts of Basel 2.5) (21 basis points).
- Decrease in Deferred Tax Assets (DTA) deduction (six basis points).
- Basel 2.5 impacts (nine basis points).
- Unfavourable non-cash earnings (five basis points).
- Provision for potential claims relating to PPI in the UK (five basis points).

The unfavourable eight basis points movement in the FCTR was offset by the foreign exchange (FX) impact on RWAs (+10 basis points).

Total RWAs fell by \$5.5 billion over the March 2012 half year. This was largely the result of methodology changes, optimisation and the removal of economic risk relating to the remaining SCDO exposures (\$1.5 billion). The effect was partially offset by asset volume growth.

**Capital Impact of the UK Strategic Review**

The proforma Tier 1 capital effects of the UK Banking strategic review (adjusted for restructuring and other costs that will be recorded following the March 2012 half year) is an estimated reduction of 7 basis points

(excluding the adjustment for PPI which was recognised in the March 2012 half year), resulting in a Tier 1 ratio on a proforma basis of 10.1%.

**Dividend and Dividend Reinvestment Plan**

The interim dividend has been increased to 90 cents per share and the DRP settings have been maintained to provide a 1.5% discount with no participation limit. For the purposes of calculating the Group's capital ratios, the interim dividend has been reduced by an amount equal to 40% of the interim dividend to reflect assumed DRP participation.

**UK Defined Benefit Pension Scheme**

The Group's UK operations manage a defined benefit pension scheme ("the Scheme"). During the March 2012 half year, the Scheme's deficit decreased to £85 million from £180 million at 30 September 2011. Improvements in the funding position of the Scheme resulted from employer contributions (including the special contribution described below) and positive asset returns, offset by a decrease in the discount rate that increased the value of the pension liability.

As announced to the market in January 2012, National Australia Bank Ltd made a special contribution of £130 million to the Scheme, which was expensed in the income statement of National Australia Bank Limited. This contribution reduced the pension deficit liability of Clydesdale Bank PLC. There was only a minor impact on the Group consolidated financial statements as a result of this special contribution.

**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

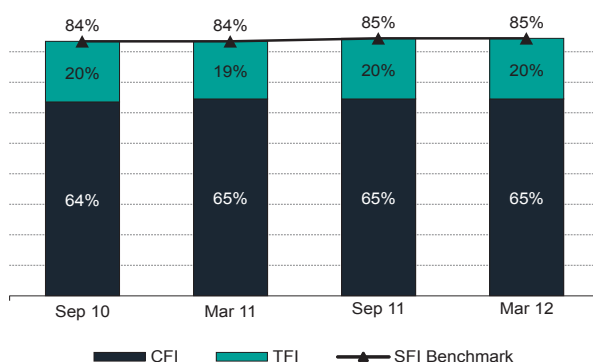
The Group continues to explore opportunities to enhance and diversify its funding sources.

### 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 has maintained balance sheet strength, with the Group SFI remaining at 85% as at March 2012. The Group continues to focus on deposits as a key source of balance sheet strength, with the CFI at 65%.

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



### Customer Funding

The Group has continued to grow customer deposits, with an emphasis on the household and small business segments. This is consistent with the Group's proactive approach to Basel III transition and the broader strategy to acquire more customers.

The Monthly Banking Statistics published by APRA show that in the six months ended March 2012, the Group has grown Australian domestic household deposits by 8.3% (versus 5.4% system growth) and business deposits excluding deposits from financial corporations by 1.0% (versus 0.7% system growth).

### Term Wholesale Funding

Global term funding market conditions were fragile during the first quarter of the 2012 financial year, with increased volatility offering limited opportunities for global banks to issue senior unsecured debt. Market conditions have since been improving and are broadly supportive of term issuance, although remain sensitive to ongoing Eurozone risks and the global macroeconomic outlook.

The Group raised \$14.5 billion of term wholesale funding (including secured funding) in the first half of the 2012 financial year. National Australia Bank Limited raised \$12.1 billion (including \$2.8 billion of covered bonds). BNZ raised \$1.5 billion (including \$0.9 billion of covered bonds) and Clydesdale Bank PLC raised \$0.9 billion of Residential Mortgage Backed Securities (RMBS).

The weighted average maturity of term wholesale funding raised by the Group over the half year to 31 March 2012 was approximately 4.2 years to first call, slightly higher than the September 2011 half year of 4.1 years. The weighted average remaining maturity of the Group's senior and subordinated term wholesale portfolio funding is 2.8 years (3.2 years for TFI qualifying debt, which only 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 and fees) during the first half of the 2012 financial year was approximately 178 basis points over the Bank Bill Swap Rate (BBSW), compared to an average cost of 120 basis points over BBSW in the 2011 financial year. The average cost of the National Australia Bank Limited outstanding term funding portfolio for the first half of the 2012 financial year was 134 basis points over BBSW, compared to 124 basis points over BBSW for the 2011 financial year.

The Group has a total of \$11 billion of Government guaranteed wholesale funding outstanding. Of this, 10% matures in financial year 2012 and the remainder by 2014.

### Short-term Wholesale Funding

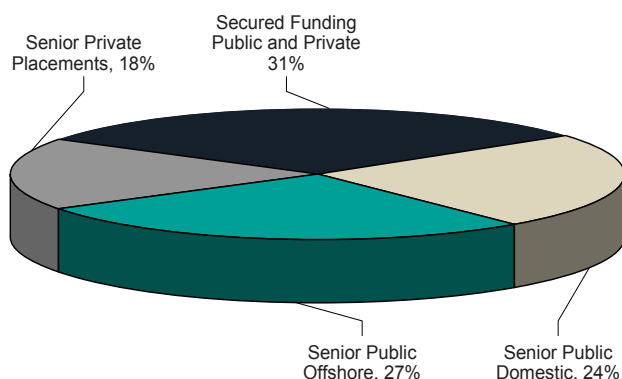
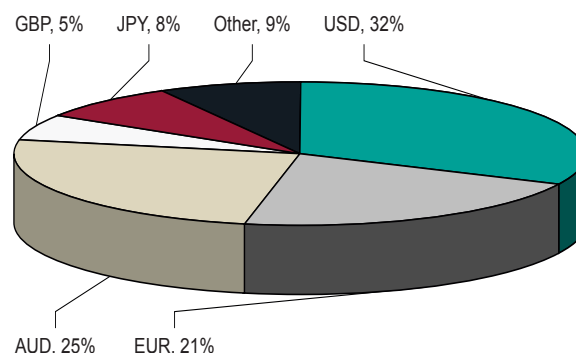
Despite global volatility, the Group continued to access international and domestic short-term wholesale markets without difficulty over the half year. The focus has been on maintaining the longer average maturity of the short-term book to support the Group's liquidity position.

### 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 31 March 2012 were \$90 billion, a \$5 billion decrease from 30 September 2011 and an increase of \$18 billion from 31 March 2011. Liquidity holdings will be continually reassessed in light of market conditions and as the effects of proposed regulatory changes become clearer.

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



**Half year 2012 Wholesale Funding by Deal Type  
(\$14.5 billion)****Half year 2012 Wholesale Funding by Currency  
(\$14.5 billion)****Credit Ratings**

Rating agencies have continued to be active in adjusting the ratings of sovereigns and banks globally, including in the various banking sectors in which the Group operates. The Group monitors rating agency developments closely and regularly communicates with them. Entities in the Group are rated by Standard and Poor's (S&P), Moody's Investor Service (Moody's) and Fitch Ratings (Fitch).

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

In December 2011, S&P finalised its revised Bank Rating and Bank Hybrid Rating methodologies. This resulted in downgrades for a number of banks globally.

As a result of the methodology change, the long-term ratings of National Australia Bank Limited and BNZ were downgraded from AA to AA- with stable outlook, consistent with peers. Clydesdale Bank PLC was downgraded from A+ to BBB+, largely as a result of S&P's perception of a reduction in parental support. National Australia Bank Limited confirmed that the nature of the Group's support for Clydesdale Bank PLC has not changed. Following the outcome of the UK Banking strategic review, S&P revised the outlook from stable to positive. National Wealth Management Holdings Limited was also downgraded from AA- to A+ with stable outlook.

In February 2012, Fitch downgraded the long-term ratings of National Australia Bank Limited and BNZ from AA to AA-. These ratings have a stable outlook, and are consistent with peers. Fitch's rationale for the ratings adjustment was that, in their view, the major Australian banks retain a relatively higher reliance on wholesale funding than similarly rated global peers.

As part of the Fitch review, Clydesdale Bank PLC's long-term rating was also downgraded to A with Rating Watch Negative pending the outcome of the UK Banking strategic review. Following the outcome of the UK Banking strategic review, Fitch revised the outlook from Rating Watch Negative to stable.

In February 2012, following the announcement of the UK Banking strategic review Moody's placed Clydesdale Bank PLC on Rating Under Review. Whilst the UK Banking strategic review has now been announced, Moody's is yet to finalise its ratings review of Clydesdale Bank PLC.

## Other Matters

### Corporate Responsibility

Corporate Responsibility (CR) is about doing the right thing for our customers, our people and our communities. Our approach to CR is focused on 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 for our customers; being a good employer; and addressing our broader responsibility to society.

The highlights of NAB's half year CR performance are set out below (the full CR reporting and disclosures are available on the NAB website).

### External awards, recognition and reporting

- NAB is one of the leading 2% of companies within the banking sector in the 2011 Dow Jones Sustainability Index.
- Included in the Ethisphere Institute list of '2012 World's Most Ethical Companies'.
- Continue to be listed as a constituent company on the FTSE4Good Index.
- In March 2012 we released our inaugural Communication of Progress on the anniversary of signing the United Nations Global Compact, a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.
- Through our continued focus on customer satisfaction, in March 2012 NAB received Canstar Blue's most satisfied customers award for the second year in a row. NAB achieved top scores in almost all criteria, and was the only bank to receive a five star rating for overall satisfaction.
- NAB, Homeside and UBank have taken out a series of awards in Money Magazine's annual Best of the Best Awards for 2012, which recognise Australia's best financial products, services and investments.
- Recognised for the sixth consecutive year as an Employer of Choice for Women by the Equal Opportunity for Women in the Workplace Agency.
- Awarded the Wayne Cascio Award for Organisational Development & Leadership in the 2011 Australian Human Resources Institute National Awards for excellence in talent management practices.
- Awarded the Environmental Tracking Scope 3 Disclosure Leader award and ranked second in the Environmental Tracking Asia-Pacific 300 according to greenhouse gas emissions and levels of transparency.
- We are one of 61 companies globally and one of only three in Australia participating in the International Integrated Reporting Council Integrated Reporting Program. The International Integrated Reporting Council is leading the development of a global framework for integrated reporting.

### Initiatives to Support Customers

- We maintain our longstanding commitment to improving the financial inclusion and literacy of Australians. This year, NAB has written over 11,200 microfinance loans, with \$130 million committed to helping Australians on low incomes or who have little access to affordable business credit.

- In March NAB, in conjunction with the Centre for Social Impact (CSI), we released a new research report, *Small is the new big: Measuring the impact of NAB's Microenterprise Loans*. The report outlines the wide ranging social and economic benefits of providing funding to businesses that would otherwise have no avenues to credit.
- In February 2012 a new business payments card was launched, designed to make it easier for customers to manage their business purchases and expenses, particularly small to medium sized businesses. Similar to a Visa debit card, but with additional functionality giving businesses even more control using their own money to make purchases.
- On 14 March 2012 NAB launched the redesigned Credit Card statement. The new statement provides customers with clearer information on payment details, how to avoid interest on purchases and the late payment fee.
- 'Customer centric' training has now been delivered to 4,500 employees to continue to improve customer service levels across our network.

### Initiatives to Support Employees

- Established a People Council in 2012. It is comprised of our Australian Executive members and aims to direct, review and approve NAB's overall approach to people and culture.
- Gender diversity and inclusion continues to be a key priority for the Group. Various activities to improve gender diversity in the business include:
  - Setting measurable gender targets for the number of women in senior executive positions, subsidiary boards and core talent development programs.
  - Participating in the International Women's Day celebrations in March 2012.
  - BNZ signing the United Nations Principles for the Empowerment of Women and in the UK launching a new employee network group for women in November 2011.
  - Undertaking Unconscious Bias training with 160 senior managers completing this training.
- Diversity and Inclusion Supplier Principles have now been rolled out to external recruitment providers.

### Initiatives to Support Communities

- The launch of NAB's fourth Reconciliation Action Plan took place on 1 March 2012. The key areas of focus continue to be financial inclusion, employment opportunities and cultural awareness.
- Staff participation in volunteering at NAB continues to grow - participation for the March 2012 half year is 20.7% compared to 15.7% in the March 2011 half year and the percentage of skilled volunteering is 7% in the March 2012 half year, compared to 5.7% in the March 2011 half year.
- CR and The Academy are partnering to encourage employees to link their development plans with skilled volunteering opportunities.
- NAB Schools First announced the 2011 National, State/Territory, Impact and Seed Funding Award winners. During the year, \$5 million in award funding was shared among 110 award winning school-community partnerships. Over the past three years, NAB Schools First has awarded \$15 million to 310 outstanding school-community partnerships in recognition of the positive contribution these partnerships are making to the lives of young Australians. More than 2,100 of our employees have volunteered their time to work with partnerships as part of the program.

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

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## Divisional Performance Summary

| Half year ended<br>31 March 2012  | Business<br>Banking<br>\$m | Personal<br>Banking<br>\$m | Wholesale<br>Banking<br>\$m | NAB<br>Wealth<br>\$m | NZ<br>Banking<br>\$m | UK<br>Banking<br>\$m | Specialised<br>Group<br>Assets<br>\$m | Corporate<br>Functions<br>& Other <sup>(1)</sup><br>\$m | Distributions<br>& Eliminations<br>\$m | Group<br>Cash<br>Earnings<br>\$m |
|---|----------------------------|----------------------------|-----------------------------|----------------------|----------------------|----------------------|---------------------------------------|---|--|----------------------------------|
| Net interest income   | 2,530                      | 1,445                      | 784                         | 163                  | 549                  | 684                  | 132                                   | 54  | -                                      | 6,708                            |
| Fees and commissions  | 422                        | 269                        | 127                         | 13                   | 151                  | 212                  | 30                                    | 6   | -                                      | 1,234                            |
| Trading income  | 54                         | 7                          | 268                         | 1                    | -                    | 2                    | -                                     | 21  | -                                      | 295                              |
| Other   | 41                         | 10                         | 40                          | 3                    | 28                   | 3                    | 5                                     | 6   | (47)                                   | 111                              |
| Other operating income  | 517                        | 286                        | 435                         | 17                   | 179                  | 217                  | 35                                    | 33  | (32)                                   | 1,640                            |
| NAB Wealth net operating income   | -                          | -                          | -                           | 760                  | -                    | -                    | -                                     | -   | -                                      | 760                              |
| Net operating income  | 3,047                      | 1,731                      | 1,219                       | 940                  | 728                  | 901                  | 167                                   | 87  | (47)                                   | 9,108                            |
| Operating expenses  | (875)                      | (902)                      | (465)                       | (571)                | (289)                | (529)                | (83)                                  | (18)  | 47                                     | (3,952)                          |
| Underlying profit   | 2,172                      | 829                        | 754                         | 369                  | 439                  | 372                  | 84                                    | 69  | -                                      | 5,156                            |
| (Charge to provide for)/benefit from bad and doubtful debts                                 | (372)                      | (169)                      | (47)                        | (5)                  | (26)                 | (428)                | (14)                                  | (71)  | -                                      | (1,131)                          |
| <b>Cash earnings/(deficit) before tax, IoRE, distributions and non-controlling interest</b> | 1,800                      | 660                        | 707                         | 364                  | 413                  | (56)                 | 70                                    | (2)   | -                                      | 4,025                            |
| Income tax (expense)/benefit  | (536)                      | (196)                      | (189)                       | (104)                | (116)                | 20                   | (22)                                  | (1)   | -                                      | (1,121)                          |
| <b>Cash earnings/(deficit) before IoRE, distributions and non-controlling interest</b>      | 1,264                      | 464                        | 518                         | 260                  | 297                  | (36)                 | 48                                    | (3)   | -                                      | 2,904                            |
| Net profit - non-controlling interest   | -                          | -                          | -                           | (1)                  | -                    | -                    | -                                     | -   | -                                      | (1)                              |
| IoRE  | -                          | -                          | -                           | 30                   | -                    | -                    | -                                     | -   | -                                      | 30                               |
| Distributions   | -                          | -                          | -                           | -                    | -                    | -                    | -                                     | -   | (105)                                  | (105)                            |
| <b>Cash earnings/(deficit)</b>  | 1,264                      | 464                        | 518                         | 289                  | 297                  | (36)                 | 48                                    | (3)   | (105)                                  | 2,828                            |
| <b>Key balance sheet items (\$bn)</b>   |                            |                            |                             |                      |                      |                      |                                       |   |  | <b>Total</b>                     |
| Gross loans and acceptances (average)   | 197.2                      | 142.3                      | 17.5                        | 18.7                 | 44.4                 | 51.2                 | 5.2                                   | 4.2   | -                                      | 484.1                            |
| Retail deposits (average)   | 94.4                       | 77.8                       | -                           | 11.1                 | 25.9                 | 36.7                 | 6.2                                   | -   | -                                      | 255.1                            |
| Total risk-weighted assets (spot)   | 140.6                      | 40.4                       | 42.5                        | 6.9                  | 31.7                 | 48.5                 | 5.3                                   | 8.0   | -                                      | 335.6                            |

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

## Divisional Performance Summary

| Half year ended<br>30 September 2011  | Business<br>Banking<br>\$m | Personal<br>Banking<br>\$m | Wholesale<br>Banking<br>\$m | NAB<br>Wealth<br>\$m | NZ<br>Banking<br>\$m | UK<br>Banking<br>\$m | GWB<br>\$m | Specialised<br>Group<br>Assets<br>\$m | Corporate<br>Functions<br>& Other <sup>(1)</sup><br>\$m | Distributions<br>& Eliminations<br>\$m | Group<br>Cash<br>Earnings<br>\$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                            |
| NAB Wealth 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/(deficit) 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/(deficit)</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   | -                                      | 341.0                            |

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

## Divisional Performance Summary

| Half year ended<br>31 March 2011  | Business<br>Banking<br>\$m | Personal<br>Banking<br>\$m | Wholesale<br>Banking<br>\$m | NAB<br>Wealth<br>\$m | NZ<br>Banking<br>\$m | UK<br>Banking<br>\$m | GWB<br>\$m | Specialised<br>Group<br>Assets<br>\$m | Corporate<br>Functions<br>& Other <sup>(1)</sup><br>\$m | Distributions<br>& Eliminations<br>\$m | Group<br>Cash<br>Earnings<br>\$m |
|---|----------------------------|----------------------------|-----------------------------|----------------------|----------------------|----------------------|------------|---------------------------------------|---|--|----------------------------------|
| Net interest income   | 2,446                      | 1,368                      | 522                         | 160                  | 487                  | 768                  | 155        | 65                                    | 333   | -                                      | 6,304                            |
| Fees and commissions  | 423                        | 277                        | 144                         | 16                   | 149                  | 227                  | 30         | 8                                     | 11  | -                                      | 1,285                            |
| Trading income  | 34                         | (1)                        | 289                         | 1                    | (2)                  | 2                    | -          | 65                                    | (47)  | -                                      | 341                              |
| Other   | 35                         | 25                         | 42                          | 2                    | 24                   | (15)                 | 8          | 1                                     | 11  | (34)                                   | 99                               |
| Other operating income  | 492                        | 301                        | 475                         | 19                   | 171                  | 214                  | 38         | 74                                    | (25)  | (34)                                   | 1,725                            |
| NAB Wealth net operating income   | -                          | -                          | -                           | 770                  | -                    | -                    | -          | -                                     | -   | -                                      | 770                              |
| Net operating income  | 2,938                      | 1,669                      | 997                         | 949                  | 658                  | 982                  | 193        | 139                                   | 308   | (34)                                   | 8,799                            |
| Operating expenses  | (879)                      | (991)                      | (456)                       | (561)                | (281)                | (580)                | (90)       | (24)                                  | (263)   | 34                                     | (3,991)                          |
| Underlying profit   | 2,059                      | 778                        | 541                         | 388                  | 377                  | 402                  | 103        | 115                                   | 45  | -                                      | 4,808                            |
| (Charge to provide for)/benefit from bad and doubtful debts                                 | (385)                      | (163)                      | 12                          | (11)                 | (72)                 | (241)                | (32)       | (21)                                  | (75)  | -                                      | (988)                            |
| <b>Cash earnings/(deficit) before tax, IoRE, distributions and non-controlling interest</b> |                            |                            |                             |                      |                      |                      |            |                                       |   |  |                                  |
| Income tax (expense)/benefit  | 1,674                      | 615                        | 553                         | 377                  | 305                  | 161                  | 71         | 94                                    | (30)  | -                                      | 3,820                            |
|   | (493)                      | (183)                      | (160)                       | (107)                | (90)                 | (39)                 | (24)       | (17)                                  | 47  | -                                      | (1,066)                          |
| <b>Cash earnings before IoRE, distributions and non-controlling interest</b>                |                            |                            |                             |                      |                      |                      |            |                                       |   |  |                                  |
| Net profit - non-controlling interest   | 1,181                      | 432                        | 393                         | 270                  | 215                  | 122                  | 47         | 77                                    | 17  | -                                      | 2,754                            |
| IoRE  | -                          | -                          | -                           | (1)                  | -                    | -                    | -          | -                                     | -   | -                                      | (1)                              |
| Distributions   | -                          | -                          | -                           | 29                   | -                    | -                    | -          | -                                     | -   | -                                      | 29                               |
|   | -                          | -                          | -                           | -                    | -                    | -                    | -          | -                                     | -   | (114)                                  | (114)                            |
| <b>Cash earnings/(deficit)</b>  | <b>1,181</b>               | <b>432</b>                 | <b>393</b>                  | <b>298</b>           | <b>215</b>           | <b>122</b>           | <b>47</b>  | <b>77</b>                             | <b>17</b>   | <b>(114)</b>                           | <b>2,668</b>                     |
| <b>Key balance sheet items (\$bn)</b>   |                            |                            |                             |                      |                      |                      |            |                                       |   |  | <b>Total</b>                     |
| Gross loans and acceptances   | 191.3                      | 123.5                      | 13.6                        | 18.1                 | 42.1                 | 52.2                 | 5.3        | 5.6                                   | 2.2   | -                                      | 453.9                            |
| Retail deposits   | 83.7                       | 67.6                       | -                           | 9.9                  | 23.1                 | 37.4                 | 6.6        | -                                     | 5.5   | -                                      | 233.8                            |
| Total risk-weighted assets (spot)   | 147.6                      | 40.7                       | 34.6                        | 6.4                  | 30.1                 | 51.9                 | 5.7        | 18.0                                  | 10.4  | -                                      | 345.2                            |

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

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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 SMEs 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.

|  | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|--|---------------|---------------|---------------|----------------------|----------------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Net interest income                          | 2,530         | 2,587         | 2,446         | (2.2)                | 3.4                  |
| Other operating income                       | 517           | 514           | 492           | 0.6                  | 5.1                  |
| <b>Net operating income</b>                  | <b>3,047</b>  | <b>3,101</b>  | <b>2,938</b>  | <b>(1.7)</b>         | <b>3.7</b>           |
| Operating expenses                           | (875)         | (885)         | (879)         | 1.1                  | 0.5                  |
| <b>Underlying profit</b>                     | <b>2,172</b>  | <b>2,216</b>  | <b>2,059</b>  | <b>(2.0)</b>         | <b>5.5</b>           |
| Charge to provide for bad and doubtful debts | (372)         | (417)         | (385)         | 10.8                 | 3.4                  |
| <b>Cash earnings before tax</b>              | <b>1,800</b>  | <b>1,799</b>  | <b>1,674</b>  | <b>0.1</b>           | <b>7.5</b>           |
| Income tax expense                           | (536)         | (535)         | (493)         | (0.2)                | (8.7)                |
| <b>Cash earnings</b>                         | <b>1,264</b>  | <b>1,264</b>  | <b>1,181</b>  | <b>-</b>             | <b>7.0</b>           |
| <b>Average Volumes (\$bn)</b>                |               |               |               |                      |                      |
| Gross loans and acceptances                  | 197.2         | 194.7         | 191.3         | 1.3                  | 3.1                  |
| Interest earning assets                      | 197.6         | 194.0         | 190.6         | 1.9                  | 3.7                  |
| Total assets                                 | 195.9         | 192.3         | 188.8         | 1.9                  | 3.8                  |
| Retail deposits                              | 94.4          | 85.8          | 83.7          | 10.0                 | 12.8                 |
| <b>Capital (\$bn)</b>                        |               |               |               |                      |                      |
| Risk-weighted assets - credit risk (spot)    | 137.3         | 138.4         | 144.9         | (0.8)                | (5.2)                |
| Total risk-weighted assets (spot)            | 140.6         | 141.4         | 147.6         | (0.6)                | (4.7)                |
| <b>Performance Measures</b>                  |               |               |               |                      |                      |
| Cash earnings on average assets              | 1.29%         | 1.31%         | 1.25%         | (2 bps)              | 4 bps                |
| Cash earnings on risk-weighted assets        | 1.78%         | 1.74%         | 1.61%         | 4 bps                | 17 bps               |
| Net interest margin                          | 2.56%         | 2.66%         | 2.57%         | (10 bps)             | (1 bps)              |
| Cost to income ratio                         | 28.7%         | 28.5%         | 29.9%         | (20 bps)             | 120 bps              |
| 'Jaws'                                       | (0.6%)        | 4.8%          | 2.7%          | (540 bps)            | (330 bps)            |
| Cash earnings per average FTE (\$'000s)      | 482           | 462           | 431           | 4.3                  | 11.8                 |
| FTEs (spot)                                  | 5,081         | 5,427         | 5,493         | 6.4                  | 7.5                  |

| Market Share                         | As at  |        |        |
|--------------------------------------|--------|--------|--------|
|                                      | Mar 12 | Sep 11 | Mar 11 |
| Business lending APRA <sup>(1)</sup> | 24.6%  | 24.1%  | 23.8%  |
| Business lending RBA <sup>(2)</sup>  | 22.9%  | 22.4%  | 22.2%  |
| Business deposits <sup>(1)</sup>     | 21.0%  | 20.7%  | 21.4%  |

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

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

## Business Banking

## Financial Analysis

## March 2012 v March 2011

**Cash earnings** increased by \$83 million or 7.0% against the March 2011 half year, driven by underlying profit growth of 5.5%, and a reduction in the bad and doubtful debts charge.

**Cash earnings on average assets** improved by four basis points, reflecting the growth in cash earnings, through above business credit system lending growth, disciplined expense management and stable asset quality.

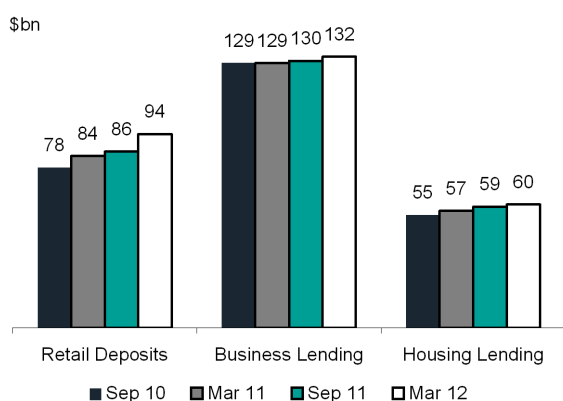
**Cash earnings on risk-weighted assets** has improved by 17 basis points, reflecting the growth in cash earnings, together with a reduction in risk-weighted assets through optimisation initiatives, including improved collateral matching.

**Net interest income** increased by \$84 million or 3.4% compared to the March 2011 half year due to growth in both lending and deposit volumes. This was partially offset by higher funding and deposit costs, as the rising cost of term deposits and wholesale debt have increased the weighted average cost of funds.

**Average interest earning assets** grew by \$7.0 billion or 3.7%. Business lending growth was above credit system, with growth observed across most segments.

**Average retail deposits** increased by \$10.7 billion or 12.8% in line with the Group's continued focus on growing customer deposits as an alternative source of funding. This growth was largely in term deposits and on-demand savings deposits.

## Business Banking Average Volumes



**Net interest margin** declined by one basis point over the March 2011 half year due to higher funding costs, offset by repricing of the lending portfolio.

**Other operating income** was \$25 million or 5.1% higher, largely driven by greater demand for risk management products sold to business customers, together with an increase in money transfer fees.

**Operating expenses** decreased by \$4 million or 0.5%, due to tight expense management benefiting from a strong efficiency agenda, resulting in a cost to income ratio of 28.7%. This included a reduction in FTEs through improvements in operational efficiency while investment in key strategic priorities continued.

The **charge to provide for bad and doubtful debts** decreased by \$13 million compared to the March 2011 half year. The credit quality of the portfolio remains broadly stable.

## March 2012 v September 2011

**Cash earnings** were flat on the September 2011 half year, with lower revenue as a result of higher funding and deposit costs, offset by a reduction in the bad and doubtful debts charge.

**Cash earnings on average assets** decreased by two basis points, reflecting flat cash earnings growth.

**Cash earnings on risk-weighted assets** has improved by four basis points, due to risk-weighted asset optimisation activities.

**Net interest income** decreased by \$57 million or 2.2% compared to the September 2011 half year, due to higher funding and deposit costs, partially offset by growth in volumes across the lending and deposit portfolios.

**Average interest earning assets** grew by \$3.6 billion or 1.9%, due to growth across most segments.

**Average retail deposits** grew by \$8.6 billion or 10.0%, reflecting the Group's strategic priority to reduce its reliance on wholesale funding.

**Net interest margin** decreased by ten basis points on the September 2011 half year, due to higher funding and deposit costs.

**Other operating income** increased by \$3 million or 0.6% due to greater demand for risk management products sold to business customers.

**Operating expenses** decreased by \$10 million or 1.1%, reflecting the effective management of expenses.

The **charge to provide for bad and doubtful debts** decreased by \$45 million largely due to the lower levels of provisioning required, particularly in the SME segment.

## Other Items

## Asset Quality

|   | As at  |        |        |
|---|--------|--------|--------|
|   | Mar 12 | Sep 11 | Mar 11 |
| Specific provision for doubtful debts (\$m)                       | 937    | 872    | 788    |
| Collective provision for doubtful debts (\$m)                     | 879    | 984    | 1,096  |
| Collective provision on loans at fair value                       | 194    | 207    | 147    |
| 90+ DPD assets (\$m)  | 935    | 852    | 1,017  |
| Gross impaired assets (\$m)                                       | 3,500  | 3,629  | 3,438  |
| 90+ DPD plus gross impaired assets to gross loans and acceptances | 2.23%  | 2.29%  | 2.31%  |
| Specific provision to gross impaired assets                       | 26.8%  | 24.0%  | 22.9%  |
| Net write-offs to gross loans and acceptances (annualised)        | 0.42%  | 0.48%  | 0.52%  |
| Total provision as a percentage of net write-offs                 | 243%   | 219%   | 202%   |
| Total provision to gross loans and acceptances                    | 1.01%  | 1.05%  | 1.05%  |
| Bad and doubtful debt charge to credit risk weighted assets       | 0.54%  | 0.58%  | 0.53%  |

The quality of the portfolio remained broadly stable during the March 2012 half year with a lower bad and doubtful debts charge compared to the September 2011 half year. The level of provisioning required for the SME portfolio fell over the half year. However, the charges for large corporates increased as a result of deteriorating market conditions. The ratio of bad and doubtful debt charge to credit risk weighted assets fell by four basis points to 0.54%.

The ratio of 90+ DPD plus gross impaired assets to gross loans and acceptances improved by six basis points to 2.23%, and was largely due to a reduction in impaired assets, predominantly in the larger corporate segment.

The ratio of net write-offs to gross loans and acceptances fell by six basis points to 0.42% during the March 2012 half year. The lower write-off activities were due to the business requiring a longer period of time to work with impaired customers in the current environment of global uncertainty and weak property markets.

Over the March 2012 half year, the loan loss provision coverage fell by four basis points to 1.01% due to the reduction in collective provisions, which was largely due to improvements in collateral matching. Specific provisions increased as further provisions were raised for longstanding impaired customers and the ratio to gross impaired assets rose by 280 basis points to 26.8%.



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## Personal Banking

Lisa Gray

Personal Banking provides quality products and services to 4.9 million individual 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.

|  | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|--|---------------|---------------|---------------|----------------------|----------------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Net interest income                          | 1,445         | 1,458         | 1,368         | (0.9)                | 5.6                  |
| Other operating income                       | 286           | 289           | 301           | (1.0)                | (5.0)                |
| <b>Net operating income</b>                  | <b>1,731</b>  | <b>1,747</b>  | <b>1,669</b>  | <b>(0.9)</b>         | <b>3.7</b>           |
| Operating expenses                           | (902)         | (900)         | (891)         | (0.2)                | (1.2)                |
| <b>Underlying profit</b>                     | <b>829</b>    | <b>847</b>    | <b>778</b>    | <b>(2.1)</b>         | <b>6.6</b>           |
| Charge to provide for bad and doubtful debts | (169)         | (138)         | (163)         | (22.5)               | (3.7)                |
| <b>Cash earnings before tax</b>              | <b>660</b>    | <b>709</b>    | <b>615</b>    | <b>(6.9)</b>         | <b>7.3</b>           |
| Income tax expense                           | (196)         | (209)         | (183)         | 6.2                  | (7.1)                |
| <b>Cash earnings</b>                         | <b>464</b>    | <b>500</b>    | <b>432</b>    | <b>(7.2)</b>         | <b>7.4</b>           |

**Average Volumes (\$bn)**

|                             |       |       |       |     |      |
|-----------------------------|-------|-------|-------|-----|------|
| Gross loans and acceptances | 142.3 | 134.2 | 123.5 | 6.0 | 15.2 |
| Interest earning assets     | 143.3 | 134.2 | 123.8 | 6.8 | 15.8 |
| Total assets                | 143.5 | 134.6 | 124.2 | 6.6 | 15.5 |
| Retail deposits             | 77.8  | 72.4  | 67.6  | 7.5 | 15.1 |

**Spot Volumes (\$bn)**

|                        |       |       |       |     |      |
|------------------------|-------|-------|-------|-----|------|
| Housing lending        | 136.2 | 130.5 | 120.1 | 4.4 | 13.4 |
| Other personal lending | 9.2   | 9.1   | 7.9   | 1.1 | 16.5 |
| Retail deposits        | 80.8  | 75.4  | 70.4  | 7.2 | 14.8 |

**Capital (\$bn)**

|   |      |      |      |       |       |
|---|------|------|------|-------|-------|
| Risk-weighted assets - credit risk (spot) | 36.9 | 37.2 | 37.3 | (0.8) | (1.1) |
| Total risk-weighted assets (spot)         | 40.4 | 40.5 | 40.7 | (0.2) | (0.7) |

**Performance Measures**

|   |        |       |       |           |           |
|---|--------|-------|-------|-----------|-----------|
| Cash earnings on average assets         | 0.65%  | 0.74% | 0.70% | (9 bps)   | (5 bps)   |
| Cash earnings on risk-weighted assets   | 2.31%  | 2.43% | 2.16% | (12 bps)  | 15 bps    |
| Net interest margin                     | 2.02%  | 2.17% | 2.22% | (15 bps)  | (20 bps)  |
| Cost to income ratio                    | 52.1%  | 51.5% | 53.4% | (60 bps)  | 130 bps   |
| 'Jaws'                                  | (1.1%) | 3.7%  | 2.1%  | (480 bps) | (320 bps) |
| Cash earnings per average FTE (\$'000s) | 108    | 113   | 97    | (4.4)     | 11.3      |
| FTEs (spot)                             | 8,493  | 8,705 | 8,826 | 2.4       | 3.8       |

| Market Share                      | As at  |        |        |
|-----------------------------------|--------|--------|--------|
|                                   | Mar 12 | Sep 11 | Mar 11 |
| Housing lending <sup>(1)</sup>    | 14.7%  | 14.5%  | 13.8%  |
| Household deposits <sup>(2)</sup> | 14.5%  | 14.2%  | 14.1%  |

<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  |        |        |
|--|--------|--------|--------|
|  | Mar 12 | Sep 11 | Mar 11 |
| Number of retail outlets <sup>(1)</sup>            | 785    | 783    | 784    |
| Number of ATMs                                     | 3,378  | 3,363  | 3,395  |
| Number of internet banking customers (no. million) | 2.28   | 2.07   | 1.87   |

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

## Personal Banking

## Financial Analysis

## March 2012 v March 2011

**Cash earnings** increased by \$32 million or 7.4% compared to March 2011, driven by strong growth in home lending volumes partially offset by higher funding costs, in part driven by competition for higher quality customer deposits.

**Cash earnings on average assets** fell by five basis points due to rises in funding and deposit costs.

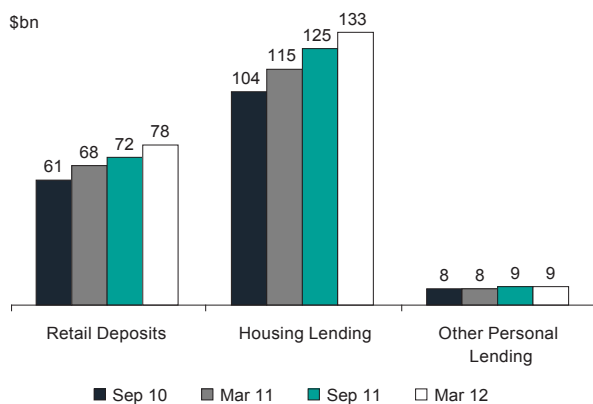
**Cash earnings on risk-weighted assets** increased by 15 basis points as a result of optimisation initiatives and improvements in asset quality.

**Net interest income** grew by \$77 million or 5.6% compared to March 2011, predominantly as a result of higher volumes and some repricing, partially offset by increases in funding and deposit costs.

**Average interest earning assets** grew by \$19.5 billion or 15.8%, due to above-system mortgage growth across all channels.

**Average retail deposits** increased by \$10.2 billion or 15.1%, 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 20 basis points compared to March 2011 mainly due to increases in funding and deposit costs, reflective of continued changes in product mix driven by strong momentum in home lending volumes.

**Other operating income** decreased by \$15 million or 5.0%. 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 exit fees.

**Operating expenses** increased by \$11 million or 1.2% in line with tight cost management offset by continued investment in the UBank franchise and increasing occupancy costs associated with refreshing the Retail store base.

The **charge to provide for bad and doubtful debts** increased by \$6 million or 3.7% during the March 2012 half year, reflecting the increase in lending volumes, partly offset by improvements in asset quality and delinquency management.

## March 2012 v September 2011

**Cash earnings** decreased by \$36 million or 7.2%, on the September 2011 half year due to increased funding and deposit costs, together with higher bad and doubtful debt charges in line with seasonal expectations. Volume growth and mortgage repricing partially offset the cash earnings decline.

**Cash earnings on average assets** decreased by nine basis points, driven by increased funding and deposit costs.

**Cash earnings on risk-weighted assets** decreased by 12 basis points as a result of reduced cash earnings from higher funding and deposit costs.

**Net interest income** decreased by \$13 million or 0.9% due to higher funding and deposit costs, partially offset by repricing and growth in volumes.

**Average interest earning assets** grew by \$9.1 billion or 6.8%, reflecting above system mortgage growth in all channels.

**Average retail deposits** grew by \$5.4 billion or 7.5%, with continuing solid growth in online savings and term deposit products and ongoing momentum in UBank.

**Net interest margin** decreased by 15 basis points mainly due to increases in funding and deposit costs, together with changes in product mix due to strong momentum in home lending volumes.

**Other operating income** decreased by \$3 million or 1.0% largely due to lower management fees received from Challenger for home loans brought across to NAB as part of the Advantedge integration.

**Operating expenses** increased marginally by \$2 million or 0.2%, reflecting tight cost management offset by continued investment in the UBank franchise

The **charge to provide for bad and doubtful debts** increased by \$31 million or 22.5% on the September 2011 half year, reflecting the seasonal impact of retail spending in the March 2012 half year in the credit card portfolio.

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

|   | <b>As at</b>  |               |               |
|---|---------------|---------------|---------------|
|   | <b>Mar 12</b> | <b>Sep 11</b> | <b>Mar 11</b> |
| Specific provision for doubtful debts (\$m)                       | <b>37</b>     | 45            | 41            |
| Collective provision for doubtful debts (\$m)                     | <b>431</b>    | 407           | 444           |
| 90+ DPD assets (\$m)  | <b>744</b>    | 646           | 698           |
| Gross impaired assets (\$m)                                       | <b>129</b>    | 143           | 153           |
| 90+ DPD plus gross impaired assets to gross loans and acceptances | <b>0.60%</b>  | 0.57%         | 0.66%         |
| Specific provision to gross impaired assets                       | <b>28.7%</b>  | 31.5%         | 26.8%         |
| Net write-offs to gross loans and acceptances (annualised)        | <b>0.21%</b>  | 0.22%         | 0.22%         |
| Total provision as a percentage of net write-offs                 | <b>153%</b>   | 144%          | 173%          |
| Total provision to gross loans and acceptances                    | <b>0.32%</b>  | 0.32%         | 0.38%         |
| Bad and doubtful debt charge to credit risk weighted assets       | <b>0.92%</b>  | 0.81%         | 0.88%         |

Current economic conditions continue to provide a challenging environment for asset quality, with consumer sentiment and house price indices softening and employment levels fluctuating across states. NAB customer repayment behaviour trends are consistent with the industry trend of consumer debt reduction.

Despite this background, loan origination quality continues to improve as evidenced by a reduction in specific provisions and a six basis point reduction of 90+ DPD plus gross impaired assets to gross loans and acceptances, as compared with the March 2011 half year.

As anticipated there was also a seasonal impact in the unsecured portfolio. Some residual impact from the natural disasters in late 2010 and early 2011, has been seen in the last quarter. These issues have been particularly prevalent in, although not isolated to, Queensland.

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## Wholesale Banking

Rick Sawers

Wholesale Banking has seven key lines of business: Corporate & Business Sales, Fixed Income, Currencies and Commodities (FICC), Global Capital Markets, Treasury, Asset Servicing, Specialised Finance and the Financial Institutions Group. Operating as a global business, Wholesale Banking has approximately 2,800 full time equivalent employees in Australia, New Zealand, Asia, the UK and the US.

Results presented at actual exchange rates.

|   | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|---|---------------|---------------|---------------|----------------------|----------------------|
|   | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Net interest income   | 784           | 708           | 522           | 10.7                 | 50.2                 |
| Other operating income                                      | 435           | 151           | 475           | large                | (8.4)                |
| <b>Net operating income</b>                                 | <b>1,219</b>  | <b>859</b>    | <b>997</b>    | <b>41.9</b>          | <b>22.3</b>          |
| Operating expenses  | (465)         | (459)         | (456)         | (1.3)                | (2.0)                |
| <b>Underlying profit</b>                                    | <b>754</b>    | <b>400</b>    | <b>541</b>    | <b>88.5</b>          | <b>39.4</b>          |
| (Charge to provide for)/benefit from bad and doubtful debts | (47)          | (33)          | 12            | (42.4)               | large                |
| <b>Cash earnings before tax</b>                             | <b>707</b>    | <b>367</b>    | <b>553</b>    | <b>92.6</b>          | <b>27.8</b>          |
| Income tax expense  | (189)         | (99)          | (160)         | (90.9)               | (18.1)               |
| <b>Cash earnings</b>  | <b>518</b>    | <b>268</b>    | <b>393</b>    | <b>93.3</b>          | <b>31.8</b>          |
| <b>Average Volumes (\$bn)</b>                               |               |               |               |                      |                      |
| Gross loans and acceptances                                 | 17.5          | 15.0          | 13.6          | 16.7                 | 28.7                 |
| Interest earning assets                                     | 184.9         | 175.3         | 153.5         | 5.5                  | 20.5                 |
| Total assets  | 227.2         | 213.9         | 188.8         | 6.2                  | 20.3                 |
| <b>Capital (\$bn)</b>                                       |               |               |               |                      |                      |
| Risk-weighted assets - credit risk (spot)                   | 28.0          | 26.0          | 21.3          | 7.7                  | 31.5                 |
| Total risk-weighted assets (spot)                           | 42.5          | 38.0          | 34.6          | 11.8                 | 22.8                 |
| <b>Performance Measures</b>                                 |               |               |               |                      |                      |
| Cash earnings on risk-weighted assets                       | 2.6%          | 1.5%          | 2.3%          | 110 bps              | 30 bps               |
| Cost to income ratio  | 38.1%         | 53.4%         | 45.7%         | 1,530 bps            | 760 bps              |
| 'Jaws'  | 40.6%         | (14.5%)       | 13.8%         | 5,510 bps            | 2,680 bps            |
| Cash earnings per average FTE (\$'000s)                     | 364           | 182           | 258           | 100.0                | 41.1                 |
| FTEs (spot)   | 2,819         | 2,889         | 3,005         | 2.4                  | 6.2                  |

## Impact of foreign exchange rate movements

| Favourable/<br>(unfavourable)<br>March 12                      | Half<br>year<br>since<br>Sep 11 |         | Half<br>year<br>since<br>Mar 11 |         |
|--|---------------------------------|---------|---------------------------------|---------|
|  | Mar 12 v<br>Sep 11<br>\$m       | Ex FX % | Mar 12 v<br>Mar 11<br>\$m       | Ex FX % |
| Net interest income  | -                               | 10.7    | (14)                            | 52.9    |
| Other operating income   | (1)                             | large   | (3)                             | (7.8)   |
| Net operating income   | (1)                             | 42.0    | (17)                            | 24.0    |
| Operating expenses   | -                               | (1.3)   | 5                               | (3.1)   |
| (Charge to provide for)/benefit<br>from bad and doubtful debts | -                               | (42.4)  | 3                               | large   |
| Income tax expense   | -                               | (90.9)  | 2                               | (19.4)  |
| Cash earnings  | (1)                             | 93.7    | (7)                             | 33.6    |

## Wholesale Banking

### Financial Analysis

#### March 2012 v March 2011

**Cash earnings** have increased by \$125 million or 31.8% to \$518 million during the March 2012 half year. Excluding foreign exchange rate movements, cash earnings were up by 33.6%. The higher revenue generated primarily in the Customer businesses was partially offset by a higher bad and doubtful debt charge.

**Net operating income** increased by \$222 million or 22.3% to \$1,219 million. Excluding foreign exchange rate movements, income increased by \$239 million.

Customer income increased by \$153 million to \$724 million, through higher sales of risk management products to the Group's Business Banking customers and through connecting the Group's borrowers with financial institution clients reflecting the impact of the Franchise Focus strategy.

Specialised Finance income also improved from increased deal flows in both Infrastructure and Energy & Utilities.

Within net operating income, net interest income increased by \$262 million or 50.2%, partly offset by lower other operating income, which decreased by \$40 million or 8.4%. Of the increase in net interest income, \$154 million was driven by gains on economically hedged positions relating to the Group's banking book interest rate risk (offset in other operating income). The underlying increase in net interest income of \$108 million was driven by higher interest earning assets to support the Group's funding and liquidity requirements, coupled with improved yields as part of optimising the Bank's funding and liquidity profile.

The underlying increase in other operating income of \$114 million was mainly due to higher sales of risk management products to the Group's Business Banking customers partly offset by adverse credit valuation adjustments due to an increase in the mark-to-market value of the portfolio.

**Operating expenses** increased by \$9 million or 2.0% to \$465 million. Excluding foreign exchange rate movements, the increase was \$14 million or 3.1%. This was largely due to higher performance based compensation, reflecting improved performance. Excluding performance based compensation, operating expenses decreased through operational efficiencies, particularly in support functions.

The **charge to provide for bad and doubtful debts** increased by \$59 million. The increase was due to two specific impairments in the half year in comparison to a net recovery in the comparative period.

**Average interest earning assets** increased by \$31.4 billion or 20.5%. Excluding the foreign exchange impact, the increase was \$33.8 billion or 22.4%, through a combination of higher assets in the FICC business, lending growth in Specialised Finance, Financial Institutions and Capital Markets and also increases in liquid assets to support Group liquidity.

**Cash earnings on risk-weighted assets** increased by 30 basis points as a result of an improvement in cash earnings mainly due to higher revenue in the customer

businesses, partly offset by an increase in lower yielding liquid assets to support Group liquidity.

#### March 2012 v September 2011

**Cash earnings** have increased by \$250 million. Excluding foreign exchange rate movements, cash earnings increased by \$251 million. The increase was mainly due to higher revenue in both Customer and Risk businesses.

**Net operating income** increased by \$360 million or 41.9%. Excluding foreign exchange rate movements, the increase was \$361 million or 42.0%.

Customer income increased by \$39 million, primarily from increased sales of risk management products to the Group's Business Banking customers. Income in the Financial Institution Group benefited from higher lending and term deposit volumes.

Risk income increased by \$321 million to \$495 million mainly due to increased flow from Customer businesses and improved trading conditions.

Within net operating income, net interest income increased by \$76 million or 10.7% and other operating income was \$284 million higher. The movement in net interest income was mainly due to improved yields as part of optimising the Bank's funding and liquidity profile.

The increase in other operating income was due to higher sales of risk management products to the Group's business customers, combined with increased flow and improved trading conditions in the Risk businesses.

**Operating expenses** increased by \$6 million or 1.3%, as a result of higher performance based compensation reflecting higher FICC performance. This was partly offset by operational efficiencies leading to FTE reductions in support functions. Excluding foreign exchange rate movements, the increase was \$6 million or 1.3%.

The **charge to provide for bad and doubtful debts** increased by \$14 million, as a result of two specific impairments in the half year.

**Average interest earning assets** increased by \$9.6 billion or 5.5%. Excluding foreign exchange movements, the increase was \$9.7 billion or 5.5%, through a combination of higher assets in the FICC business, lending growth and also increases in liquid assets to support Group liquidity, although these have declined on a spot basis.

**Cash earnings on risk-weighted assets** increased by 110 basis points as a result of an improvement in cash earnings mainly due to higher revenue in both the Risk and Customer businesses, partly offset by an increase in lower yielding liquid assets to support Group liquidity.

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

|   | As at  |        |        |
|---|--------|--------|--------|
|   | Mar 12 | Sep 11 | Mar 11 |
| Specific provision for doubtful debts (\$m)             | 21     | 29     | 16     |
| Collective provision for doubtful debts (\$m)           | 61     | 72     | 60     |
| Collective provision on loans at fair value (\$m)       | 1      | 1      | 1      |
| Collective provision on derivatives at fair value (\$m) | 150    | 149    | 98     |
| Gross impaired assets (\$m)                             | 43     | 40     | 38     |
| Gross impaired assets to gross loans and acceptances    | 0.24%  | 0.25%  | 0.28%  |
| Specific provision to gross impaired assets             | 48.8%  | 72.5%  | 42.1%  |
| Net write-offs to gross loans and acceptances           | 0.74%  | 0.26%  | 0.48%  |

Asset quality remains sound. Charges for bad and doubtful debts included two specific impairments in the half year. Provisioning coverage ratios remains adequate and ratios were stable.

The ratio of gross impaired assets to gross loans and acceptances of 0.24% at March 2012 remains largely unchanged on September 2011. The credit portfolio is stable.

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



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## NAB Wealth

Steve Tucker

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

|   | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|---|---------------|---------------|---------------|----------------------|----------------------|
|   | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Net interest income   | 163           | 168           | 160           | (3.0)                | 1.9                  |
| Other operating income  | 17            | 16            | 19            | 6.3                  | (10.5)               |
| NAB Wealth net operating income                               | 760           | 716           | 770           | 6.1                  | (1.3)                |
| <b>Net income</b>   | <b>940</b>    | <b>900</b>    | <b>949</b>    | <b>4.4</b>           | <b>(0.9)</b>         |
| Operating expenses  | (571)         | (567)         | (561)         | (0.7)                | (1.8)                |
| <b>Underlying profit</b>                                      | <b>369</b>    | <b>333</b>    | <b>388</b>    | <b>10.8</b>          | <b>(4.9)</b>         |
| Charge to provide for bad and doubtful debts                  | (5)           | (7)           | (11)          | 28.6                 | 54.5                 |
| <b>Cash earnings before tax and IoRE</b>                      | <b>364</b>    | <b>326</b>    | <b>377</b>    | <b>11.7</b>          | <b>(3.4)</b>         |
| Income tax expense  | (104)         | (92)          | (107)         | (13.0)               | 2.8                  |
| <b>Cash earnings before IoRE and non-controlling interest</b> | <b>260</b>    | <b>234</b>    | <b>270</b>    | <b>11.1</b>          | <b>(3.7)</b>         |
| Net profit - non-controlling interest                         | (1)           | -             | (1)           | large                | -                    |
| IoRE <sup>(1)</sup>   | 30            | 1             | 29            | large                | 3.4                  |
| <b>Cash earnings</b>  | <b>289</b>    | <b>235</b>    | <b>298</b>    | <b>23.0</b>          | <b>(3.0)</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                                    | 167        | 162        | 162        | 3.1         | 3.1          |
| Insurance   | 93         | 72         | 108        | 29.2        | (13.9)       |
| <b>Cash earnings before IoRE and non-controlling interest</b> | <b>260</b> | <b>234</b> | <b>270</b> | <b>11.1</b> | <b>(3.7)</b> |

**Capital (\$bn)**

|   |     |     |     |       |     |
|---|-----|-----|-----|-------|-----|
| Risk-weighted assets - credit risk (spot) | 6.5 | 6.6 | 6.1 | (1.5) | 6.6 |
| Total risk-weighted assets (spot)         | 6.9 | 6.9 | 6.4 | -     | 7.8 |

**Performance Measures**

|  |       |        |       |         |           |
|--|-------|--------|-------|---------|-----------|
| Cost to income ratio (%)   | 60.7% | 63.0%  | 59.1% | 230 bps | (160 bps) |
| 'Jaws'   | 3.7%  | (6.3%) | 3.8%  | large   | (10 bps)  |
| Cash earnings before IoRE and non-controlling interest per average FTE (\$'000s) | 90    | 77     | 94    | 16.9    | (4.3)     |
| BAU FTEs   | 4,510 | 4,695  | 4,632 | 3.9     | 2.6       |
| Project FTEs   | 351   | 385    | 534   | 8.8     | 34.3      |
| Salaried planners FTEs   | 774   | 829    | 758   | 6.6     | (2.1)     |
| FTEs (spot)  | 5,635 | 5,909  | 5,924 | 4.6     | 4.9       |
| Financial advisers - salaried channels <sup>(1)</sup>                            | 796   | 850    | 765   | (6.4)   | 4.1       |
| Financial advisers - aligned channels <sup>(1)</sup>                             | 1,046 | 1,014  | 962   | 3.2     | 8.7       |

<sup>(1)</sup> Financial advisers - salaried and aligned channels are based on headcount.

**Interest on Retained Earnings by Asset Class**

| IoRE by Asset Class | Half year to    |                        |                              |                 |                        |                              |                 |                        |                              |
|---------------------|-----------------|------------------------|------------------------------|-----------------|------------------------|------------------------------|-----------------|------------------------|------------------------------|
|                     | Mar 12          |                        |                              | Sep 11          |                        |                              | Mar 11          |                        |                              |
|                     | Actual Earnings | Weighted Asset Balance | Earnings Rate <sup>(1)</sup> | Actual Earnings | Weighted Asset Balance | Earnings Rate <sup>(1)</sup> | Actual Earnings | Weighted Asset Balance | Earnings Rate <sup>(1)</sup> |
|                     | \$m             | \$m                    | %                            | \$m             | \$m                    | %                            | \$m             | \$m                    | %                            |
| Equity              | 22              | 195                    | 22.6%                        | (23)            | 195                    | (23.6%)                      | 13              | 191                    | 13.6%                        |
| Fixed interest      | 5               | 185                    | 5.4%                         | 13              | 218                    | 11.9%                        | 4               | 218                    | 3.7%                         |
| Cash and others     | 47              | 2,090                  | 4.5%                         | 57              | 2,130                  | 5.4%                         | 53              | 2,048                  | 5.2%                         |
| Debt                | (37)            | 1,261                  | (5.9%)                       | (35)            | 1,205                  | (5.8%)                       | (32)            | 1,013                  | (6.3%)                       |
| Income tax          | (7)             |                        |                              | (11)            |                        |                              | (9)             |                        |                              |
| <b>IoRE</b>         | <b>30</b>       |                        |                              | <b>1</b>        |                        |                              | <b>29</b>       |                        |                              |

<sup>(1)</sup> The earnings rate is an annualised rate allowing for simple interest.

**NAB Wealth**

## Financial Highlights

**March 2012 v March 2011**

**Cash earnings before IoRE and non-controlling interest** of \$260 million decreased by \$10 million or 3.7% compared to March 2011. This result was due to ongoing investment market uncertainty and an increase in insurance lapses.

**Net interest income** grew by \$3 million or 1.9% due to higher lending and deposit volumes, partially offset by an increase in funding costs.

**NAB Wealth net operating income** decreased by \$10 million or 1.3% as a result of ongoing investment market uncertainty and an increase in lapses. This was offset by growth in average inforce premiums and favourable earnings on the annuities portfolio.

**Funds under Management (FUM)** as at 31 March 2012 of \$123.5 billion increased by \$4.6 billion, or 3.9% compared to March 2011, as a result of growth in the direct funds management business through acquisitions. This was partially offset by a deterioration in investment markets over the half year to September 2011.

**Net funds flow** declined by \$0.9 billion compared to March 2011, influenced by ongoing investment market uncertainty.

**Inforce premiums** as at 31 March 2012 of \$1.5 billion grew by \$57 million or 4.0% compared to March 2011.

**Operating Expenses** increased by \$10 million or 1.8% to support adviser growth, the acquisition of the direct funds management business, Antares Capital Partners Limited (formerly known as Aviva Investors Australia Limited), and the development of new products and services. Cost synergies from the integration of the Aviva business partially offset the increase in operating expenses.

**Adviser numbers** continued to grow as advisers were attracted to NAB Wealth's progressive model. Salaried advisers grew from March 2011 as a result of continued investment in this channel but they have decreased in the current half year as advisers with lower productivity left the business.

**Market share** has declined slightly in Retail Investments and Insurance over the period, reflecting a competitive environment. NAB Wealth continues to manage the trade-off between volume growth and profitability and has recently refreshed its offering with repricing and the launch of new products to ensure it continues to attract advisers and customers.

**March 2012 v September 2011**

**Cash earnings before IoRE and non-controlling interest** of \$260 million, increased by \$26 million or 11.1% compared to the prior half year. This result was due to lower claims and a lower impact of unfavourable lapses and changes in the profile of the retail insurance book.

**Net interest income** fell by \$5 million or 3.0%, mainly due to lower margins from higher funding costs and an increase in competition for deposits.

**NAB Wealth net operating income** increased by \$44 million or 6.1% due to favourable earnings on the annuities portfolio, lower insurance claims and a lower impact of unfavourable lapses and changes in the profile of the retail insurance book.

**Funds under Management (FUM)** as at 31 March 2012 of \$123.5 billion increased by \$13.3 billion, or 12.0% compared to September 2011, as a result of growth in the direct funds management business through acquisitions and investment earnings over the half year to March 2012. This was partially offset by negative net flows due to ongoing investment market uncertainty.

**Inforce premiums** as at 31 March 2012 of \$1.5 billion grew by \$27 million or 1.8% compared to September 2011.

**Operating expenses** increased by \$4 million or 0.7% to support the development of new products and services and the acquisition of the direct funds management business, Antares Capital Partners Limited. This was partially offset by efficiency initiatives which resulted in an improved cost to income ratio and positive 'Jaws'.

## NAB Wealth - Investments inclusive of Private Wealth

|  | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|--|---------------|---------------|---------------|----------------------|----------------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Net interest income                          | 163           | 168           | 160           | (3.0)                | 1.9                  |
| Other operating income                       | 17            | 16            | 19            | 6.3                  | (10.5)               |
| Gross income                                 | 784           | 771           | 772           | 1.7                  | 1.6                  |
| Volume related expenses                      | (274)         | (273)         | (271)         | (0.4)                | (1.1)                |
| <b>Net income</b>                            | <b>690</b>    | <b>682</b>    | <b>680</b>    | <b>1.2</b>           | <b>1.5</b>           |
| Operating expenses                           | (453)         | (452)         | (443)         | (0.2)                | (2.3)                |
| <b>Underlying profit</b>                     | <b>237</b>    | <b>230</b>    | <b>237</b>    | <b>3.0</b>           | <b>-</b>             |
| Charge to provide for bad and doubtful debts | (5)           | (7)           | (11)          | 28.6                 | 54.5                 |
| <b>Cash earnings before tax</b>              | <b>232</b>    | <b>223</b>    | <b>226</b>    | <b>4.0</b>           | <b>2.7</b>           |
| Income tax expense                           | (65)          | (61)          | (64)          | (6.6)                | (1.6)                |
| <b>Cash earnings before IoRE</b>             | <b>167</b>    | <b>162</b>    | <b>162</b>    | <b>3.1</b>           | <b>3.1</b>           |

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

|                             |      |      |      |     |     |
|-----------------------------|------|------|------|-----|-----|
| Gross loans and acceptances | 18.7 | 18.6 | 18.1 | 0.5 | 3.3 |
| Interest earning assets     | 18.7 | 18.6 | 18.5 | 0.5 | 1.1 |

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

|   |         |         |         |         |          |
|---|---------|---------|---------|---------|----------|
| Funds under management (spot) (\$m) <sup>(2)</sup>                | 123,547 | 110,289 | 118,958 | 12.0    | 3.9      |
| Funds under management (average) (\$m) <sup>(2)</sup>             | 119,629 | 116,375 | 116,810 | 2.8     | 2.4      |
| Net funds flow (\$m) <sup>(2)</sup>                               | (1,480) | 114     | (605)   | large   | large    |
| Net interest margin   | 1.74%   | 1.82%   | 1.73%   | (8 bps) | 1 bps    |
| Cost to income ratio  | 65.7%   | 66.3%   | 65.1%   | 60 bps  | (60 bps) |
| Investment operating expenses to average FUM (bps) <sup>(2)</sup> | 62      | 65      | 64      | 3 bps   | 2 bps    |
| Investment income to average FUM (bps) <sup>(2)</sup>             | 85      | 85      | 86      | -       | (1 bps)  |

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

<sup>(2)</sup> Spot and Average FUM for March 2011 and September 2011 have been re-stated. This is to reflect a change in the basis of reporting nabInvest FUM for non-wholly owned businesses. FUM will be reported on the basis of nabInvest's proportional ownership interest rather than total FUM for these businesses.

|                             | Funds Under Management |                |        |                |        |                |
|-----------------------------|------------------------|----------------|--------|----------------|--------|----------------|
|                             | Dec 11                 |                | Jun 11 |                | Dec 10 |                |
|                             | Rank                   | Market Share % | Rank   | Market Share % | Rank   | Market Share % |
| Retail (excl. Cash)         | 2                      | 15.7%          | 2      | 16.1%          | 2      | 16.1%          |
| Total Retail Superannuation | 2                      | 19.5%          | 2      | 20.1%          | 2      | 19.9%          |
| Total Wholesale             | 1                      | 11.4%          | 1      | 10.8%          | 2      | 10.3%          |

Source: Plan for Life Australian Retail & Wholesale Investments Market share & Dynamics Report - December 2011. (Prior periods include re-statements of funds under management made by Plan for Life.)

2012

## Funds Under Management

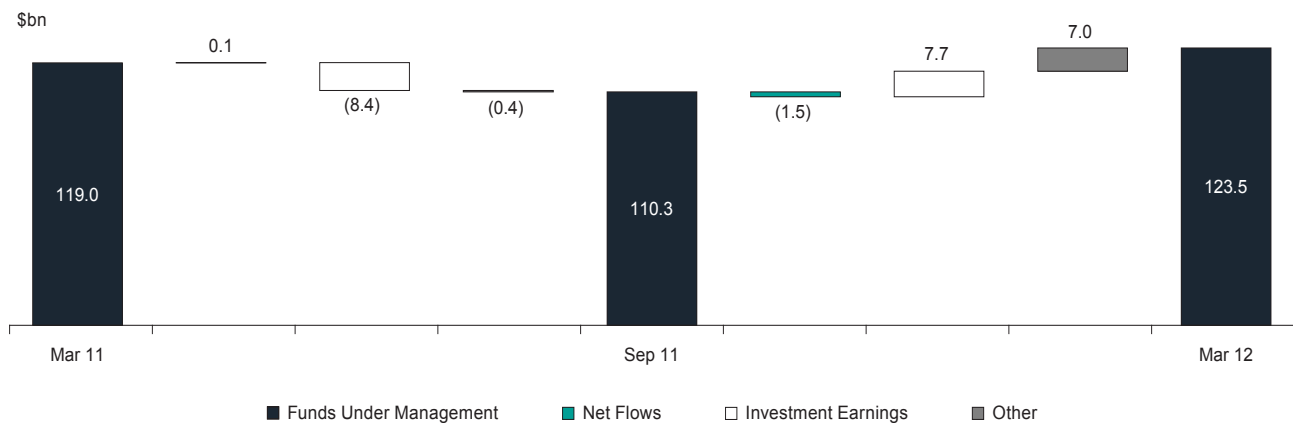
| Movement in Funds under Management and Administration (\$m) <sup>(1)</sup> | As at Mar 11   | Inflows       | Outflows        | Investment earnings | Other <sup>(2)</sup> | As at Mar 12   |
|--|----------------|---------------|-----------------|---------------------|----------------------|----------------|
| Master Funds (Platforms)   | 81,473         | 11,198        | (13,396)        | (76)                | (512)                | 78,687         |
| Other Retail   | 4,758          | 54            | (417)           | (87)                | (319)                | 3,989          |
| <b>Total Retail Funds (Excl. Cash)</b>                                     | 86,231         | 11,252        | (13,813)        | (163)               | (831)                | 82,676         |
| Wholesale  | 32,727         | 4,718         | (3,523)         | (588)               | 7,537                | 40,871         |
| <b>Total NAB Wealth ex Trustee and Cash Management</b>                     | <b>118,958</b> | <b>15,970</b> | <b>(17,336)</b> | <b>(751)</b>        | <b>6,706</b>         | <b>123,547</b> |
| Trustee  | 6,155          | 2,210         | (1,643)         | -                   | 2                    | 6,724          |

| Movement in Funds under Management and Administration (\$m) <sup>(1)</sup> | As at Sep 11   | Inflows      | Outflows       | Investment earnings | Other <sup>(2)</sup> | As at Mar 12   |
|--|----------------|--------------|----------------|---------------------|----------------------|----------------|
| Master Funds (Platforms)   | 74,712         | 4,774        | (6,327)        | 5,959               | (431)                | 78,687         |
| Other Retail   | 4,144          | 21           | (195)          | 50                  | (31)                 | 3,989          |
| <b>Total Retail Funds (Excl. Cash)</b>                                     | 78,856         | 4,795        | (6,522)        | 6,009               | (462)                | 82,676         |
| Wholesale  | 31,433         | 2,102        | (1,855)        | 1,653               | 7,538                | 40,871         |
| <b>Total NAB Wealth ex Trustee and Cash Management</b>                     | <b>110,289</b> | <b>6,897</b> | <b>(8,377)</b> | <b>7,662</b>        | <b>7,076</b>         | <b>123,547</b> |
| Trustee  | 6,439          | 522          | (237)          | -                   | -                    | 6,724          |

<sup>(1)</sup> FUM for March 2011 and September 2011 has been re-stated. This is to reflect a change in the basis of reporting nabInvest FUM for non-wholly owned businesses. FUM will be reported on the basis of nabInvest's proportional ownership interest rather than total FUM for these businesses.

<sup>(2)</sup> Other includes trust distributions and nabInvest acquisitions (including Antares Capital Partners Limited: \$4.6 billion).

## Funds Under Management



| FUM by Asset Class            | As at  |        |        |
|-------------------------------|--------|--------|--------|
|                               | Mar 12 | Sep 11 | Mar 11 |
| Australian equities           | 32%    | 31%    | 33%    |
| International equities        | 24%    | 25%    | 27%    |
| Australian fixed interest     | 20%    | 20%    | 18%    |
| International fixed interest  | 8%     | 8%     | 8%     |
| Australian cash               | 8%     | 8%     | 7%     |
| International direct property | 4%     | 4%     | 3%     |
| International listed property | 2%     | 2%     | 2%     |
| Australian listed property    | 2%     | 2%     | 2%     |

**NAB Wealth - Investments inclusive of Private Wealth**

## Financial Analysis

**March 2012 v March 2011**

**Cash earnings before IoRE** grew by \$5 million or 3.1% compared to March 2011 as a result of growth in average FUM and favourable earnings on the annuities portfolio. This was partially offset by changes in business mix.

**Net interest income** grew by \$3 million or 1.9% due to higher lending and deposit volumes, partially offset by an increase in funding costs.

**Gross income** was up by 1.6% compared to March 2011, broadly in line with the increase in average FUM. Margins have remained flat, with favourable earnings on the annuities portfolio offset by changes in business mix.

**FUM** as at 31 March 2012 of \$123.5 billion increased by \$4.6 billion, or 3.9% compared to March 2011. This was due to growth in the direct funds management business through acquisitions, partially offset by a deterioration in investment markets over the half year to September 2011.

**Net funds flow** declined by \$0.9 billion compared to March 2011, influenced by ongoing investment market uncertainty.

**Volume related expenses** which include commission payments and investment costs which were relatively flat compared to March 2011.

**Operating expenses** increased by \$10 million, or 2.3% to support adviser growth, the development of new products and services and the acquisition of the direct funds management business, Antares Capital Partners Limited. 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** decreased by \$6 million predominantly as a result of a single specific provision in the March 2011 half year.

**March 2012 v September 2011**

**Cash earnings before IoRE** grew by \$5 million or 3.1% compared to September 2011 as a result of growth in average FUM and favourable earnings on the annuities portfolio, partially offset by changes in business mix.

**Net interest income** fell by \$5 million or 3.0% mainly due to lower margins from higher funding costs and an increase in competition for deposits.

**Gross income** was up by 1.7% compared to September 2011, broadly in line with the increase in average FUM. Margins were relatively flat, with favourable earnings on the annuities portfolio offset by changes in business mix.

**FUM** as at 31 March 2012 of \$123.5 billion increased by \$13.3 billion, or 12.0% compared to September 2011, as a result of growth in the direct funds management business through acquisitions and investment earnings over the half year to March 2012. This was partially offset by negative net flows due to ongoing investment market uncertainty.

**Net funds flow** declined by \$1.6 billion as a result of negative net flows from retail investments and small positive wholesale net flows, compared to large wholesale net flows experienced in the September 2011 half year.

**Volume related expenses** which include commission payments and investment costs have remained relatively flat.

**Operating expenses** of \$453 million were in line with the prior half year.

## Other Items

## Asset Quality

|   | As at  |        |          |
|---|--------|--------|----------|
|   | Mar 12 | Sep 11 | Mar 11   |
| Specific provision for doubtful debts (\$m)                       | 10     | 19     | 20       |
| Collective provision for doubtful debts (\$m)                     | 19     | 17     | 15       |
| 90+ DPD assets (\$m)  | 73     | 50     | 34       |
| Gross impaired assets (\$m)                                       | 48     | 54     | 70       |
| 90+ DPD plus gross impaired assets to gross loans and acceptances | 0.64%  | 0.55%  | 0.56%    |
| Specific provision to gross impaired assets                       | 20.8%  | 35.2%  | 28.6%    |
| Net write-offs to gross loans and acceptances (annualised)        | 0.13%  | 0.03%  | (0.01%)  |
| Total provision as a percentage of net write-offs                 | 121%   | 720%   | (1,745%) |
| Total provision to gross loans and acceptances                    | 0.15%  | 0.19%  | 0.19%    |
| Bad and doubtful debt charge to credit risk weighted assets       | 0.15%  | 0.27%  | 0.35%    |

Asset quality measures across NAB Wealth for the six months to March 2012 have shown some deterioration in the 90+ DPD. This was attributable to the migration of a small number of larger exposures moving into the 90+ DPD category. Total provisions have decreased over the period and there has been a substantial improvement in the total gross impaired assets driven by asset sales or refinancing.

Total provisions to gross loans and acceptances of 0.15% has improved since September 2011.



## NAB Wealth - Insurance

|  | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|--|---------------|---------------|---------------|----------------------|----------------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Gross income                             | 801           | 784           | 780           | 2.2                  | 2.7                  |
| Volume related expenses                  | (551)         | (566)         | (511)         | 2.7                  | (7.8)                |
| <b>Net operating income</b>              | <b>250</b>    | <b>218</b>    | <b>269</b>    | <b>14.7</b>          | <b>(7.1)</b>         |
| Operating expenses                       | (118)         | (115)         | (118)         | (2.6)                | -                    |
| <b>Cash earnings before tax and IoRE</b> | <b>132</b>    | <b>103</b>    | <b>151</b>    | <b>28.2</b>          | <b>(12.6)</b>        |
| Income tax expense                       | (39)          | (31)          | (43)          | (25.8)               | 9.3                  |
| <b>Cash earnings before IoRE</b>         | <b>93</b>     | <b>72</b>     | <b>108</b>    | <b>29.2</b>          | <b>(13.9)</b>        |

## Planned and Experience Analysis

|                                  |           |           |            |             |               |
|----------------------------------|-----------|-----------|------------|-------------|---------------|
| Planned margins                  | 87        | 84        | 82         | 3.6         | 6.1           |
| Experience profit/(loss)         | 6         | (12)      | 26         | large       | (76.9)        |
| <b>Cash earnings before IoRE</b> | <b>93</b> | <b>72</b> | <b>108</b> | <b>29.2</b> | <b>(13.9)</b> |

## Performance Measures

|   |         |         |         |       |         |
|---|---------|---------|---------|-------|---------|
| Annual inforce premiums (spot) (\$m)          | 1,492.9 | 1,466.3 | 1,435.9 | 1.8   | 4.0     |
| Annual inforce premiums (average) (\$m)       | 1,479.6 | 1,451.1 | 1,421.3 | 2.0   | 4.1     |
| New business premiums (\$m)                   | 150.7   | 152.0   | 134.1   | (0.9) | 12.4    |
| Insurance cost to average inforce premium (%) | 16%     | 16%     | 17%     | -     | 100 bps |

| Annual Inforce Premiums (\$m) | As at<br>Mar 11 | Sales        | Lapses         | As at<br>Mar 12 | Mar 11 v<br>Mar 12 % |
|-------------------------------|-----------------|--------------|----------------|-----------------|----------------------|
| Retail                        | 1,146.5         | 238.5        | (200.5)        | 1,184.5         | 3.3                  |
| Group Risk                    | 289.4           | 64.2         | (45.2)         | 308.4           | 6.6                  |
| <b>Total</b>                  | <b>1,435.9</b>  | <b>302.7</b> | <b>(245.7)</b> | <b>1,492.9</b>  | <b>4.0</b>           |

| Annual Inforce Premiums (\$m) | As at<br>Sep 11 | Sales        | Lapses         | As at<br>Mar 12 | Sep 11 v<br>Mar 12 % |
|-------------------------------|-----------------|--------------|----------------|-----------------|----------------------|
| Retail                        | 1,165.2         | 117.1        | (97.8)         | 1,184.5         | 1.7                  |
| Group Risk                    | 301.1           | 33.6         | (26.3)         | 308.4           | 2.4                  |
| <b>Total</b>                  | <b>1,466.3</b>  | <b>150.7</b> | <b>(124.1)</b> | <b>1,492.9</b>  | <b>1.8</b>           |

## Premiums in Force

|                      | Dec 11 |                   | Jun 11 |                   | Dec 10 |                   |
|----------------------|--------|-------------------|--------|-------------------|--------|-------------------|
|                      | Rank   | Market<br>Share % | Rank   | Market<br>Share % | Rank   | Market<br>Share % |
| Retail risk premiums | 2      | 17.8%             | 2      | 18.4%             | 1      | 18.9%             |
| Group Risk           | 6      | 9.5%              | 6      | 9.8%              | 5      | 10.0%             |

## Share of New Business

|                      | Dec 11 |                   | Jun 11 |                   | Dec 10 |                   |
|----------------------|--------|-------------------|--------|-------------------|--------|-------------------|
|                      | Rank   | Market<br>Share % | Rank   | Market<br>Share % | Rank   | Market<br>Share % |
| Retail risk premiums | 2      | 15.4%             | 2      | 16.6%             | 1      | 18.0%             |
| Group Risk           | 6      | 6.0%              | 4      | 11.8%             | 4      | 11.7%             |

Source: DEXX&R Life Analysis - December 2011. (Prior periods include re-statements of premiums inforce made by DEXX&R.)

**NAB Wealth - Insurance**

## Financial Analysis

**March 2012 v March 2011**

**Cash earnings before IoRE** of \$93 million decreased by \$15 million or 13.9% compared to the March 2011 half year. This result was largely driven by an increase in lapses, partially offset by growth in average inforce premiums.

**Gross income** increased by \$21 million or 2.7% broadly in line with growth in average inforce premiums.

**Volume related expenses** include commission payments, claims and changes in insurance policy liabilities. These costs increased by \$40 million or 7.8% as a result of the increase in average premiums inforce and an increase in lapses.

**Operating expenses** of \$118 million were flat compared to the March 2011 half year.

**Planned Margins and Experience Profit**

Planned margins were \$87 million, up by \$5 million compared to the March 2011 half year, mainly due to volume growth.

Experience profits rose over the period as a result of favourable earnings on assets backing policy liabilities and favourable claims experience. These drivers were partially offset by unfavourable lapses.

**March 2012 v September 2011**

**Cash earnings before IoRE** increased by \$21 million or 29.2% compared to the September 2011 half year. This result was largely driven by growth in average inforce premiums, lower claims and a lower impact of unfavourable lapses and changes in the profile of the retail insurance book.

**Gross income** increased by \$17 million or 2.2% to \$801 million, broadly in line with growth in average inforce premiums.

**Volume related expenses** decreased by \$15 million or 2.7% largely driven by lower claims and a lower impact of unfavourable lapses and changes in the profile of the retail insurance book.

**Operating expenses** of \$118 million were up by \$3 million compared to the September 2011 half year.

## 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 65 for results in \$AUDm.

|  | Half Year to    |                 |                 | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|--|-----------------|-----------------|-----------------|----------------------|----------------------|
|  | Mar 12<br>NZ\$m | Sep 11<br>NZ\$m | Mar 11<br>NZ\$m |                      |                      |
| Net interest income                          | 711             | 684             | 640             | 3.9                  | 11.1                 |
| Other operating income                       | 233             | 226             | 225             | 3.1                  | 3.6                  |
| <b>Net operating income</b>                  | <b>944</b>      | <b>910</b>      | <b>865</b>      | <b>3.7</b>           | <b>9.1</b>           |
| Operating expenses                           | (375)           | (378)           | (369)           | 0.8                  | (1.6)                |
| <b>Underlying profit</b>                     | <b>569</b>      | <b>532</b>      | <b>496</b>      | <b>7.0</b>           | <b>14.7</b>          |
| Charge to provide for bad and doubtful debts | (34)            | (56)            | (95)            | 39.3                 | 64.2                 |
| <b>Cash earnings before tax</b>              | <b>535</b>      | <b>476</b>      | <b>401</b>      | <b>12.4</b>          | <b>33.4</b>          |
| Income tax expense                           | (150)           | (147)           | (118)           | (2.0)                | (27.1)               |
| <b>Cash earnings</b>                         | <b>385</b>      | <b>329</b>      | <b>283</b>      | <b>17.0</b>          | <b>36.0</b>          |
| <b>Average Volumes (NZ\$bn)</b>              |                 |                 |                 |                      |                      |
| Gross loans and acceptances                  | 57.5            | 56.4            | 55.4            | 2.0                  | 3.8                  |
| Interest earning assets                      | 59.1            | 58.0            | 57.2            | 1.9                  | 3.3                  |
| Total assets                                 | 59.3            | 58.4            | 57.8            | 1.5                  | 2.6                  |
| Retail deposits                              | 33.5            | 31.8            | 30.4            | 5.3                  | 10.2                 |
| <b>Capital (NZ\$bn)</b>                      |                 |                 |                 |                      |                      |
| Risk-weighted assets - credit risk (spot)    | 36.3            | 35.3            | 36.1            | 2.8                  | 0.6                  |
| Total risk-weighted assets (spot)            | 40.2            | 39.8            | 40.8            | 1.0                  | (1.5)                |
| <b>Performance Measures</b>                  |                 |                 |                 |                      |                      |
| Cash earnings on average assets              | 1.30%           | 1.12%           | 0.98%           | 18 bps               | 32 bps               |
| Cash earnings on risk-weighted assets        | 1.93%           | 1.62%           | 1.44%           | 31 bps               | 49 bps               |
| Net interest margin                          | 2.41%           | 2.35%           | 2.24%           | 6 bps                | 17 bps               |
| Cost to income ratio                         | 39.7%           | 41.5%           | 42.7%           | 180 bps              | 300 bps              |
| 'Jaws'                                       | 4.5%            | 2.8%            | -               | 170 bps              | 450 bps              |
| Cash earnings per average FTE (NZ\$'000s)    | 167             | 143             | 125             | 16.8                 | 33.6                 |
| FTEs (spot)                                  | 4,554           | 4,641           | 4,578           | 1.9                  | 0.5                  |

| Market Share <sup>(1)</sup>    | As at  |        |        |
|--------------------------------|--------|--------|--------|
|                                | Mar 12 | Sep 11 | Mar 11 |
| Housing                        | 16.2%  | 16.2%  | 16.0%  |
| Cards                          | 27.4%  | 27.8%  | 28.0%  |
| Agribusiness                   | 21.1%  | 20.8%  | 19.7%  |
| Retail deposits <sup>(2)</sup> | 18.7%  | 18.0%  | 18.0%  |

| Distribution                                     | As at  |        |        |
|--|--------|--------|--------|
|  | Mar 12 | Sep 11 | Mar 11 |
| Number of retail branches                        | 179    | 179    | 178    |
| Number of ATMs                                   | 449    | 445    | 444    |
| Number of internet banking customers (no. '000s) | 553    | 534    | 513    |

<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)

### March 2012 v March 2011

**Cash earnings** for the half year increased by \$102 million or 36.0% to \$385 million when compared to the March 2011 half year. The current half year performance was characterised by improved net interest income and margins, higher fee income as well as lower bad and doubtful debt charges. Lending volume growth remained modest in light of the subdued demand for business and personal credit. The business continued to achieve positive 'Jaws' as revenue growth outweighed the slight increase in expenses over the March 2011 half year.

**Net interest income** increased by \$71 million or 11.1% against the March 2011 half year primarily due to a combination of volume growth, margin improvement through 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 period.

Average volumes of **gross loans and acceptances** increased by \$2.1 billion or 3.8%. Demand for credit remained subdued over the past year. Nonetheless, BNZ increased its market share in key segments, including housing by 25 basis points to 16.2% and agribusiness by 141 basis points to 21.1%.

Average volumes of **retail deposits** grew strongly from the March 2011 half year, increasing by \$3.1 billion or 10.2%. This was driven by a continuing focus on growing retail deposits to further strengthen the Bank's balance sheet. This has helped improve BNZ's market share by 66 basis points to 18.7%.

**Net interest margin** improved by 17 basis points to 2.41% from the March 2011 half year. 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 period. This was partially offset by funding cost pressure from growth in retail deposits in a competitive market, together with increases in the term profile of wholesale funding.

**Other operating income** increased by \$8 million or 3.6% over the March 2011 half year. This was primarily driven by higher lending fees from Corporate and Institutional Banking customers, improved demand for risk management products, as well as increased premium revenue from insurance operations.

**Operating expenses** increased by \$6 million or 1.6% from the March 2011 half year due largely to higher depreciation costs from completed investment projects, including the refresh of the Store and Partners network.

The **charge to provide for bad and doubtful debts** decreased by \$61 million or 64.2%. The significant improvement was due to lower specific provisions on business exposures as the economy is showing signs of improvement, strong credit card collections and an overall improvement in asset quality across the lending portfolio.

**Cash earnings on risk-weighted assets** has improved by 49 basis points to 1.93% from the March 2011 half year. This is due to strong cash earnings growth as well as optimisation of assets which have resulted in lower risk-weighted assets.

### March 2012 v September 2011

**Cash earnings** increased by \$56 million or 17.0% to \$385 million when compared to the September 2011 half year, reflecting higher net interest income, increased fee income and continuing improvement in bad and doubtful debt charges.

**Net interest income** increased by \$27 million or 3.9% from the September 2011 half year. This was the result of a combination of modest growth in volumes and overall margins. Margins continue to benefit from customers' preference for variable rate housing products as interest rates remain low. This has, however been partially offset by increased wholesale funding costs due to the ongoing global uncertainty.

Average volumes of **gross loans and acceptances** grew slightly by \$1.1 billion or 2.0%. This is in line with the overall system credit growth in New Zealand which remains subdued. BNZ increased its market share in key segments including agricultural lending by 34 basis points to 21.1% while housing market share remained steady at 16.2%.

Average volumes of **retail deposits** grew by \$1.7 billion or 5.3% over the September 2011 half year, increasing BNZ's market share by 66 basis points to 18.7% and further strengthening BNZ's balance sheet.

**Net interest margin** improved by 6 basis points to 2.41% from the September 2011 half year. Margins continue to be supported by customers' preference for variable rate products as well as repricing of the asset portfolio. This has been partially offset from higher funding costs associated with deposit growth and lengthening of term funding profile.

**Other operating income** increased by \$7 million or 3.1% compared to the September 2011 half year. This was primarily driven by increased lending fees from Corporate and Institutional Banking customers, improved demand for risk management products and increased premium revenue from insurance operations.

**Operating expenses** decreased by \$3 million or 0.8% compared to the September 2011 half year. NZ Banking remains focused on driving efficiencies and maintaining strong cost disciplines to enable business re-investment.

The **charge to provide for bad and doubtful debts** decreased by \$22 million. The improvement was due to a combination of lower specific provisions on business exposures, strong credit card collections and an overall improvement in asset quality as the economic recovery continues.

**Cash earnings on risk-weighted assets** has improved by 31 basis points to 1.93% from the September 2011 half year. Cash earnings growth, offset by an increase in risk-weighted assets on the back of increased lending have driven the improvement.

## Other Items

## Asset Quality

|   | As at  |        |        |
|---|--------|--------|--------|
|   | Mar 12 | Sep 11 | Mar 11 |
| Specific provision for doubtful debts (NZ\$m)                     | 138    | 170    | 175    |
| Collective provision for doubtful debts (NZ\$m)                   | 198    | 207    | 219    |
| Specific provision on loans at fair value (NZ\$m)                 | 55     | 57     | 84     |
| Collective provision on loans at fair value (NZ\$m)               | 97     | 72     | 74     |
| 90+ DPD assets (NZ\$m)  | 214    | 202    | 263    |
| Gross impaired assets (NZ\$m)                                     | 530    | 658    | 836    |
| 90+ DPD plus gross impaired assets to gross loans and acceptances | 1.28%  | 1.51%  | 1.96%  |
| Specific provision to gross impaired assets                       | 36.4%  | 34.5%  | 31.0%  |
| Net write-offs to gross loans and acceptances (annualised)        | 0.25%  | 0.22%  | 0.18%  |
| Total provision as a percentage of net write-offs                 | 334%   | 405%   | 540%   |
| Total provision to gross loans and acceptances                    | 0.84%  | 0.89%  | 0.99%  |
| Bad and doubtful debt charge to credit risk weighted assets       | 0.19%  | 0.43%  | 0.53%  |

New Zealand's economy has continued to grow at a slow pace through the first half of the financial year. Confidence and outlook has been dampened by emerging weaknesses in the global economy, which potentially includes slower than expected growth in China, the possibility of a prolonged downturn in Europe, high oil prices and the strong New Zealand dollar affecting local currency denominated export receipts.

In the broader business lending sector, the residual effects of the most recent economic downturn continue to affect sectors such as; commercial property (residential subdivision and development land), highly geared dairy farming operations and viticulture. The kiwifruit industry has been adversely affected by the Psa virus although the outlook for the industry has improved recently with careful disease management processes and continuing investigation of cost effective treatment options.

Agricultural commodity prices have remained elevated although they are trending down from recent highs. While the continued strength of the New Zealand dollar has dampened farm gate returns, confidence in the sector remains strong.

In spite of this challenging economic context the quality of BNZ's lending portfolio has continued to improve. Compared with September 2011, the level of 90+ DPD and gross impaired assets to gross loans and acceptances has improved by 23 basis points from 1.51% to 1.28% with improvement across both business and retail exposures. Bad and doubtful debt charges are also 39.3% lower than the September half and 64.2% lower than the March 2011 half. Provision coverage has been reduced, reflecting the improvement in asset quality with lower specific provisions in particular.

Growth in the Housing portfolio has continued into this financial year, with asset quality remaining sound. The asset quality trend in unsecured consumer lending (credit card and personal loans) continues to improve, and as with Housing, is benefiting from a proactive approach in dealing with distressed customers.

BNZ has maintained a supportive approach to the business sector and continues to seek good quality lending opportunities. This includes growth in lending to the agricultural sector where asset quality continues to improve due to a well founded credit management approach, including the assessment of expected future returns from dairy and other commodities.

BNZ actively manages its lending portfolio and this includes a dynamic approach to adjustment of risk settings, a comprehensive program of oversight and early intervention activities for distressed credits.

## Capital and Funding Position

During the half year, BNZ has continued to consolidate its balance sheet strength, supported by prudent liquidity management, maintaining access to wholesale funding markets and improving its capital base. A key focus for the bank has been the retail deposit strategy as an avenue for increasing the stable funding base.

This ongoing focus on customer deposits has seen BNZ increase its retail deposits by 5.3% compared to the September 2011 half year. Deposit funding remains a core component of balance sheet strength, with the ongoing rebalancing of our funding base towards customer deposits being a key factor supporting BNZ's AA-/Aa3 credit rating.

BNZ's Core Funding Ratio (CFR), remains comfortably above the current Reserve Bank of New Zealand's (RBNZ) minimum requirement of 70%.

Recently, offshore wholesale funding markets have been challenging, with the December quarter being particularly difficult due to the European sovereign debt crisis. In spite of the challenging environment in the March 2012 half year, BNZ was successful in accessing the domestic and offshore senior unsecured bond markets by placing bonds to both retail and institutional investors. This is an indication of the strong investor franchise BNZ has built over time.

During the March 2012 half year, BNZ completed its second successful European covered bond issue, raising EUR 500 million of 3.25 year funding. BNZ also completed two domestic covered bond issuances, raising NZ\$350 million of 6 year funding. BNZ also issued NZ\$465 million equivalent in term funding via medium term notes through USD, JPY, and CHF issuances.

As at 31 March 2012 BNZ Banking Group's regulatory capital levels remain well above the RBNZ's prescribed minimum levels. BNZ Banking Group's Tier 1 capital ratio was 9.59% and its Total capital ratio was 12.39% (minimum 8%) on an RBNZ basis.

On 10 May 2012, BNZ announced an increase to its authorised capital of NZ\$400 million from NAB Ltd. This further increases BNZ's capital strength in advance of Basel III implementation. This transaction has an immaterial impact on the Group's overall capital ratios and will be reflected in BNZ's capital ratios in September 2012 half year.

## 2012

## NZ Banking

Results presented in Australian dollars. See page 62 for results in local currency.

|  | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|--|---------------|---------------|---------------|----------------------|----------------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Net interest income                          | 549           | 528           | 487           | 4.0                  | 12.7                 |
| Other operating income                       | 179           | 174           | 171           | 2.9                  | 4.7                  |
| <b>Net operating income</b>                  | <b>728</b>    | <b>702</b>    | <b>658</b>    | <b>3.7</b>           | <b>10.6</b>          |
| Operating expenses                           | (289)         | (291)         | (281)         | 0.7                  | (2.8)                |
| <b>Underlying profit</b>                     | <b>439</b>    | <b>411</b>    | <b>377</b>    | <b>6.8</b>           | <b>16.4</b>          |
| Charge to provide for bad and doubtful debts | (26)          | (44)          | (72)          | 40.9                 | 63.9                 |
| <b>Cash earnings before tax</b>              | <b>413</b>    | <b>367</b>    | <b>305</b>    | <b>12.5</b>          | <b>35.4</b>          |
| Income tax expense                           | (116)         | (113)         | (90)          | (2.7)                | (28.9)               |
| <b>Cash earnings</b>                         | <b>297</b>    | <b>254</b>    | <b>215</b>    | <b>16.9</b>          | <b>38.1</b>          |

## Impact of foreign exchange rate movements

| Favourable/<br>(unfavourable)<br>March 12       | Half<br>year<br>since<br>Sep 11 |                               | Half<br>year<br>since<br>Mar 11 |                               |
|---|---------------------------------|-------------------------------|---------------------------------|-------------------------------|
|   | \$m                             | Mar 12 v<br>Sep 11<br>Ex FX % | \$m                             | Mar 12 v<br>Mar 11<br>Ex FX % |
| Net interest income                             | -                               | 3.9                           | 9                               | 11.1                          |
| Other operating income                          | (1)                             | 3.7                           | 2                               | 2.7                           |
| Operating expenses                              | -                               | 0.9                           | (4)                             | (1.1)                         |
| Charge to provide for<br>bad and doubtful debts | -                               | 41.1                          | (1)                             | 64.4                          |
| Income tax expense                              | -                               | (2.4)                         | (2)                             | (26.1)                        |
| Cash earnings                                   | (1)                             | 17.8                          | 4                               | 36.4                          |

## 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. As announced on 30 April 2012, UK Banking was subject to a strategic review which was undertaken in response to more challenging economic and operating conditions in the region. The main outcomes of this, subject to final regulatory approvals, will be to simplify the business model to focus on retail operations and SME business lending in Scotland and Northern England, improve the balance sheet structure by transferring the vast majority of UK Banking's commercial real estate assets to NAB in the first half of the 2013 financial year and place the transferred portfolio into run-off to be managed separately.

Results presented in local currency. See page 69 for results in \$AUDm.

|  | Half Year to |              |              | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|--|--------------|--------------|--------------|----------------------|----------------------|
|  | Mar 12<br>£m | Sep 11<br>£m | Mar 11<br>£m |                      |                      |
| Net interest income                          | 450          | 491          | 481          | (8.4)                | (6.4)                |
| Other operating income                       | 142          | 153          | 134          | (7.2)                | 6.0                  |
| <b>Net operating income</b>                  | <b>592</b>   | <b>644</b>   | <b>615</b>   | <b>(8.1)</b>         | <b>(3.7)</b>         |
| Operating expenses                           | (348)        | (363)        | (363)        | 4.1                  | 4.1                  |
| <b>Underlying profit</b>                     | <b>244</b>   | <b>281</b>   | <b>252</b>   | <b>(13.2)</b>        | <b>(3.2)</b>         |
| Charge to provide for bad and doubtful debts | (282)        | (145)        | (151)        | (94.5)               | (86.8)               |
| <b>Cash earnings before tax</b>              | <b>(38)</b>  | <b>136</b>   | <b>101</b>   | <b>large</b>         | <b>large</b>         |
| Income tax benefit/(expense)                 | 13           | (30)         | (24)         | large                | large                |
| <b>Cash (deficit)/earnings</b>               | <b>(25)</b>  | <b>106</b>   | <b>77</b>    | <b>large</b>         | <b>large</b>         |
| <b>Average Volumes (£bn)</b>                 |              |              |              |                      |                      |
| Gross loans and acceptances                  | 33.7         | 33.2         | 32.6         | 1.5                  | 3.4                  |
| Interest earning assets                      | 43.0         | 42.0         | 41.4         | 2.4                  | 3.9                  |
| Total assets                                 | 46.4         | 45.1         | 44.8         | 2.9                  | 3.6                  |
| Retail deposits                              | 24.2         | 23.3         | 23.4         | 3.9                  | 3.4                  |
| <b>Capital (£bn)</b>                         |              |              |              |                      |                      |
| Risk-weighted assets - credit risk (spot)    | 28.5         | 29.5         | 29.7         | (3.4)                | (4.0)                |
| Total risk-weighted assets (spot)            | 31.4         | 32.5         | 33.3         | (3.4)                | (5.7)                |
| <b>Performance Measures</b>                  |              |              |              |                      |                      |
| Cash earnings on average assets              | (0.11%)      | 0.47%        | 0.34%        | (58 bps)             | (45 bps)             |
| Cash earnings on risk-weighted assets        | (0.16%)      | 0.64%        | 0.46%        | (80 bps)             | (62 bps)             |
| Net interest margin                          | 2.09%        | 2.33%        | 2.33%        | (24 bps)             | (24 bps)             |
| Cost to income ratio                         | 58.8%        | 56.4%        | 59.0%        | (240 bps)            | 20 bps               |
| 'Jaws'                                       | (4.0%)       | 4.7%         | 0.4%         | (870 bps)            | (440 bps)            |
| Cash earnings per average FTE (£'000s)       | (6)          | 25           | 18           | large                | large                |
| FTEs (spot)                                  | 8,146        | 8,351        | 8,684        | 2.5                  | 6.2                  |

| Distribution                                     | As at  |        |        |
|--|--------|--------|--------|
|  | Mar 12 | Sep 11 | Mar 11 |
| Number of retail branches                        | 337    | 337    | 339    |
| Number of ATMs                                   | 884    | 887    | 935    |
| Number of internet banking customers (no. '000s) | 587    | 562    | 536    |



## UK Banking

Financial Analysis (in local currency)

## March 2012 v March 2011

**Cash earnings** decreased by £102 million when compared to March 2011. The cash earnings loss of £25 million reflects higher charges to provide for bad and doubtful debts, together with a reduction in net interest income due to higher funding costs.

**Cash earnings on risk-weighted assets** has decreased by 62 basis points, largely reflecting the decline in cash earnings. Average risk-weighted assets remained relatively stable.

**Net interest income** decreased by £31 million or 6.4%. The credit rating downgrade that occurred during the period resulted in lower margin money market and retail deposits being replaced by more expensive longer term wholesale funding and retail term deposits. This resulted in higher wholesale and retail funding costs, coupled with higher liquidity costs. This was partially offset by higher lending income. The **net interest margin** declined by 24 basis points, driven by the higher funding costs and was diluted further by an increase in low yielding liquid assets.

**Average gross loans and acceptances** increased by £1.1 billion or 3.4%, primarily due to growth in mortgages. Mortgage growth of 10.9% was substantially higher than system growth of 0.3%<sup>(1)</sup>. Business lending balances remained flat and the unsecured personal lending book declined by 16.7%.

**Average retail deposits** increased by £0.8 billion or 3.4%, which reflected the impact of a successful term deposit campaign.

**Other operating income** increased by £8 million or 6.0%, due to the depressive effect on other operating income in the March 2011 half year of the payments protection insurance (PPI) redress charged against this line item in that period. All claims are now charged against the PPI provision. This was partially offset by lower fees and commissions.

**Operating expenses** decreased by £15 million or 4.1% as the business demonstrated strong cost control. The reduction was driven by lower personnel costs as a result of the reduction in FTEs and lower performance related remuneration. This was partly offset by additional amortisation of investment spend from prior periods.

The **charge to provide for bad and doubtful debts** increased by £131 million over the March 2011 half year. The increase was predominantly from business lending losses as a result of the economic and market uncertainty and, in particular, further deterioration in the commercial property market. This was partly offset by continued improvement in unsecured retail portfolio delinquency, driving lower unsecured retail lending losses.

## March 2012 v September 2011

**Cash earnings** decreased by £131 million, reflecting higher charges to provide for bad and doubtful debts and a reduction in income.

**Cash earnings on risk-weighted assets** has decreased by 80 basis points, largely reflecting the decline in cash earnings. Average risk-weighted assets remained relatively stable.

**Net interest income** decreased by £41 million or 8.4%, which was primarily due to higher wholesale and retail funding costs. This was partially offset by higher lending income. The **net interest margin** declined by 24 basis points driven by the reduction in net interest income and an increase in low yielding liquid assets.

**Average gross loans and acceptances** increased by £0.5 billion or 1.5%. This was driven by above system growth in mortgages. Unsecured personal lending decreased over the March 2012 half year and business lending balances remained flat, although the spot business lending balance declined in the March 2012 half year.

**Average retail deposits** increased by £0.9 billion or 3.9%. This reflected the impact of a successful term deposit campaign, and was above system growth of 1.0%<sup>(1)</sup>.

**Other operating income** decreased by £11 million or 7.2%. This was mainly due to lower fees and commissions, reflecting economic conditions and the subdued demand for credit. This decrease was partially offset by insurance profit share which is received annually in the first half of each year.

**Operating expenses** decreased by £15 million or 4.1% as the business demonstrated strong cost control. The reduction was driven by lower personnel costs and was partly offset by additional amortisation costs.

The **charge to provide for bad and doubtful debts** increased by £137 million when compared to the September 2011 half year. The increase was predominantly from business lending losses as a result of the economic and market uncertainty and, in particular, further deterioration in the commercial property market.

<sup>(1)</sup> Source: Bank of England - February 2012.

## Other Items

## Asset Quality

|   | As at  |        |        |
|---|--------|--------|--------|
|   | Mar 12 | Sep 11 | Mar 11 |
| Specific provision for doubtful debts (£m)                        | 206    | 120    | 89     |
| Collective provision for doubtful debts (£m)                      | 383    | 243    | 275    |
| Specific provision on loans at fair value                         | 25     | 16     | 37     |
| Collective provision on loans at fair value                       | 133    | 141    | 97     |
| 90+ DPD assets (£m)   | 265    | 194    | 261    |
| Gross impaired assets (£m)  | 968    | 858    | 867    |
| 90+ DPD plus gross impaired assets to gross loans and acceptances | 3.68%  | 3.12%  | 3.44%  |
| Specific provision to gross impaired assets                       | 23.9%  | 15.9%  | 14.5%  |
| Net write-offs to gross loans and acceptances (annualised)        | 1.12%  | 0.84%  | 0.84%  |
| Total provision as a percentage of net write-offs                 | 200%   | 184%   | 181%   |
| Total provision to gross loans and acceptances                    | 2.23%  | 1.54%  | 1.52%  |
| Bad and doubtful debt charge to credit risk-weighted assets       | 1.98%  | 1.00%  | 1.02%  |

Economic and market conditions resulted in deteriorating asset quality in our business lending portfolio over the March 2012 half year, predominantly within the commercial property sector which has experienced a 'double dip' reduction in property values.

Retail asset quality, mortgages and unsecured personal loans have improved and are showing a lower delinquency profile.

The total 90+ DPD balances have increased through the half year to March 2012 to £265 million, compared with £194 million at September 2011. This increase was in the business portfolio, with the commercial property book accounting for the majority of the increase, although there was also a material increase in the trading book 90+ DPD balance, reflecting the current stage of the economic cycle. There were continued reductions in the home loan and unsecured portfolios.

The level of impaired assets has increased to £968 million in the half year to March 2012, with the majority of the increase occurring in the second quarter. Commercial property business remains the largest component of the impaired asset portfolio which is as a result of the further deterioration of market conditions in this sector.

The overall collective provision for doubtful debts increased over the period reflecting the deterioration of the business lending portfolio and the transfer to the UK of £150 million of the existing economic overlay to the Group's collective provision. However, there was a continued reduction in the personal lending collective provision, driven by improvements in the delinquency profile and a reduction in unsecured personal lending balances.

The ratio of total provisions to gross loans and acceptances increased to 2.23% in March 2012, as growth in balance sheet provisions was faster than growth in the portfolio. The majority of the provision growth was on commercial property related exposures.

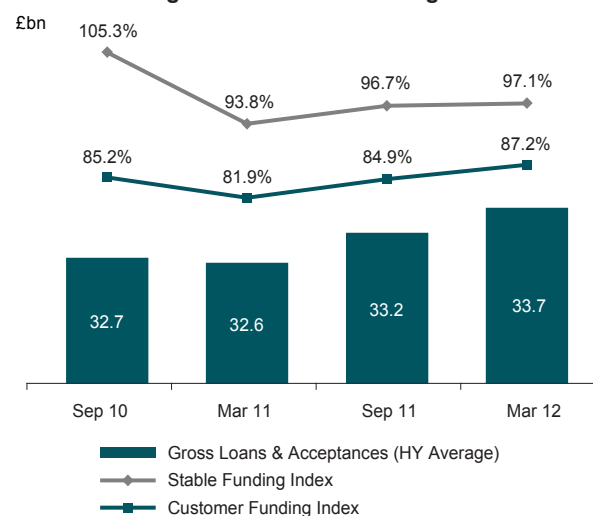
## Capital and Funding Position

Clydesdale Bank PLC (Clydesdale) issued £500 million of ordinary shares to the Group in January 2012. The Core Tier 1 ratio (FSA basis) increased to 9.2% from 8.9% in September 2011 and the Tier 1 ratio increased from 9.9% to 10.3%. This had an immaterial impact on the Group's overall capital ratios.

Clydesdale continued to strengthen its ability to raise term funding. This included the re-structuring of the Covered Bond and Securitisation programs which enabled the programs to retain AAA ratings. This platform enabled Clydesdale to issue debt from the Lanark owner occupier mortgage securitisation program.

Clydesdale remains diversified in terms of the type of instrument and product, currency, counterparty, term structure and market.

## Stable Funding and Customer Funding Indices



The successful growth of Clydesdale's retail deposits has improved the Customer Funding Index to 87.2% as at March 2012 from 84.9% as at September 2011. The Stable Funding Index (customer funding plus term debt) remains robust.

2012

## UK Banking

Results presented in Australian dollars. See page 66 for results in local currency.

|  | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|--|---------------|---------------|---------------|----------------------|----------------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Net interest income                          | 684           | 754           | 768           | (9.3)                | (10.9)               |
| Other operating income                       | 217           | 234           | 214           | (7.3)                | 1.4                  |
| <b>Net operating income</b>                  | <b>901</b>    | <b>988</b>    | <b>982</b>    | <b>(8.8)</b>         | <b>(8.2)</b>         |
| Operating expenses                           | (529)         | (556)         | (580)         | 4.9                  | 8.8                  |
| <b>Underlying profit</b>                     | <b>372</b>    | <b>432</b>    | <b>402</b>    | <b>(13.9)</b>        | <b>(7.5)</b>         |
| Charge to provide for bad and doubtful debts | (428)         | (221)         | (241)         | (93.7)               | (77.6)               |
| <b>Cash earnings before tax</b>              | <b>(56)</b>   | <b>211</b>    | <b>161</b>    | large                | large                |
| Income tax benefit/(expense)                 | 20            | (45)          | (39)          | large                | large                |
| <b>Cash (deficit)/earnings</b>               | <b>(36)</b>   | <b>166</b>    | <b>122</b>    | <b>large</b>         | <b>large</b>         |

## Impact of foreign exchange rate movements

| Favourable/<br>(unfavourable)<br>March 12       | Half<br>year<br>since<br>Sep 11 |                               | Half<br>year<br>since<br>Mar 11 |                               |
|---|---------------------------------|-------------------------------|---------------------------------|-------------------------------|
|   | \$m                             | Mar 12 v<br>Sep 11<br>Ex FX % | \$m                             | Mar 12 v<br>Mar 11<br>Ex FX % |
| Net interest income                             | (6)                             | (8.5)                         | (34)                            | (6.5)                         |
| Other operating income                          | (2)                             | (6.4)                         | (11)                            | 6.5                           |
| Operating expenses                              | 5                               | 4.0                           | 27                              | 4.1                           |
| Charge to provide for<br>bad and doubtful debts | 5                               | (95.9)                        | 23                              | (87.1)                        |
| Income tax expense                              | -                               | large                         | (1)                             | large                         |
| Cash earnings                                   | 2                               | large                         | 4                               | large                         |

## Great Western Bank

Andrew Thorburn

GWB is fully deposit funded and offers a range of traditional banking and wealth management products delivered in a community banking model, and diversified lending in Agribusiness, small and medium sized businesses, and commercial property, together with a growing retail offering. Ranked as of 31 December 2011, GWB is the 7th largest bank provider of Agri loans in the US.

On the 13th of March 2012, GWB announced a proposed acquisition of First Federal Savings Bank of Iowa (First Federal). First Federal will contribute approximately US\$433 million in deposit-funded assets and add 11 branches to GWB's footprint in the state of Iowa. The merger is scheduled to close in the US summer, subject to regulatory and shareholder approval.

Results presented in local currency. See page 73 for results in \$AUDm.

|  | Half Year to    |                 |                 | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|--|-----------------|-----------------|-----------------|----------------------|----------------------|
|  | Mar 12<br>US\$m | Sep 11<br>US\$m | Mar 11<br>US\$m |                      |                      |
| Net interest income                          | 136             | 138             | 155             | (1.4)                | (12.3)               |
| Other operating income                       | 37              | 44              | 38              | (15.9)               | (2.6)                |
| <b>Net operating income</b>                  | <b>173</b>      | <b>182</b>      | <b>193</b>      | <b>(4.9)</b>         | <b>(10.4)</b>        |
| Operating expenses                           | (86)            | (91)            | (90)            | 5.5                  | 4.4                  |
| <b>Underlying profit</b>                     | <b>87</b>       | <b>91</b>       | <b>103</b>      | <b>(4.4)</b>         | <b>(15.5)</b>        |
| Charge to provide for bad and doubtful debts | (14)            | (27)            | (32)            | 48.1                 | 56.3                 |
| <b>Cash earnings before tax</b>              | <b>73</b>       | <b>64</b>       | <b>71</b>       | <b>14.1</b>          | <b>2.8</b>           |
| Income tax expense                           | (23)            | (21)            | (24)            | (9.5)                | 4.2                  |
| <b>Cash earnings</b>                         | <b>50</b>       | <b>43</b>       | <b>47</b>       | <b>16.3</b>          | <b>6.4</b>           |
| <b>Average Volumes (US\$bn)</b>              |                 |                 |                 |                      |                      |
| Gross loans and acceptances                  | 5.4             | 5.3             | 5.3             | 1.9                  | 1.9                  |
| Interest earning assets                      | 7.2             | 6.9             | 7.1             | 4.3                  | 1.4                  |
| Total assets <sup>(1)</sup>                  | 7.9             | 7.6             | 7.7             | 3.9                  | 2.6                  |
| Retail deposits                              | 6.5             | 6.3             | 6.6             | 3.2                  | (1.5)                |
| <b>Capital (US\$bn)</b>                      |                 |                 |                 |                      |                      |
| Risk-weighted assets - credit risk (spot)    | 5.0             | 4.9             | 5.7             | 2.0                  | (12.3)               |
| Total risk-weighted assets (spot)            | 5.5             | 6.1             | 5.9             | (9.8)                | (6.8)                |
| <b>Performance Measures</b>                  |                 |                 |                 |                      |                      |
| Cash earnings on average assets              | 1.27%           | 1.13%           | 1.22%           | 14 bps               | 5 bps                |
| Cash earnings on risk-weighted assets        | 1.75%           | 1.40%           | 1.57%           | 35 bps               | 18 bps               |
| Net interest margin                          | 3.78%           | 3.99%           | 4.38%           | (21 bps)             | (60 bps)             |
| Cost to income ratio                         | 49.7%           | 50.0%           | 46.6%           | 30 bps               | (310 bps)            |
| 'Jaws'                                       | 0.6%            | (6.8%)          | 6.5%            | 740 bps              | (590 bps)            |
| Cash earnings per average FTE (US\$'000s)    | 67              | 57              | 62              | 17.5                 | 8.1                  |
| FTEs (spot)                                  | 1,478           | 1,492           | 1,515           | 0.9                  | 2.4                  |

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

## Great Western Bank

Financial Analysis (in local currency)

## March 2012 v March 2011

**Cash earnings** increased by \$3 million or 6.4% to \$50 million when compared to the March 2011 half year. Revenue and bad and doubtful debt charges declined at similar rates, as margins tightened and asset quality improved.

**Net interest income** declined by \$19 million or 12.3%, driven by renewed pressure on loan and investment yields, as competition intensified with the general economic recovery releasing capital for banks to return to core lending activity.

**Net interest margin** declined by 60 basis points compared to the March 2011 half year driven by depressed loan yields from competitive pressures in the market, coupled with erosion of yields on government backed securities. Simultaneously, average funding costs have continued to decline through reducing deposit rates and access to lower priced funding sources.

**Other operating income** declined by \$1 million or 2.6%. Regulatory changes restricting debit card interchange income reduced this source of income by \$2 million compared with the half year to March 2011. This loss of revenue was partially offset by strong income on home loan originations and fees from the secondary market as these loans are on sold.

**Operating expenses** declined by \$4 million or 4.4% driven primarily by a reduction in costs relating to foreclosed property, reductions in FTE levels through attrition, and operational efficiencies.

The **charge to provide for bad and doubtful debts** decreased by \$18 million or 56.3% for the half year, reflecting improvements in asset quality across the loan portfolio, with significantly lower write-offs and delinquencies in the March 2012 half year.

**Cash earnings on risk weighted assets** increased by 18 basis points compared to the March 2011 half year reflecting the increase in earnings and optimisation of risk weighted assets on the transition to Basel II capital framework during the March 2012 half year.

**Average gross loans and acceptances** grew by \$0.1 billion with \$0.4 billion of core loan growth, partially offset by the runoff and workout of \$0.3 billion of non-core loans that were acquired as part of the TierOne asset acquisition.

**Average retail deposits** declined by \$0.1 billion, driven by reductions in deposit pricing designed to reduce funding costs and more effectively utilise excess liquidity.

## March 2012 v September 2011

**Cash earnings** for the March 2012 half year increased by \$7 million or 16.3% when compared to the September half year, reflecting the improved operating environment, with loan demand increasing, improved credit quality, and reductions in operating expenses. These effects were partially offset by continuing pressure on margins, particularly in the investment portfolio, which is largely comprised of government guaranteed mortgage backed securities that are currently trading at historically low yields.

**Net interest income** decreased by \$2 million or 1.4% on a 21 basis points reduction in net interest margin. This was driven by intense competition for loan growth and a reduction in yields on excess liquidity invested in government backed securities. The effect was partially offset by a continued reduction in funding costs and strong loan growth for the half year.

**Other operating income** decreased by \$7 million or 15.9%, driven by a reduction in fees charged on consumer debit card transactions as a result of regulatory changes, restricting debit card interchange income.

**Operating expenses** decreased \$5 million or 5.5% compared to the September 2011 half year on a reduction in costs related to foreclosed property.

The **charge to provide for bad and doubtful debts** decreased by \$13 million or 48.1% on stabilisation of asset quality across the portfolio.

**Cash earnings on risk weighted assets** increased 35 basis points compared to the September 2011 half year, driven by the 16.3% increase in cash earnings and a 9.8% decline in spot RWAs resulting from RWA optimisation projects.

**Average gross loans and acceptances** increased by \$0.1 billion compared to the September 2011 half year, the net result of \$0.3 billion of core lending growth, partially offset by \$0.1 billion of run-off in the acquired non-core book.

**Average retail deposits** grew by \$0.2 billion as customers have begun to return their funds to traditional bank deposit products given limited higher-yielding options in the marketplace.

## Other Items

## Asset Quality

| Excluding covered loans <sup>(1)</sup>  | As at  |        |        |
|---|--------|--------|--------|
|   | Mar 12 | Sep 11 | Mar 11 |
| 90+ DPD assets (US\$m)  | -      | -      | -      |
| Specific provision for doubtful debts (US\$m)                                 | 12     | 17     | 20     |
| Collective provision for doubtful debts (US\$m)                               | 39     | 42     | 41     |
| Gross impaired assets (US\$m)   | 108    | 141    | 97     |
| 90+ DPD plus gross impaired assets to non-covered gross loans and acceptances | 2.29%  | 3.25%  | 2.37%  |
| Specific provision to gross impaired assets                                   | 11.1%  | 12.1%  | 20.6%  |
| Total provision to non-covered gross loans and acceptances                    | 1.08%  | 1.36%  | 1.49%  |

| Including covered loans <sup>(1)</sup>                            | As at  |        |        |
|---|--------|--------|--------|
|   | Mar 12 | Sep 11 | Mar 11 |
| 90+ DPD assets (US\$m)  | 46     | 110    | 197    |
| Specific provision for doubtful debts (US\$m)                     | 12     | 17     | 20     |
| Collective provision for doubtful debts (US\$m)                   | 39     | 42     | 41     |
| Gross impaired assets (US\$m)                                     | 114    | 141    | 97     |
| 90+ DPD plus gross impaired assets to gross loans and acceptances | 2.95%  | 4.81%  | 5.65%  |
| Specific provision to gross impaired assets                       | 10.5%  | 12.1%  | 20.6%  |
| Net write-offs to gross loans and acceptances (annualised)        | 0.56%  | 0.79%  | 0.69%  |
| Total provision to gross loans and acceptances                    | 0.94%  | 1.13%  | 1.17%  |

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

GWB's total 90+ DPD have improved in the March 2012 half year as the acquired TierOne assets have been managed down.

As the signs of moderate economic growth have become evident and unemployment levels have slowly receded across the GWB footprint, asset quality has seen a significant improvement on the prior period. Annualised net write-offs to gross loans and acceptances have fallen by 23 basis points compared to the September 2011 half, reflecting both dedicated efforts to address problem credits in the September half year and the corresponding lack of further deterioration in the current half year.

The acquired TierOne portfolio, predominantly covered by the Federal Deposit Insurance Corporation (FDIC) loss share agreement, continues to perform in line with expectations as the arrangement with the FDIC continues to work effectively.

The asset quality challenges that remain in the portfolio are largely concentrated in commercial real estate and land development, which have been adversely affected by the current economic environment. GWB has significantly reduced its core exposure to commercial real estate since the acquisition by NAB. Other segments, particularly agribusiness, continue to perform well with solid harvests and commodity prices supporting land valuations.

## Capital and Funding Position

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 of 31 March 2012, GWB's US Tier 1 Capital ratio was 13.71% and the Total Capital ratio stood at 14.96%.

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

The successful growth of GWB's retail deposits has improved the Customer Funding Index to 125% as at 31 March 2012 from 124% as at 30 September 2011.

## Great Western Bank

Results presented in Australian dollars. See page 70 for results in local currency.

|  | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|--|---------------|---------------|---------------|----------------------|----------------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Net interest income                          | 132           | 130           | 155           | 1.5                  | (14.8)               |
| Other operating income                       | 35            | 43            | 38            | (18.6)               | (7.9)                |
| <b>Net operating income</b>                  | <b>167</b>    | <b>173</b>    | <b>193</b>    | <b>(3.5)</b>         | <b>(13.5)</b>        |
| Operating expenses                           | (83)          | (87)          | (90)          | 4.6                  | 7.8                  |
| <b>Underlying profit</b>                     | <b>84</b>     | <b>86</b>     | <b>103</b>    | <b>(2.3)</b>         | <b>(18.4)</b>        |
| Charge to provide for bad and doubtful debts | (14)          | (25)          | (32)          | 44.0                 | 56.3                 |
| <b>Cash earnings before tax</b>              | <b>70</b>     | <b>61</b>     | <b>71</b>     | <b>14.8</b>          | <b>(1.4)</b>         |
| Income tax expense                           | (22)          | (20)          | (24)          | (10.0)               | 8.3                  |
| <b>Cash earnings</b>                         | <b>48</b>     | <b>41</b>     | <b>47</b>     | <b>17.1</b>          | <b>2.1</b>           |

## Impact of foreign exchange rate movements

| Favourable/<br>(unfavourable)<br>March 12       | Half<br>year<br>since<br>Sep 11 |        | Mar 12 v<br>Sep 11<br>Ex FX % | Half<br>year<br>since<br>Mar 11 | Mar 12 v<br>Mar 11<br>Ex FX % |
|---|---------------------------------|--------|-------------------------------|---------------------------------|-------------------------------|
|   | \$m                             |        |                               | \$m                             |                               |
| Net interest income                             | 3                               | (0.8)  | (5)                           | (11.6)                          |                               |
| Other operating Income                          | -                               | (18.6) | (2)                           | (2.6)                           |                               |
| Operating expenses                              | (1)                             | 5.7    | 4                             | 3.3                             |                               |
| Charge to provide for<br>bad and doubtful debts | (1)                             | 48.0   | -                             | 56.3                            |                               |
| Income tax expense                              | -                               | (10.0) | 1                             | 4.2                             |                               |
| Cash earnings                                   | 1                               | 14.6   | (2)                           | 6.4                             |                               |



## Specialised Group Assets

Peter Coad

The Specialised Group Assets (SGA) business comprises non-franchise assets with approximately \$8.0 billion of Credit Risk Weighted Assets. This represents a reduction of \$17.3 billion since September 2009, of which \$7.0 billion has been achieved during the half year to March 2012, largely resulting from the removal of economic risk relating to the remaining SCDO assets, the run-down of credit exposures and a change in the treatment of the Credit Wrapped ABS (certain underlying Credit Wrapped ABS are deducted rather than risk-weighted).

The portfolio of assets, which is primarily domiciled in the United Kingdom and the United States, have previously been grouped into nine portfolios. However, as a result of significant progress in reducing exposures, the portfolios have been reclassified as follows:

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

Results presented at actual exchange rates.

|  | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|--|---------------|---------------|---------------|----------------------|----------------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Net interest income                          | 54            | 58            | 65            | (6.9)                | (16.9)               |
| Other operating income                       | 33            | (30)          | 74            | large                | (55.4)               |
| <b>Net operating income</b>                  | <b>87</b>     | <b>28</b>     | <b>139</b>    | large                | (37.4)               |
| Operating expenses                           | (18)          | (25)          | (24)          | 28.0                 | 25.0                 |
| <b>Underlying profit</b>                     | <b>69</b>     | <b>3</b>      | <b>115</b>    | large                | (40.0)               |
| Charge to provide for bad and doubtful debts | (71)          | (20)          | (21)          | large                | large                |
| <b>Cash earnings before tax</b>              | <b>(2)</b>    | <b>(17)</b>   | <b>94</b>     | 88.2                 | large                |
| Income tax (expense)/benefit                 | (1)           | 50            | (17)          | large                | 94.1                 |
| <b>Cash (deficit)/earnings</b>               | <b>(3)</b>    | <b>33</b>     | <b>77</b>     | <b>large</b>         | <b>large</b>         |
| <b>Average Volumes (\$bn)</b>                |               |               |               |                      |                      |
| Gross loans and acceptances                  | 4.2           | 5.2           | 5.6           | (19.2)               | (25.0)               |
| Interest earning assets                      | 8.5           | 9.8           | 11.8          | (13.3)               | (28.0)               |
| <b>Capital (\$bn)</b>                        |               |               |               |                      |                      |
| Risk-weighted assets - credit risk (spot)    | 8.0           | 15.0          | 18.0          | (46.7)               | (55.6)               |
| Total risk-weighted assets (spot)            | 8.0           | 15.0          | 18.0          | (46.7)               | (55.6)               |

## Impact of foreign exchange rate movements

| Favourable/<br>(unfavourable)<br>March 12       | Half<br>year<br>since<br>Sep 11 |        | Mar 12 v<br>Sep 11<br>Ex FX % | Half<br>year<br>since<br>Mar 11 |        | Mar 12 v<br>Mar 11<br>Ex FX % |
|---|---------------------------------|--------|-------------------------------|---------------------------------|--------|-------------------------------|
|   | \$m                             |        |                               | \$m                             |        |                               |
| Net interest income                             | -                               | (6.9)  |                               | (2)                             | (13.8) |                               |
| Other operating income                          | (5)                             | large  |                               | 10                              | (68.9) |                               |
| Operating expenses                              | -                               | 28.0   |                               | 1                               | 20.8   |                               |
| Charge to provide for<br>bad and doubtful debts | 1                               | large  |                               | 4                               | large  |                               |
| Income tax expense                              | -                               | large  |                               | (1)                             | large  |                               |
| Cash earnings                                   | (4)                             | (97.0) |                               | 12                              | large  |                               |

## Specialised Group Assets

## Financial Analysis

## March 2012 v March 2011

**Cash earnings** decreased by \$80 million compared to the March 2011 half year to \$3 million loss. This was mainly due to lower mark-to-market gains on the SCDO risk mitigation trades and a higher bad and doubtful debts charge.

**Net operating income** decreased by \$52 million compared to March 2011 half year to \$87 million. This was mainly due to lower mark-to-market gains on the SCDO trades (\$17 million at March 2012 versus \$59 million at March 2011).

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

**Operating expenses** decreased by \$6 million or 25.0% on the March 2011 half year to \$18 million. This was due to the run-off of the business, with FTE numbers contracting from 42 to 28.

The **charge to provide for bad and doubtful debts** increased by \$50 million on the March 2011 half year to \$71 million. This was as a result of increases in specific client provisions, largely driven by four UK exposures and reduced collective provision release.

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

**Average interest earning assets** decreased by \$3.3 billion (28.0%) to \$8.5 billion. Excluding the foreign exchange impact of \$0.4 billion, the asset decrease was \$2.9 billion.

**Risk Weighted Assets** decreased by \$10.0 billion (55.6%) to \$8 billion. Excluding the foreign exchange impact of \$0.1 billion, there was an underlying decrease of \$9.9 billion. The underlying movement includes the impact of removing the economic risk related to the SCDO assets and a change in treatment of the credit wrapped ABS (certain underlying credit wrapped ABS are deducted rather than risk-weighted).

## March 2012 v September 2011

**Cash earnings** decreased by \$36 million compared to the September 2011 half year, primarily due to a higher bad and doubtful debt charge and lower tax benefits, offset by mark-to-market gains on the SCDO risk mitigation trades compared with mark-to-market losses in the September 2011 half year.

**Net operating income** increased by \$59 million largely due to mark-to-market losses on the SCDO risk mitigation trades during the September 2011 half year (\$84 million loss), and a gain on the sale of an equity investment, which were not repeated in the March 2012 half year.

**Operating expenses** decreased by \$7 million on the September 2011 half year. This was due to the run-off of the business.

The **charge to provide for bad and doubtful debts** increased by \$51 million, due to increased specific provisions largely driven by four UK exposures.

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

**Average interest earning assets** decreased by \$1.3 billion (13.3%). The foreign exchange impact was minimal.

**Risk Weighted Assets** decreased by \$7.0 billion (46.7%). Excluding the foreign exchange impact of \$0.4 billion, there was an underlying decrease of \$6.6 billion. The underlying movement includes the impact of removing the economic risk related to the remaining SCDO assets and a change in treatment of the credit wrapped ABS (certain underlying Credit Wrapped ABS are deducted rather than risk-weighted).

## Other Items

## Asset Quality

|   | As at  |        |        |
|---|--------|--------|--------|
|   | Mar 12 | Sep 11 | Mar 11 |
| Specific provision for doubtful debts (\$m)             | 109    | 167    | 147    |
| Collective provision for doubtful debts (\$m)           | 143    | 180    | 210    |
| Collective provision on derivatives at fair value (\$m) | 29     | 185    | 189    |
| Gross impaired assets (\$m)                             | 350    | 488    | 513    |
| Gross impaired assets to gross loans and acceptances    | 9.71%  | 10.49% | 9.71%  |
| Specific provision to gross impaired assets             | 31.1%  | 34.2%  | 28.7%  |
| Net write-offs to gross loans and acceptances           | 8.66%  | 2.26%  | 3.07%  |

The internal credit ratings of SGA portfolio assets deteriorated slightly due to adverse economic conditions in the UK during the current half year. Stable conditions in the US and continued run-off of the portfolio have mitigated specific provisions with the release of collective provisions.

The bad and doubtful debts charge for the half year was \$71 million, which is an increase of \$50 million on the March 2011 half year. During the period, 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 100 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 close review and oversight of the separate Strategic Business Services team.

SGA continues to actively manage the SAM portfolio. As at 31 March 2012, the exposures in the SAM portfolio fell to \$3.0 billion (\$3.7 billion including assets previously reported separately as Credit Wrapped Bonds) from \$4.3 billion at September 2011.

With respect to the SCDOs, two fully hedged positions remain on the balance sheet. As announced on 22 March 2012, the Group entered into transactions to remove the economic risk on the two remaining SCDO assets. As a result there was a reduction in risk weighted assets of \$1.5 billion, and as at 31 March 2012, there is no longer any unhedged SCDO risk. During the March 2012 half year, the final SCDO mark-to-market was a gain of \$17 million.

As previously disclosed, the recognition of remaining hedge costs related to the SCDO risk mitigation trades have been accelerated by expensing the carrying value of these hedge costs to non cash earnings. During the March 2012 half year, \$141 million (\$99 million after tax) of such costs were expensed through non-cash earnings. Residual costs associated with the exit of the economic risk on the remaining two SCDOs have been applied against the \$160 million management overlay for conduits and derivatives. The \$160 million overlay has now been fully utilised.

## Impaired Assets – Loans and Advances

The level of gross impaired assets has decreased by \$163 million from March 2011 to \$350 million at March 2012. There is no change to the ratio of gross impaired assets to gross loans and acceptances from March 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, People, Marketing and Communications.

|  | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|--|---------------|---------------|---------------|----------------------|----------------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Net operating income   | 335           | 344           | 308           | (2.6)                | 8.8                  |
| Operating expenses   | (267)         | (260)         | (263)         | (2.7)                | (1.5)                |
| <b>Underlying profit</b>                                     | <b>68</b>     | <b>84</b>     | <b>45</b>     | <b>(19.0)</b>        | <b>51.1</b>          |
| Benefit from /(charge to provide for) bad and doubtful debts | 1             | 71            | (75)          | 98.6                 | large                |
| <b>Cash earnings before tax and non-controlling interest</b> | <b>69</b>     | <b>155</b>    | <b>(30)</b>   | <b>(55.5)</b>        | <b>large</b>         |
| Income tax benefit/(expense)                                 | 23            | (13)          | 47            | large                | (51.1)               |
| <b>Cash earnings</b>   | <b>92</b>     | <b>142</b>    | <b>17</b>     | <b>(35.2)</b>        | <b>large</b>         |

**March 2012 v March 2011**

**Cash earnings** increased by \$75 million when compared with the March 2011 half year, mainly due to the bad and doubtful debt charge for the Queensland and Victorian floods being included in the March 2011 half year.

**Net operating income** increased by \$27 million as a result of increased earnings on higher levels of capital, partly offset by the interest on the settlement of the ExCaps tax dispute that occurred during the March 2011 half year.

**Operating expenses** remained relatively flat, driven by disciplined cost management during the period.

The **charge to provide for bad and doubtful debts** decreased by \$76 million as the March 2011 half year included the overlay raised for the Queensland and Victorian floods.

The **income tax benefit** decreased by \$24 million, largely due to higher cash earnings before tax.

**March 2012 v September 2011**

**Cash earnings** decreased by \$50 million when compared with the September 2011 half year. This was due to the reversal in the September 2011 half year of the charge to provide for bad and doubtful debts for the Queensland and Victorian floods, partially offset by an increase in the income tax benefit in the current half year.

**Net operating income** decreased by \$9 million, primarily due to decreased earnings from other fee income.

**Operating expenses** remained relatively flat, driven by disciplined cost management during the period.

The **benefit from bad and doubtful debts** decreased by \$70 million as the September 2011 half year included the reversal of the overlay raised for Queensland and Victorian floods.

The **income tax benefit** increased by \$36 million, mainly as a result of lower cash earnings before tax.

**Section 5****Financial Report**

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## Report of the Directors

The directors of National Australia Bank Limited (the 'Company') present their report, together with the financial statements of the Group, being the Company and its controlled entities, for the half year ended 31 March 2012.

The directors of the Company have a significant responsibility with respect to the integrity of external reporting. This involves reviewing and monitoring, with the assistance of the Audit Committee and management, the processes, controls and procedures which are in place to maintain the integrity of the Group's financial statements. Further details of the role of the Board of Directors and its Committees can be found in the Corporate Governance section of the Group's 2011 Annual Financial Report or on the Group's website [www.nab.com.au](http://www.nab.com.au).

### Directors

Directors who held office during or since the end of the half year are:

Michael A Chaney  
*Chairman since September 2005 and Director since December 2004*

Cameron A Clyne  
*Managing Director and Group Chief Executive Officer since January 2009*

Patricia A Cross  
*Director since December 2005*

Daniel T Gilbert  
*Director since September 2004*

Dr Kenneth R Henry  
*Director since November 2011*

Mark A Joiner  
*Director since March 2009*

Paul J Rizzo  
*Director since September 2004*

Jillian S Segal  
*Director since September 2004*

John G Thorn  
*Director since October 2003*

Geoffrey A Tomlinson  
*Director since March 2000*

John A Waller  
*Director since February 2009*

Sir Malcolm Williamson  
*Director since May 2004*

Anthony KT Yuen  
*Director since March 2010*

### Rounding of Amounts

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

## Review of Operations and Group Results

Net profit attributable to owners of the Company for the half year ended 31 March 2012 of \$2,052 million decreased \$376 million or 15.5% compared to the prior comparative period.

Net interest income increased \$393 million or 6.3% driven by housing lending growth in Business Banking, Personal Banking and NZ Banking offset by higher funding costs. Net life insurance income increased \$92 million or 31.1% as positive investment returns exceeded increases in policy liabilities and the external unit holders' liability. Total other income increased \$188 million or 11.0% due to mark-to-market gains on the SCDO risk mitigation trades and higher sales of risk management products to the Group's customers.

Operating expenses increased by \$285 million or 6.9%. The Group continues to tightly manage expenses while continuing to invest in key strategic projects.

The bad and doubtful debt charge increased \$398 million or 43.1% as the challenging operating and economic environment, particularly in the United Kingdom (UK) property sector has resulted in higher specific provision charges.

Total assets increased \$67,380 million or 9.8%, mainly from strong growth in liquid assets and lending, principally from continued momentum in housing and business lending in the Australian based business. Total liabilities increased \$64,645 million or 10.0% mainly from the continued focus on growing deposits to support lending growth.

The Board has received assurance from the Group Chief Executive Officer and the Group Executive Director, Finance that the Company's half year financial report for the period ended 31 March 2012 is founded on sound systems of risk management and internal control, and that the systems are operating effectively in all material respects in relation to financial reporting risks.

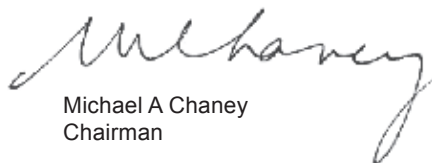
Management has also reported that the Company's risk management and internal control systems have been designed and implemented to manage the Company's material business risks, and those risks are being managed effectively.

### Auditor's independence declaration

A copy of the auditor's independence declaration as required by section 307C of the *Corporations Act 2001* (Cth) is set out on the following page and forms part of this report.

### Directors' signatures

Signed in accordance with a resolution of the directors:



Michael A Chaney  
Chairman



Cameron Clyne  
Group Chief Executive Officer

10 May 2012

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

In relation to our review of the financial report of National Australia Bank Limited for the half year ended 31 March 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A stylized, handwritten signature of the firm Ernst & Young.

Ernst & Young

A handwritten signature, likely belonging to AJ (Tony) Johnson, the Partner mentioned in the text below.

AJ (Tony) Johnson  
Partner  
Melbourne

10 May 2012



## Consolidated Income Statement

|  | Note | Half Year to  |               |               |
|--|------|---------------|---------------|---------------|
|  |      | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| Interest income  |      | 17,646        | 17,570        | 16,700        |
| Interest expense   |      | (10,974)      | (10,815)      | (10,421)      |
| Net interest income                                      |      | 6,672         | 6,755         | 6,279         |
| Premium and related revenue                              |      | 691           | 693           | 666           |
| Investment revenue                                       |      | 5,216         | (3,975)       | 3,528         |
| Fee income   |      | 266           | 276           | 277           |
| Claims expense   |      | (388)         | (427)         | (367)         |
| Change in policy liabilities                             |      | (4,057)       | 3,298         | (2,823)       |
| Policy acquisition and maintenance expense               |      | (459)         | (459)         | (455)         |
| Investment management expense                            |      | (3)           | 1             | (6)           |
| Movement in external unitholders' liability              |      | (878)         | 657           | (524)         |
| Net life insurance income                                |      | 388           | 64            | 296           |
| Gains less losses on financial instruments at fair value | 3    | 302           | (129)         | (200)         |
| Other operating income                                   | 3    | 1,598         | 1,866         | 1,912         |
| Total other income                                       |      | 1,900         | 1,737         | 1,712         |
| Personnel expenses                                       | 4    | (2,265)       | (2,240)       | (2,323)       |
| Occupancy-related expenses                               | 4    | (275)         | (289)         | (310)         |
| General expenses   | 4    | (1,862)       | (1,719)       | (1,484)       |
| Total operating expenses                                 |      | (4,402)       | (4,248)       | (4,117)       |
| Charge to provide for doubtful debts                     | 9    | (1,321)       | (827)         | (923)         |
| Profit before income tax expense                         |      | 3,237         | 3,481         | 3,247         |
| Income tax expense                                       | 5    | (1,183)       | (690)         | (818)         |
| <b>Net profit for the period</b>                         |      | <b>2,054</b>  | <b>2,791</b>  | <b>2,429</b>  |
| <i>Attributable to:</i>                                  |      |               |               |               |
| Owners of the Company                                    |      | 2,052         | 2,791         | 2,428         |
| Non-controlling interest in controlled entities          |      | 2             | -             | 1             |
| <b>Net profit for the period</b>                         |      | <b>2,054</b>  | <b>2,791</b>  | <b>2,429</b>  |
|  |      | <b>cents</b>  | <b>cents</b>  | <b>cents</b>  |
| Basic earnings per share                                 |      | 88.8          | 124.4         | 108.8         |
| Diluted earnings per share                               |      | 88.4          | 123.2         | 108.3         |

2012

## Consolidated Statement of Comprehensive Income

|  | Note | Half Year to  |               |               |
|--|------|---------------|---------------|---------------|
|  |      | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| <b>Net profit for the period</b>   |      | 2,054         | 2,791         | 2,429         |
| <b>Other comprehensive income</b>  |      |               |               |               |
| Actuarial (losses)/gains on defined benefit superannuation plans           | 12   | (205)         | (145)         | 225           |
| Cash flow hedges:  |      |               |               |               |
| (Losses)/gains on cash flow hedging instruments                            | 12   | (78)          | 319           | (98)          |
| Losses/(gains) transferred to the income statement                         | 12   | 5             | (4)           | 4             |
| Exchange differences on translation of foreign operations                  | 12   | (258)         | 421           | (592)         |
| Reclassification to the income statement on disposal of foreign operations | 12   | -             | -             | (2)           |
| Tax on items transferred directly from equity                              |      | 41            | (35)          | (35)          |
| Investments - available for sale:  |      |               |               |               |
| Revaluation gains/(losses)   | 12   | 71            | (10)          | (26)          |
| Gains from sale transferred to the income statement                        | 12   | (15)          | (11)          | (9)           |
| Impairment transferred to the income statement                             | 12   | -             | -             | 10            |
| Revaluation of land and buildings  | 12   | -             | 11            | -             |
| <b>Other comprehensive income for the period, net of income tax</b>        |      | (439)         | 546           | (523)         |
| <b>Total comprehensive income for the period</b>                           |      | 1,615         | 3,337         | 1,906         |
| <i>Attributable to:</i>  |      |               |               |               |
| Owners of the Company  |      | 1,613         | 3,337         | 1,905         |
| Non-controlling interest in controlled entities                            |      | 2             | -             | 1             |
| <b>Total comprehensive income for the period</b>                           |      | 1,615         | 3,337         | 1,906         |

## Consolidated Balance Sheet

|   |      | As at            |                  |                  |
|---|------|------------------|------------------|------------------|
|   | Note | 31 Mar 12<br>\$m | 30 Sep 11<br>\$m | 31 Mar 11<br>\$m |
| <b>Assets</b>                                   |      |                  |                  |                  |
| Cash and liquid assets                          |      | 23,376           | 27,093           | 22,534           |
| Due from other banks                            |      | 54,239           | 47,106           | 37,341           |
| Trading derivatives                             |      | 33,785           | 48,466           | 27,022           |
| Trading securities                              |      | 34,601           | 34,628           | 29,913           |
| Investments - available for sale                |      | 24,090           | 18,045           | 14,693           |
| Investments - held to maturity                  |      | 10,979           | 12,787           | 13,393           |
| Investments relating to life insurance business |      | 67,426           | 63,920           | 67,155           |
| Other financial assets at fair value            |      | 57,642           | 51,756           | 42,779           |
| Hedging derivatives                             |      | 3,267            | 4,108            | 2,645            |
| Loans and advances                              |      | 388,136          | 382,369          | 365,378          |
| Due from customers on acceptances               |      | 39,772           | 43,017           | 45,935           |
| Current tax assets                              |      | 104              | -                | 385              |
| Property, plant and equipment                   |      | 1,839            | 1,919            | 1,761            |
| Goodwill and other intangible assets            |      | 6,957            | 7,262            | 7,113            |
| Deferred tax assets                             |      | 2,032            | 2,243            | 1,780            |
| Other assets                                    |      | 8,598            | 9,038            | 9,636            |
| <b>Total assets</b>                             |      | <b>756,843</b>   | <b>753,757</b>   | <b>689,463</b>   |
| <b>Liabilities</b>                              |      |                  |                  |                  |
| Due to other banks                              |      | 43,536           | 40,162           | 37,449           |
| Trading derivatives                             |      | 38,195           | 47,889           | 34,573           |
| Other financial liabilities at fair value       |      | 21,356           | 23,726           | 19,557           |
| Hedging derivatives                             |      | 4,456            | 4,550            | 5,336            |
| Deposits and other borrowings                   | 11   | 418,266          | 402,964          | 364,311          |
| Liability on acceptances                        |      | 7,984            | 10,633           | 11,774           |
| Life policy liabilities                         |      | 56,402           | 53,608           | 56,810           |
| Current tax liabilities                         |      | 684              | 561              | -                |
| Provisions                                      |      | 1,252            | 1,596            | 1,167            |
| Bonds, notes and subordinated debt              |      | 96,849           | 99,768           | 91,449           |
| Other debt issues                               |      | 2,399            | 2,494            | 2,404            |
| Defined benefit superannuation plan liabilities |      | 148              | 295              | 182              |
| External unitholders' liability                 |      | 11,034           | 9,959            | 10,229           |
| Deferred tax liabilities                        |      | -                | 28               | 95               |
| Other liabilities                               |      | 11,727           | 13,336           | 14,307           |
| <b>Total liabilities</b>                        |      | <b>714,288</b>   | <b>711,569</b>   | <b>649,643</b>   |
| <b>Net assets</b>                               |      | <b>42,555</b>    | <b>42,188</b>    | <b>39,820</b>    |
| <b>Equity</b>                                   |      |                  |                  |                  |
| Contributed equity                              | 12   | 26,090           | 25,274           | 24,365           |
| Reserves  | 12   | (1,438)          | (773)            | (1,491)          |
| Retained profits                                | 12   | 17,865           | 17,667           | 16,931           |
| <b>Total equity (parent entity interest)</b>    |      | <b>42,517</b>    | <b>42,168</b>    | <b>39,805</b>    |
| Non-controlling interest in controlled entities |      | 38               | 20               | 15               |
| <b>Total equity</b>                             |      | <b>42,555</b>    | <b>42,188</b>    | <b>39,820</b>    |

## Consolidated Cash Flow Statement

|  | Note         | Half Year to   |               |                |
|--|--------------|----------------|---------------|----------------|
|  |              | Mar 12<br>\$m  | Sep 11<br>\$m | Mar 11<br>\$m  |
| <b>Cash flows from operating activities</b>  |              |                |               |                |
| Interest received  |              | 17,546         | 17,764        | 16,077         |
| Interest paid  |              | (11,304)       | (10,866)      | (10,079)       |
| Dividends received   |              | 8              | 7             | 11             |
| Life insurance:  |              |                |               |                |
| Premiums and other revenue received  |              | 3,208          | 5,598         | 4,030          |
| Investment revenue received  |              | 937            | 2,302         | 938            |
| Policy and other payments  |              | (3,780)        | (5,033)       | (3,832)        |
| Fees and commissions paid  |              | (253)          | (254)         | (244)          |
| Net trading revenue (paid)/received  |              | (242)          | 140           | 1,249          |
| Other operating income received  |              | 2,691          | 2,529         | 1,459          |
| Payments to employees and suppliers:   |              |                |               |                |
| Personnel expenses paid  |              | (2,441)        | (1,935)       | (2,454)        |
| Other operating expenses paid  |              | (1,454)        | (2,110)       | (1,786)        |
| Net goods and services tax received  |              | 14             | 5             | 19             |
| Payments for income taxes  |              | (943)          | (317)         | (854)          |
| <b>Cash flows from operating activities before changes in operating assets and liabilities</b>   |              | <b>3,987</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               |              | (93)           | (49)          | (14)           |
| Net funds advanced to and receipts from other banks with maturity greater than three months  |              | (1,312)        | (169)         | 2,653          |
| Net receipts from and payments for acceptance transactions   |              | 632            | 1,792         | 2,967          |
| Net funds advanced to and receipts from customers for loans and advances   |              | (9,003)        | (14,916)      | (15,361)       |
| Net acceptance from and repayment of deposits and other borrowings   |              | 20,877         | 34,434        | 17,662         |
| Net movement in life insurance business investments  |              | (579)          | (93)          | 108            |
| Net movement in other life insurance assets and liabilities  |              | (176)          | 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 |              | 203            | (506)         | 392            |
| Net payments for and receipts from trading securities transactions   |              | (2,097)        | (6,831)       | (4,420)        |
| Net receipts from and payments for trading derivatives   |              | 3,152          | (4,405)       | (705)          |
| Net funds advanced to and receipts from hedging derivative assets and other financial assets at fair value                                   |              | (5,412)        | (8,437)       | (5,308)        |
| Net payments for and receipts from hedging derivative liabilities and other financial liabilities at fair value                              |              | (7,747)        | 2,449         | (2,479)        |
| Net increase in other assets   |              | (754)          | (2,731)       | (282)          |
| Net (decrease)/increase in other liabilities   |              | (2,250)        | 3,416         | (2,388)        |
| <b>Changes in operating assets and liabilities arising from cash flow movements</b>  |              | <b>(4,559)</b> | <b>4,158</b>  | <b>(7,357)</b> |
| <b>Net cash (used in)/provided by operating activities</b>   | <b>13(a)</b> | <b>(572)</b>   | <b>11,988</b> | <b>(2,823)</b> |

|   |       | Half Year to   |                |               |
|---|-------|----------------|----------------|---------------|
|   | Note  | Mar 12<br>\$m  | Sep 11<br>\$m  | Mar 11<br>\$m |
| <b>Cash flows from investing activities</b>                                     |       |                |                |               |
| Movement in investments - available for sale:                                   |       |                |                |               |
| Purchases   |       | (17,532)       | (16,957)       | (13,974)      |
| Proceeds from disposal  |       | 680            | 1,964          | 1,108         |
| Proceeds on maturity  |       | 12,708         | 10,232         | 13,252        |
| Movement in investments - held to maturity:                                     |       |                |                |               |
| Purchases   |       | (6,396)        | (12,624)       | (11,664)      |
| Proceeds on maturity  |       | 7,312          | 12,304         | 11,815        |
| Purchase of controlled entities and business combinations, net of cash acquired | 13(d) | (36)           | -              | (6)           |
| Proceeds from sale of controlled entities, net of cash disposed                 | 13(e) | -              | -              | 11            |
| Purchase of property, plant, equipment and software                             |       | (418)          | (586)          | (482)         |
| Proceeds from sale of property, plant, equipment and software, net of costs     |       | 68             | 48             | 69            |
| <b>Net cash (used in)/provided by investing activities</b>                      |       | <b>(3,614)</b> | <b>(5,619)</b> | <b>129</b>    |
| <b>Cash flows from financing activities</b>                                     |       |                |                |               |
| Repayments of bonds, notes and subordinated debt                                |       | (9,248)        | (11,010)       | (10,895)      |
| Proceeds from issue of bonds, notes and subordinated debt, net of costs         |       | 14,455         | 15,816         | 15,766        |
| On market purchase of shares for equity-based compensation                      |       | -              | (33)           | -             |
| Dividends and distributions paid (excluding dividend reinvestment plan)         |       | (1,339)        | (1,199)        | (1,142)       |
| <b>Net cash provided by financing activities</b>                                |       | <b>3,868</b>   | <b>3,574</b>   | <b>3,729</b>  |
| Net (decrease)/increase in cash and cash equivalents                            |       | (318)          | 9,943          | 1,035         |
| Cash and cash equivalents at beginning of period                                |       | 36,006         | 25,231         | 25,683        |
| Effects of exchange rate changes on balance of cash held in foreign currencies  |       | (1,154)        | 832            | (1,487)       |
| <b>Cash and cash equivalents at end of period</b>                               | 13(b) | <b>34,534</b>  | <b>36,006</b>  | <b>25,231</b> |

## Consolidated Statement of Changes in Equity

| Group  | Contributed equity<br>\$m | Reserves <sup>(1)</sup><br>\$m | Retained profits <sup>(1)</sup><br>\$m | Total<br>\$m | Non-controlling interest in controlled entities<br>\$m | Total equity<br>\$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 <sup>(2)</sup>                      |                           |                                |  |              |  |                     |
| 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              |
| Net profit for the period  | -                         | -                              | 2,052                                  | 2,052        | 2  | 2,054               |
| Other comprehensive income for the period                          | -                         | (273)                          | (166)                                  | (439)        | -  | (439)               |
| Transactions with owners, recorded directly in equity:             |                           |                                |  |              |  |                     |
| Contributions by and distributions to owners                       |                           |                                |  |              |  |                     |
| Issue of ordinary shares   | 700                       | -                              | -                                      | 700          | -  | 700                 |
| Transfer from equity-based compensation reserve - issued shares    | 190                       | (190)                          | -                                      | -            | -  | -                   |
| Net loss realised on treasury shares                               | (2)                       | -                              | -                                      | (2)          | -  | (2)                 |
| Movement in treasury shares relating to life insurance business    | (72)                      | -                              | -                                      | (72)         | -  | (72)                |
| Transfer (to)/from retained profits                                | -                         | (320)                          | 320                                    | -            | -  | -                   |
| Equity-based compensation  | -                         | 116                            | -                                      | 116          | -  | 116                 |
| Tax on equity-based compensation                                   | -                         | 2                              | -                                      | 2            | -  | 2                   |
| Dividends paid   | -                         | -                              | (1,903)                                | (1,903)      | -  | (1,903)             |
| Distributions on other equity instruments                          | -                         | -                              | (105)                                  | (105)        | -  | (105)               |
| Changes in ownership interests <sup>(2)</sup>                      |                           |                                |  |              |  |                     |
| Movement of non-controlling interest in controlled entities        | -                         | -                              | -                                      | -            | 16   | 16                  |
| <b>Balance at 31 March 2012</b>                                    | 26,090                    | (1,438)                        | 17,865                                 | 42,517       | 38   | 42,555              |

<sup>(1)</sup> Refer to Note 12 Contributed Equity and Reserves for detail.

<sup>(2)</sup> Change in ownership interests in controlled entities that does not result in a loss of control.

## 1. Principal Accounting Policies

This report is a general purpose financial report for the half year reporting period ended 31 March 2012 which has been prepared in accordance with the Australian Securities Exchange (ASX) Listing Rules, the *Corporations Act* 2001 (Cth) and AASB 134 "Interim Financial Reporting".

This interim financial report complies with Australian Accounting Standards issued by the Australian Accounting Standards Board as they relate to interim financial reports, which also ensures compliance with International Financial Reporting Standards issued by the International Accounting Standards Board.

This interim financial report does not contain all disclosures of the type normally found within an annual financial report and therefore cannot be expected to provide as full an understanding of the financial position and financial performance of the Group as that given by the annual financial report. This report should be read in conjunction with the annual financial report for the year ended 30 September 2011 and any public announcements made in the half year ended 31 March 2012 by the Group in accordance with continuous disclosure obligations under the *Corporations Act* 2001 (Cth) and the ASX Listing Rules.

This interim financial report has been prepared on the basis of accounting policies consistent with those applied in the 30 September 2011 annual financial report except as disclosed below.

Adoption of the following new and amended Accounting Standards and Interpretations, which were applicable from 1 October 2011, has not had a material impact on the Group:

- Amended AASB 124 "Related Party Disclosures" and AASB 2009-12 "Amendments to Australian Accounting Standards" which clarifies the definition of a related party.
- AASB 2009-14 "Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement" which removes unintended consequences arising from the treatment of prepayments when there is a minimum funding requirement for an employee benefit plan.
- AASB 2010-4 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project" which makes amendments to several Accounting Standards arising from the 2010 annual improvements project, including amendments to AASB 7 "Financial Instruments: Disclosures".
- AASB 2011-1 "Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project" and AASB 1054 "Australian Additional Disclosures" which makes amendments to several Accounting Standards as part of the first phase of harmonisation of financial reporting requirements between Australia and New Zealand for entities that assert compliance with IFRS, and relocates Australian specific disclosure requirements and definitions to AASB 1054.
- AASB 2010-6 "Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets" which requires disclosures to be made of transfers of financial assets that are not derecognised in their entirety, and financial assets that are derecognised in their entirety but for which an entity retains continuing involvement.

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 provisions 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 estimates.

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.

### 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.

| Half Year ended 31 March 2012             |                      |                            |   |                     |
|---|----------------------|----------------------------|---|---------------------|
| Segment Information by reportable segment | Cash earnings<br>\$m | Net interest income<br>\$m | Total other income and NAB Wealth income<br>\$m | Total assets<br>\$m |
| Business Banking                          | 1,264                | 2,530                      | 517   | 197,245             |
| Personal Banking                          | 464                  | 1,445                      | 286   | 146,973             |
| Wholesale Banking                         | 518                  | 784                        | 435   | 235,882             |
| NAB Wealth                                | 289                  | 163                        | 777   | 96,329              |
| NZ Banking                                | 297                  | 549                        | 179   | 47,921              |
| UK Banking                                | (36)                 | 684                        | 217   | 67,562              |
| Great Western Bank                        | 48                   | 132                        | 35  | 8,337               |
| Specialised Group Assets                  | (3)                  | 54                         | 33  | 7,093               |
| Corporate Functions & Other               | 92                   | 367                        | (32)  | 30,754              |
| Distributions/Eliminations                | (105)                | -                          | (47)  | (81,253)            |
| <b>Total</b>                              | <b>2,828</b>         | <b>6,708</b>               | <b>2,400</b>                                    | <b>756,843</b>      |

| Half Year ended 30 September 2011         |                      |                            |   |                     |
|---|----------------------|----------------------------|---|---------------------|
| Segment Information by reportable segment | Cash earnings<br>\$m | Net interest income<br>\$m | Total other income and NAB Wealth income<br>\$m | Total assets<br>\$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             |
| 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<br>\$m | Net interest income<br>\$m | Total other income and NAB Wealth income<br>\$m | Total assets<br>\$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             |
| 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 | Half Year to  |               |               |
|---|---------------|---------------|---------------|
|   | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| Group cash earnings <sup>(1)</sup>  | 2,828         | 2,792         | 2,668         |
| Non-cash earnings items (after tax):  |               |               |               |
| Distributions   | 105           | 111           | 114           |
| Treasury shares   | (92)          | 80            | (41)          |
| Fair value and hedge ineffectiveness  | (40)          | 146           | (327)         |
| IoRE discount rate variation  | (5)           | 48            | (22)          |
| UK Payment Protection Insurance provision   | (182)         | (117)         | -             |
| Hedging costs on SCDO assets  | (99)          | (127)         | -             |
| Litigation expense  | (24)          | (4)           | -             |
| Software impairment   | (54)          | -             | -             |
| Goodwill impairment   | (295)         | -             | -             |
| Refund of tax on exchangeable capital units settlement                              | -             | -             | 142           |
| Amortisation of acquired intangible assets  | (51)          | (41)          | (41)          |
| Due diligence, acquisition and integration costs                                    | (39)          | (97)          | (65)          |
| <b>Net profit attributable to owners of the Company</b>                             | <b>2,052</b>  | <b>2,791</b>  | <b>2,428</b>  |

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

| Reconciliation of net interest income                                | Half Year to  |               |               |
|--|---------------|---------------|---------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| Net interest income for reportable segments on a cash earnings basis | 6,708         | 6,788         | 6,304         |
| NAB Wealth net adjustment <sup>(2)</sup>                             | (36)          | (33)          | (25)          |
| <b>Net interest income on a statutory basis</b>                      | <b>6,672</b>  | <b>6,755</b>  | <b>6,279</b>  |

| Reconciliation of other income and NAB Wealth income                             | Half Year to  |               |               |
|--|---------------|---------------|---------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| Total other income and NAB Wealth income on a cash earnings basis <sup>(1)</sup> | 2,400         | 2,007         | 2,495         |
| NAB Wealth net adjustment <sup>(2)</sup>   | 170           | (188)         | 123           |
| Treasury shares  | (103)         | 95            | (47)          |
| Fair value and hedge ineffectiveness   | 151           | 194           | (532)         |
| UK Payment Protection Insurance provision  | (182)         | (156)         | -             |
| Hedging costs on SCDO assets   | (141)         | (219)         | -             |
| IoRE discount rate variation   | (7)           | 68            | (31)          |
| <b>Total other income and NAB Wealth income on a statutory basis</b>             | <b>2,288</b>  | <b>1,801</b>  | <b>2,008</b>  |

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

<sup>(2)</sup> The NAB Wealth net adjustment represents a reallocation of the income statement of the NAB Wealth business prepared on a cash earnings basis into the appropriate statutory income lines.

## 3. Other Income

|  | Half Year to  |               |               |
|--|---------------|---------------|---------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| <b>Gains less losses on financial instruments at fair value</b>                      |               |               |               |
| Trading securities   | 264           | 677           | 240           |
| Trading derivatives:   |               |               |               |
| Trading and risk management purposes   | (83)          | (1,399)       | 373           |
| Recovery on SCDO risk mitigation trades  | 219           | -             | -             |
| Assets, liabilities and derivatives designated in hedge relationships <sup>(1)</sup> | 200           | 235           | (344)         |
| Assets and liabilities designated at fair value                                      | (280)         | 375           | (475)         |
| Impairment of investments - available for sale                                       | -             | -             | (10)          |
| Other  | (18)          | (17)          | 16            |
| <b>Total gains less losses on financial instruments at fair value</b>                | <b>302</b>    | <b>(129)</b>  | <b>(200)</b>  |
| <b>Other operating income</b>  |               |               |               |
| Dividend revenue   | 8             | 7             | 11            |
| Gains from sale of investments - available for sale                                  | 15            | 11            | 9             |
| Gains from sale of property, plant and equipment and other assets                    | -             | 2             | 1             |
| Banking fees   | 454           | 458           | 448           |
| Money transfer fees  | 327           | 324           | 323           |
| Fees and commissions   | 832           | 958           | 898           |
| Investment management fees   | 88            | 124           | 139           |
| Fleet management fees  | 13            | 13            | 10            |
| Rentals received on leased vehicle assets  | 7             | 9             | 10            |
| Revaluation (losses)/gains on investment properties                                  | (8)           | 1             | 3             |
| Other income   | (138)         | (41)          | 60            |
| <b>Total other operating income</b>  | <b>1,598</b>  | <b>1,866</b>  | <b>1,912</b>  |
| <b>Total other income</b>  | <b>1,900</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

|  | Half Year to  |               |               |
|--|---------------|---------------|---------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| <b>Personnel expenses</b>  |               |               |               |
| Salaries and related on-costs                                      | 1,639         | 1,645         | 1,654         |
| Superannuation costs - defined contribution plans                  | 126           | 127           | 126           |
| Superannuation costs - defined benefit plans                       | 24            | 20            | 24            |
| Performance-based compensation:                                    |               |               |               |
| Cash   | 151           | 195           | 233           |
| Equity-based compensation  | 114           | 38            | 40            |
| Total performance-based compensation                               | 265           | 233           | 273           |
| Other expenses   | 211           | 215           | 246           |
| <b>Total personnel expenses</b>                                    | <b>2,265</b>  | <b>2,240</b>  | <b>2,323</b>  |
| <b>Occupancy-related expenses</b>                                  |               |               |               |
| Operating lease rental expense                                     | 203           | 219           | 217           |
| Other expenses   | 72            | 70            | 93            |
| <b>Total occupancy-related expenses</b>                            | <b>275</b>    | <b>289</b>    | <b>310</b>    |
| <b>General expenses</b>  |               |               |               |
| Fees and commission expense  | 108           | 227           | 149           |
| Depreciation and amortisation of property, plant and equipment     | 145           | 126           | 145           |
| Amortisation of intangible assets                                  | 193           | 167           | 177           |
| Depreciation on leased vehicle assets                              | 4             | 5             | 4             |
| Operating lease rental expense                                     | 14            | 16            | 16            |
| Advertising and marketing  | 94            | 119           | 93            |
| Charge to provide for operational risk event losses                | 43            | 53            | 19            |
| Communications, postage and stationery                             | 125           | 153           | 142           |
| Computer equipment and software                                    | 269           | 226           | 202           |
| Data communication and processing charges                          | 60            | 64            | 58            |
| Transport expenses   | 41            | 41            | 37            |
| Professional fees  | 203           | 255           | 220           |
| Travel   | 32            | 50            | 40            |
| Loss on disposal of property, plant and equipment and other assets | -             | 16            | 3             |
| Impairment losses recognised                                       | 350           | 16            | -             |
| Other expenses   | 181           | 185           | 179           |
| <b>Total general expenses</b>                                      | <b>1,862</b>  | <b>1,719</b>  | <b>1,484</b>  |
| <b>Total</b>   | <b>4,402</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

|   | Half Year to  |               |               |
|---|---------------|---------------|---------------|
|   | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| <b>Profit before income tax expense</b>   | <b>3,237</b>  | 3,481         | 3,247         |
| Deduct profit before income tax expense attributable to the statutory funds of the life insurance business and their controlled trusts                | (465)         | (17)          | (346)         |
| Total profit excluding that attributable to the statutory funds of the life insurance business and their controlled trusts, before income tax expense | <b>2,772</b>  | 3,464         | 2,901         |
| <b>Prima facie income tax at 30%</b>  | <b>832</b>    | 1,040         | 870           |
| Add/(deduct): Tax effect of amounts not deductible/(assessable):  |               |               |               |
| Assessable foreign income   | 4             | 5             | 4             |
| Foreign tax rate differences  | (3)           | 8             | -             |
| Depreciation on buildings not deductible  | 1             | 1             | 2             |
| Refund of tax on exchangeable capital units settlement  | -             | -             | (142)         |
| Foreign branch income not assessable  | (36)          | (26)          | (34)          |
| Under/(over) provision in prior years   | -             | (19)          | (5)           |
| Offshore banking unit income  | (14)          | (11)          | (12)          |
| Restatement of deferred tax balances for UK, US and NZ tax changes  | 4             | (13)          | (7)           |
| Profit on sale of controlled entities   | -             | (9)           | -             |
| Treasury shares adjustment  | 20            | (14)          | 8             |
| Goodwill impairment   | 88            | -             | -             |
| Other   | 61            | (63)          | (15)          |
| Total income tax expense on profit excluding that attributable to the statutory funds of the life insurance business and their controlled trusts      | <b>957</b>    | 899           | 669           |
| Income tax expense/(benefit) attributable to the statutory funds of the life insurance business and their controlled trusts                           | <b>226</b>    | (209)         | 149           |
| <b>Total income tax expense</b>   | <b>1,183</b>  | 690           | 818           |
| <b>Effective tax rate, excluding statutory funds attributable to the life insurance business and their controlled trusts</b>                          | <b>34.5%</b>  | 26.0%         | 23.1%         |

## 6. Dividends and Distributions

|  | Amount<br>per share<br>cents | Franked<br>amount per<br>share<br>% | Foreign<br>income per<br>share<br>% | Total<br>amount<br>\$m |
|--|------------------------------|-------------------------------------|-------------------------------------|------------------------|
| <b>Dividends on ordinary shares</b>  |                              |                                     |                                     |                        |
| Interim dividend declared in respect of the six months ended 31 March 2012 | 90                           | 100                                 | Nil                                 | 2,015                  |

The record date for determining entitlements to the 2012 interim dividend is 6 June 2012. The interim dividend has been declared by the directors of the Company and is payable on 16 July 2012. The financial effect of this dividend has not been brought to account in the financial statements for the half year ended 31 March 2012 and will be recognised in subsequent financial reports.

|  |     |     |     |       |
|--|-----|-----|-----|-------|
| Final dividend paid in respect of the year ended 30 September 2011             | 88  | 100 | Nil | 1,940 |
| Interim dividend paid in respect of the six months ended 31 March 2011         | 84  | 100 | Nil | 1,823 |
| Total dividends paid or payable in respect of the year ended 30 September 2011 | 172 |     |     | 3,763 |

|   | Half Year to                                      |                        |   |                        |   |                        |
|---|---|------------------------|---|------------------------|---|------------------------|
|   | 31 Mar 12   |                        | 30 Sep 11   |                        | 31 Mar 11   |                        |
|   | Amount<br>per<br>security<br>cents <sup>(1)</sup> | Total<br>amount<br>\$m | Amount<br>per<br>security<br>cents <sup>(1)</sup> | Total<br>amount<br>\$m | Amount<br>per<br>security<br>cents <sup>(1)</sup> | Total<br>amount<br>\$m |
| <b>Dividends on preference shares</b>       |   |                        |   |                        |   |                        |
| BNZ Income Securities                       | 2.67  | 12                     | 2.67  | 12                     | 2.67  | 12                     |
| BNZ Income Securities 2                     | 2.69  | 7                      | 2.69  | 7                      | 2.31  | 6                      |
| <b>Total dividends on preference shares</b> |   | 19                     |   | 19                     |   | 18                     |

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

|  | Half Year to                    |                        |                                 |                        |                                 |                        |
|--|---------------------------------|------------------------|---------------------------------|------------------------|---------------------------------|------------------------|
|  | 31 Mar 12                       |                        | 30 Sep 11                       |                        | 31 Mar 11                       |                        |
|  | Amount<br>per<br>security<br>\$ | Total<br>amount<br>\$m | Amount<br>per<br>security<br>\$ | Total<br>amount<br>\$m | Amount<br>per<br>security<br>\$ | Total<br>amount<br>\$m |
| <b>Distributions on other equity instruments</b>       |                                 |                        |                                 |                        |                                 |                        |
| National Income Securities                             | 3.05                            | 61                     | 3.05                            | 61                     | 3.10                            | 62                     |
| Trust Preferred Securities <sup>(1)</sup>              | 42.50                           | 17                     | 42.50                           | 17                     | 45.00                           | 18                     |
| Trust Preferred Securities II <sup>(1)</sup>           | 26.25                           | 21                     | 26.25                           | 21                     | 27.50                           | 22                     |
| National Capital Instruments                           | 750.00                          | 6                      | 1,500.00                        | 12                     | 1,500.00                        | 12                     |
| <b>Total distributions on other equity instruments</b> |                                 | 105                    |                                 | 111                    |                                 | 114                    |

<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).

The last date for receipt of election notices for the Dividend Reinvestment Plan and the Bonus Share Plan is 5pm (Melbourne time) on 6 June 2012.

## 7. Net Tangible Assets

|  | As at     |           |           |
|--|-----------|-----------|-----------|
|  | 31 Mar 12 | 30 Sep 11 | 31 Mar 11 |
| Net tangible assets per ordinary share (\$) <sup>(1)</sup> | 13.68     | 13.62     | 12.80     |

<sup>(1)</sup> Represents 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.

## 8. Loans and Advances including Acceptances

|   | As at            |                  |                  |
|---|------------------|------------------|------------------|
|   | 31 Mar 12<br>\$m | 30 Sep 11<br>\$m | 31 Mar 11<br>\$m |
| Overdrafts  | 14,490           | 15,136           | 15,331           |
| Credit card outstandings                              | 7,960            | 7,903            | 7,679            |
| Asset and lease financing                             | 14,974           | 15,307           | 15,530           |
| Housing loans   | 259,434          | 253,064          | 237,312          |
| Other term lending                                    | 146,028          | 139,809          | 129,755          |
| Other lending   | 6,596            | 6,479            | 6,758            |
| Fair value adjustment                                 | 1,153            | 1,410            | 946              |
| <b>Gross loans and advances</b>                       | <b>450,635</b>   | <b>439,108</b>   | <b>413,311</b>   |
| Acceptances   | 39,772           | 43,017           | 45,935           |
| <b>Gross loans and advances including acceptances</b> | <b>490,407</b>   | <b>482,125</b>   | <b>459,246</b>   |
| Represented by:                                       |                  |                  |                  |
| Loans and advances at fair value <sup>(1)</sup>       | 56,596           | 50,472           | 41,567           |
| Loans and advances at amortised cost                  | 394,039          | 388,636          | 371,744          |
| Acceptances   | 39,772           | 43,017           | 45,935           |
| <b>Gross loans and advances including acceptances</b> | <b>490,407</b>   | <b>482,125</b>   | <b>459,246</b>   |
| Unearned income and deferred net fee income           | (2,018)          | (2,287)          | (2,286)          |
| Provision for doubtful debts                          | (3,885)          | (3,980)          | (4,080)          |
| <b>Net loans and advances including acceptances</b>   | <b>484,504</b>   | <b>475,858</b>   | <b>452,880</b>   |
| <b>Securitised loans</b> <sup>(2)</sup>               | <b>8,443</b>     | <b>6,394</b>     | <b>4,121</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<br>\$m | Europe<br>\$m | New<br>Zealand<br>\$m | United<br>States<br>\$m | Asia<br>\$m  | Total<br>Group<br>\$m |
|---|------------------|---------------|-----------------------|-------------------------|--------------|-----------------------|
| <b>As at 31 March 2012</b>                            |                  |               |                       |                         |              |                       |
| Overdrafts  | 7,569            | 5,266         | 1,617                 | 5                       | 33           | 14,490                |
| Credit card outstandings                              | 6,159            | 695           | 1,096                 | 10                      | -            | 7,960                 |
| Asset and lease financing                             | 12,783           | 2,168         | 15                    | -                       | 8            | 14,974                |
| Housing loans   | 213,075          | 22,466        | 21,954                | 540                     | 1,399        | 259,434               |
| Other term lending                                    | 91,467           | 25,923        | 20,901                | 5,396                   | 2,341        | 146,028               |
| Other lending   | 4,789            | 975           | 229                   | 43                      | 560          | 6,596                 |
| Fair value adjustment                                 | 428              | 657           | 48                    | 20                      | -            | 1,153                 |
| <b>Gross loans and advances</b>                       | <b>336,270</b>   | <b>58,150</b> | <b>45,860</b>         | <b>6,014</b>            | <b>4,341</b> | <b>450,635</b>        |
| Acceptances   | 39,761           | 11            | -                     | -                       | -            | 39,772                |
| <b>Gross loans and advances including acceptances</b> | <b>376,031</b>   | <b>58,161</b> | <b>45,860</b>         | <b>6,014</b>            | <b>4,341</b> | <b>490,407</b>        |
| Represented by:                                       |                  |               |                       |                         |              |                       |
| Loans and advances at fair value                      | 32,572           | 7,002         | 16,556                | 466                     | -            | 56,596                |
| Loans and advances at amortised cost                  | 303,698          | 51,148        | 29,304                | 5,548                   | 4,341        | 394,039               |
| Acceptances   | 39,761           | 11            | -                     | -                       | -            | 39,772                |
| <b>Gross loans and advances including acceptances</b> | <b>376,031</b>   | <b>58,161</b> | <b>45,860</b>         | <b>6,014</b>            | <b>4,341</b> | <b>490,407</b>        |

| By product and geographic location                    | Australia<br>\$m | Europe<br>\$m | New<br>Zealand<br>\$m | United<br>States<br>\$m | Asia<br>\$m  | Total<br>Group<br>\$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 lending   | 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<br>\$m | Europe<br>\$m | New<br>Zealand<br>\$m | United<br>States<br>\$m | Asia<br>\$m  | Total<br>Group<br>\$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 lending   | 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>        |

## Increase/(Decrease) from 30 Sep 11

| Movement from 30 September 2011<br>excluding foreign exchange | Australia<br>% | Europe<br>%  | New<br>Zealand<br>% | United<br>States<br>% | Asia<br>%   | Total<br>Group<br>% |
|---|----------------|--------------|---------------------|-----------------------|-------------|---------------------|
| Overdrafts  | (4.1)          | (4.2)        | 7.0                 | (28.6)                | 37.5        | (3.0)               |
| Credit card outstandings                                      | 1.8            | (6.3)        | 1.4                 | 42.9                  | -           | 1.0                 |
| Asset and lease financing                                     | (0.7)          | (6.5)        | (6.3)               | -                     | 14.3        | (1.6)               |
| Housing loans   | 2.8            | 4.6          | 1.4                 | (6.4)                 | 11.6        | 2.9                 |
| Other term lending  | 9.0            | (4.6)        | 2.6                 | 3.4                   | 37.4        | 5.5                 |
| Other   | 5.3            | (2.6)        | (16.8)              | (85.6)                | 49.3        | (0.3)               |
| <b>Total gross loans and advances</b>                         | <b>4.1</b>     | <b>(1.3)</b> | <b>2.0</b>          | <b>(3.7)</b>          | <b>29.0</b> | <b>3.3</b>          |

## Increase/(Decrease) from 31 Mar 11

| Movement from 31 March 2011<br>excluding foreign exchange | Australia<br>% | Europe<br>% | New<br>Zealand<br>% | United<br>States<br>% | Asia<br>%   | Total<br>Group<br>% |
|---|----------------|-------------|---------------------|-----------------------|-------------|---------------------|
| Overdrafts  | (4.1)          | (8.4)       | (4.0)               | (28.6)                | 37.5        | (5.7)               |
| Credit card outstandings                                  | 4.9            | (9.9)       | 0.6                 | large                 | -           | 2.9                 |
| Asset and lease financing                                 | (1.9)          | (11.3)      | (11.8)              | -                     | -           | (3.4)               |
| Housing loans   | 9.1            | 11.4        | 3.7                 | (7.2)                 | 21.4        | 8.8                 |
| Other term lending  | 17.7           | (2.6)       | 4.7                 | 8.2                   | 73.9        | 11.8                |
| Other   | 11.6           | (14.8)      | (8.9)               | (84.7)                | 45.1        | 0.8                 |
| <b>Total gross loans and advances</b>                     | <b>10.4</b>    | <b>0.8</b>  | <b>3.7</b>          | <b>0.4</b>            | <b>48.9</b> | <b>8.5</b>          |



## 9. Provision for Doubtful Debts

|  | As at            |                  |                  |
|--|------------------|------------------|------------------|
|  | 31 Mar 12<br>\$m | 30 Sep 11<br>\$m | 31 Mar 11<br>\$m |
| Specific provision for doubtful debts  | 1,552            | 1,475            | 1,299            |
| Collective provision for doubtful debts  | 2,333            | 2,505            | 2,781            |
| <b>Total provision for doubtful debts</b>  | <b>3,885</b>     | <b>3,980</b>     | <b>4,080</b>     |
| Specific provision on loans at fair value <sup>(1)</sup>   | 82               | 71               | 120              |
| Collective provision on loans and derivatives at fair value <sup>(1)(2)</sup>                        | 725              | 893              | 707              |
| <b>Total provision for doubtful debts and provisions held on assets at fair value <sup>(3)</sup></b> | <b>4,692</b>     | <b>4,944</b>     | <b>4,907</b>     |

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

<sup>(2)</sup> Included within this balance for March 2012 is a management overlay in relation to conduit assets and derivatives of \$nil (September 2011 \$160 million, March 2011 \$160 million).

<sup>(3)</sup> Not included in total provisions for doubtful debts are provisions on investments - held to maturity of \$91 million (September 2011 \$204 million, March 2011 \$187 million).

### Movement in provisions for doubtful debts

|  | Half Year to Mar 12 |                   |              | Half Year to Sep 11 |                   |              |
|--|---------------------|-------------------|--------------|---------------------|-------------------|--------------|
|  | Specific<br>\$m     | Collective<br>\$m | Total<br>\$m | Specific<br>\$m     | Collective<br>\$m | Total<br>\$m |
| <b>Opening balance</b>                             | 1,475               | 2,505             | 3,980        | 1,299               | 2,781             | 4,080        |
| Transfer to/(from) specific/collective provision   | 1,249               | (1,249)           | -            | 1,116               | (1,116)           | -            |
| Bad debts recovered                                | 79                  | -                 | 79           | 91                  | -                 | 91           |
| Bad debts written off                              | (1,234)             | -                 | (1,234)      | (1,049)             | -                 | (1,049)      |
| Charge to income statement                         | -                   | 1,107             | 1,107        | -                   | 819               | 819          |
| Foreign currency translation and other adjustments | (17)                | (30)              | (47)         | 18                  | 21                | 39           |
| <b>Total provision for doubtful debts</b>          | <b>1,552</b>        | <b>2,333</b>      | <b>3,885</b> | <b>1,475</b>        | <b>2,505</b>      | <b>3,980</b> |

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

|  | Half Year to  |               |               |
|--|---------------|---------------|---------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| <b>Total charge for doubtful debts by geographic location</b>                      |               |               |               |
| Australia  | 523           | 459           | 543           |
| Europe   | 536           | 284           | 278           |
| New Zealand  | 23            | 44            | 72            |
| United States  | 24            | 31            | 11            |
| Asia   | 1             | 1             | -             |
| <b>Total charge to provide for doubtful debts - recognised in provision</b>        | <b>1,107</b>  | <b>819</b>    | <b>904</b>    |
| Total charge on investments - held to maturity <sup>(1)</sup>                      | 214           | 8             | 19            |
| <b>Total charge to provide for doubtful debts - recognised in income statement</b> | <b>1,321</b>  | <b>827</b>    | <b>923</b>    |

<sup>(1)</sup> Included in total charge on investments - held to maturity are amounts recovered through the realisation of the associated collateral on impaired assets. Also included are charges of \$219 million in respect of defaulted SCDOs where the loss amounts have been fully recovered from the hedge counter party and recognised in other income.

## 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            |                  |                  |
|---|------------------|------------------|------------------|
|   | 31 Mar 12<br>\$m | 30 Sep 11<br>\$m | 31 Mar 11<br>\$m |
| Impaired assets <sup>(1) (2)</sup>                | 5,853            | 6,151            | 6,063            |
| Restructured loans <sup>(3)</sup>                 | 235              | 235              | 212              |
| Gross total impaired assets                       | 6,088            | 6,386            | 6,275            |
| Less: Specific provisions - total impaired assets | (1,634)          | (1,546)          | (1,419)          |
| <b>Net total impaired assets</b>                  | <b>4,454</b>     | <b>4,840</b>     | <b>4,856</b>     |

<sup>(1)</sup> Impaired assets do not include conduit assets classified as Investments - held to maturity in the balance sheet. There were \$307 million of impaired conduit assets within this category at March 2012 (September 2011 \$795 million, March 2011 \$215 million).

<sup>(2)</sup> Impaired assets for March 2012 includes \$174 million of impaired fair value assets (September 2011 \$170 million, March 2011 \$255 million).

<sup>(3)</sup> These loans represent facilities which have been classified as restructured for reasons relating to the financial difficulty of the counterparty. The restructured loans include \$nil million of restructured fair value assets (September 2011 \$16 million, March 2011 \$24 million).

| Movement in gross impaired assets             | Australia<br>\$m | Europe<br>\$m | New<br>Zealand<br>\$m | United<br>States<br>\$m | Asia<br>\$m | Total<br>Group<br>\$m |
|---|------------------|---------------|-----------------------|-------------------------|-------------|-----------------------|
| <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 as 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>Balance as at 30 September 2011</b>        | 3,845            | 1,869         | 516                   | 153                     | 3           | 6,386                 |
| New   | 1,053            | 857           | 104                   | 63                      | -           | 2,077                 |
| Written-off                                   | (464)            | (478)         | (63)                  | (36)                    | -           | (1,041)               |
| Returned to performing or repaid              | (743)            | (352)         | (141)                 | (19)                    | (1)         | (1,256)               |
| Foreign currency translation adjustments      | -                | (69)          | 1                     | (10)                    | -           | (78)                  |
| <b>Gross impaired assets at 31 March 2012</b> | 3,691            | 1,827         | 417                   | 151                     | 2           | 6,088                 |

| Gross impaired assets to gross loans & acceptances - by geographic location | As at          |                |                |
|---|----------------|----------------|----------------|
|   | 31 Mar 12<br>% | 30 Sep 11<br>% | 31 Mar 11<br>% |
| Australia   | 0.98           | 1.05           | 1.05           |
| Europe  | 3.14           | 3.06           | 3.19           |
| New Zealand   | 0.91           | 1.15           | 1.49           |
| United States   | 2.51           | 2.30           | 1.72           |
| Asia  | 0.05           | 0.08           | 0.07           |
| <b>Total gross impaired assets to gross loans &amp; acceptances</b>         | <b>1.24</b>    | <b>1.32</b>    | <b>1.37</b>    |

**Group coverage ratios**

|   |      |      |      |
|---|------|------|------|
| Net impaired assets to total equity <sup>(1)(2)</sup>   | 10.5 | 11.5 | 12.2 |
| Specific provision to gross impaired assets   | 26.8 | 24.2 | 22.6 |
| Collective provision to credit risk-weighted assets (excluding housing) <sup>(3)</sup>          | 1.36 | 1.45 | 1.46 |
| Collective provision including GRCL (top-up) to credit risk-weighted assets (excluding housing) | 1.76 | 1.86 | 1.88 |
| 90+ days past due plus gross impaired assets to gross loans and acceptances                     | 1.73 | 1.77 | 1.92 |
| Net write-offs to gross loans and acceptances (annualised)                                      | 0.47 | 0.41 | 0.45 |
| Total provision as a percentage of net write-offs (annualised) <sup>(4)</sup>                   | 203  | 249  | 238  |
| Total provision to gross loans and acceptances <sup>(4)</sup>                                   | 0.96 | 1.03 | 1.07 |

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

<sup>(2)</sup> Net impaired assets for March 2012 include \$92 million of net impaired fair value assets (September 2011 \$115 million, March 2011 \$159 million).

<sup>(3)</sup> Includes economic cycle adjustment, collective provision against loans at amortised cost and collective provisions held on assets at fair value.

<sup>(4)</sup> Includes economic cycle adjustment, total 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            |                  |                  |
|---|------------------|------------------|------------------|
|   | 31 Mar 12<br>\$m | 30 Sep 11<br>\$m | 31 Mar 11<br>\$m |
| Total non-impaired assets past due 90 days or more with adequate security | 2,190            | 1,975            | 2,346            |
| Total non-impaired portfolio managed facilities past due 90 to 180 days   | 183              | 175              | 195              |
| <b>Total 90+ days past due loans</b>                                      | <b>2,373</b>     | <b>2,150</b>     | <b>2,541</b>     |
| Total 90 days past due loans to gross loans and acceptances (%)           | 0.49             | 0.45             | 0.55             |

| Non-impaired loans 90+ days past due - by geographic location | As at            |                  |                  |
|---|------------------|------------------|------------------|
|   | 31 Mar 12<br>\$m | 30 Sep 11<br>\$m | 31 Mar 11<br>\$m |
| Australia   | 1,751            | 1,547            | 1,749            |
| Europe  | 408              | 318              | 407              |
| New Zealand   | 169              | 158              | 194              |
| United States   | 45               | 127              | 190              |
| Asia  | -                | -                | 1                |
| <b>Total 90+ day past due loans</b>                           | <b>2,373</b>     | <b>2,150</b>     | <b>2,541</b>     |

## 11. Deposits and Other Borrowings

|  | As at            |                  |                  |
|--|------------------|------------------|------------------|
|  | 31 Mar 12<br>\$m | 30 Sep 11<br>\$m | 31 Mar 11<br>\$m |
| Deposits not bearing interest                              | 22,685           | 21,324           | 18,415           |
| On-demand and short-term deposits                          | 143,098          | 145,947          | 138,455          |
| Certificates of deposit                                    | 81,130           | 76,945           | 61,501           |
| Term deposits  | 154,001          | 144,418          | 137,728          |
| <b>Total deposits</b>                                      | <b>400,914</b>   | <b>388,634</b>   | <b>356,099</b>   |
| Securities sold under agreements to repurchase             | 10,574           | 6,379            | 3,220            |
| Borrowings   | 14,262           | 18,159           | 13,409           |
| Fair value adjustment                                      | 232              | 257              | 233              |
| <b>Total deposits and other borrowings</b>                 | <b>425,982</b>   | <b>413,429</b>   | <b>372,961</b>   |
| <i>Represented by:</i>                                     |                  |                  |                  |
| Deposits and other borrowings at fair value <sup>(1)</sup> | 7,716            | 10,465           | 8,650            |
| Deposits and other borrowings at amortised cost            | 418,266          | 402,964          | 364,311          |
| <b>Total deposits and other borrowings</b>                 | <b>425,982</b>   | <b>413,429</b>   | <b>372,961</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<br>\$m | Europe<br>\$m | New<br>Zealand<br>\$m | United<br>States<br>\$m | Asia<br>\$m  | Total<br>Group<br>\$m |
|---|------------------|---------------|-----------------------|-------------------------|--------------|-----------------------|
| <b>As at 31 March 2012</b>                      |                  |               |                       |                         |              |                       |
| Deposits not bearing interest                   | 17,516           | 2,367         | 1,544                 | 1,255                   | 3            | 22,685                |
| On-demand and short-term deposits               | 102,791          | 24,647        | 9,605                 | 5,800                   | 255          | 143,098               |
| Certificates of deposit                         | 28,101           | 25,452        | 1,654                 | 25,923                  | -            | 81,130                |
| Term deposits                                   | 107,054          | 17,414        | 16,677                | 3,889                   | 8,967        | 154,001               |
| <b>Total deposits</b>                           | <b>255,462</b>   | <b>69,880</b> | <b>29,480</b>         | <b>36,867</b>           | <b>9,225</b> | <b>400,914</b>        |
| Securities sold under agreements to repurchase  | 2,889            | 1,921         | -                     | 5,764                   | -            | 10,574                |
| Borrowings                                      | 1,242            | -             | 3,766                 | 9,254                   | -            | 14,262                |
| Fair value adjustment                           | -                | 225           | 6                     | 1                       | -            | 232                   |
| <b>Total deposits and other borrowings</b>      | <b>259,593</b>   | <b>72,026</b> | <b>33,252</b>         | <b>51,886</b>           | <b>9,225</b> | <b>425,982</b>        |
| <i>Represented by:</i>                          |                  |               |                       |                         |              |                       |
| Deposits and other borrowings at fair value     | -                | 952           | 6,763                 | 1                       | -            | 7,716                 |
| Deposits and other borrowings at amortised cost | 259,593          | 71,074        | 26,489                | 51,885                  | 9,225        | 418,266               |
| <b>Total deposits and other borrowings</b>      | <b>259,593</b>   | <b>72,026</b> | <b>33,252</b>         | <b>51,886</b>           | <b>9,225</b> | <b>425,982</b>        |

| By product and geographic location              | Australia<br>\$m | Europe<br>\$m | New<br>Zealand<br>\$m | United<br>States<br>\$m | Asia<br>\$m  | Total<br>Group<br>\$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>                          |                  |               |                       |                         |              |                       |
| Deposits and other borrowings at fair value     | -                | 1,179         | 9,284                 | 2                       | -            | 10,465                |
| 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<br>\$m | Europe<br>\$m | New<br>Zealand<br>\$m | United<br>States<br>\$m | Asia<br>\$m | Total<br>Group<br>\$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>                           | 223,563          | 73,275        | 25,769                | 24,340                  | 9,152       | 356,099               |
| 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>      | 228,342          | 73,925        | 29,738                | 31,804                  | 9,152       | 372,961               |
| <i>Represented by:</i>                          |                  |               |                       |                         |             |                       |
| Deposits and other borrowings at fair value     | -                | 1,169         | 7,478                 | 3                       | -           | 8,650                 |
| 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>      | 228,342          | 73,925        | 29,738                | 31,804                  | 9,152       | 372,961               |

**Increase/(Decrease) from 30 Sep 11**

| Movement from 30 September 2011<br>excluding foreign exchange | Australia<br>% | Europe<br>% | New<br>Zealand<br>% | United<br>States<br>% | Asia<br>% | Total<br>Group<br>% |
|---|----------------|-------------|---------------------|-----------------------|-----------|---------------------|
| Deposits not bearing interest                                 | 5.7            | 10.8        | 13.7                | 13.5                  | (25.0)    | 7.1                 |
| On-demand and short-term deposits                             | 2.2            | (6.3)       | 11.2                | (32.7)                | 14.9      | (0.9)               |
| Certificates of deposit                                       | 23.5           | (21.6)      | 14.2                | 45.1                  | -         | 8.9                 |
| Term deposits   | 8.7            | 14.4        | 4.5                 | (31.1)                | 15.8      | 7.6                 |
| <b>Total deposits</b>   | 7.1            | (8.1)       | 7.6                 | 10.9                  | 15.8      | 4.6                 |
| Securities sold under agreements to repurchase                | 77.0           | (2.5)       | -                   | large                 | -         | 72.3                |
| Borrowings  | (47.9)         | -           | (41.0)              | 4.6                   | -         | (19.0)              |
| <b>Total deposits and other borrowings</b>                    | 7.1            | (8.0)       | (1.6)               | 16.3                  | 15.8      | 4.6                 |

**Increase/(Decrease) from 31 Mar 11**

| Movement from 31 March 2011<br>excluding foreign exchange | Australia<br>% | Europe<br>% | New<br>Zealand<br>% | United<br>States<br>% | Asia<br>% | Total<br>Group<br>% |
|---|----------------|-------------|---------------------|-----------------------|-----------|---------------------|
| Deposits not bearing interest                             | 19.9           | 15.1        | large               | 19.6                  | -         | 23.1                |
| On-demand and short-term deposits                         | 8.0            | (10.3)      | 5.7                 | (12.4)                | 18.1      | 3.2                 |
| Certificates of deposit                                   | 42.7           | (9.9)       | (7.9)               | large                 | -         | 32.7                |
| Term deposits   | 13.8           | 20.4        | 4.4                 | (24.0)                | 1.1       | 11.2                |
| <b>Total deposits</b>                                     | 14.3           | (3.3)       | 6.9                 | 52.5                  | 1.5       | 12.4                |
| Securities sold under agreements to repurchase            | large          | large       | -                   | large                 | -         | large               |
| Borrowings  | (69.3)         | -           | (11.2)              | 72.6                  | -         | 4.5                 |
| <b>Total deposits and other borrowings</b>                | 13.7           | (1.2)       | 4.5                 | 64.3                  | 1.5       | 14.0                |

## 12. Contributed Equity and Reserves

|  | As at            |                  |                  |
|--|------------------|------------------|------------------|
|  | 31 Mar 12<br>\$m | 30 Sep 11<br>\$m | 31 Mar 11<br>\$m |
| <b>Contributed equity</b>  |                  |                  |                  |
| <b>Issued and paid-up ordinary share capital</b>                   |                  |                  |                  |
| Ordinary shares, fully paid  | 21,176           | 20,360           | 19,451           |
| <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>26,090</b>    | <b>25,274</b>    | <b>24,365</b>    |
|  |                  |                  |                  |
|  | Half Year to     |                  |                  |
|  | Mar 12<br>\$m    | Sep 11<br>\$m    | Mar 11<br>\$m    |
| <b>Movements in contributed equity</b>                             |                  |                  |                  |
| <b>Ordinary share capital</b>                                      |                  |                  |                  |
| Balance at beginning of period                                     | 20,360           | 19,451           | 18,637           |
| Shares issued:   |                  |                  |                  |
| Dividend reinvestment plan   | 700              | 729              | 635              |
| On market purchase of shares for equity-based compensation         | -                | -                | (33)             |
| Transfer from equity-based compensation reserve - issued shares    | 190              | 33               | 147              |
| Transfer from equity-based compensation reserve - purchased shares | -                | 2                | 3                |
| Net loss realised on treasury shares                               | (2)              | (27)             | (30)             |
| Movement in treasury shares relating to life insurance business    | (72)             | 172              | 92               |
| <b>Balance at end of period</b>                                    | <b>21,176</b>    | <b>20,360</b>    | <b>19,451</b>    |
|  |                  |                  |                  |
| BNZ Income Securities  |                  |                  |                  |
| Balance at beginning of period                                     | 380              | 380              | 380              |
| Movement during period   | -                | -                | -                |
| <b>Balance at end of period</b>                                    | <b>380</b>       | <b>380</b>       | <b>380</b>       |
|  |                  |                  |                  |
| BNZ Income Securities 2  |                  |                  |                  |
| Balance at beginning of period                                     | 203              | 203              | 203              |
| Movement during period   | -                | -                | -                |
| <b>Balance at end of period</b>                                    | <b>203</b>       | <b>203</b>       | <b>203</b>       |
|  |                  |                  |                  |
| National Income Securities   |                  |                  |                  |
| Balance at beginning of period                                     | 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>     |
|  |                  |                  |                  |
| Trust Preferred Securities   |                  |                  |                  |
| Balance at beginning of period                                     | 975              | 975              | 975              |
| Movement during period   | -                | -                | -                |
| <b>Balance at end of period</b>                                    | <b>975</b>       | <b>975</b>       | <b>975</b>       |
|  |                  |                  |                  |
| Trust Preferred Securities II                                      |                  |                  |                  |
| Balance at beginning of period                                     | 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>     |
|  |                  |                  |                  |
| National Capital Instruments                                       |                  |                  |                  |
| Balance at beginning of period                                     | 397              | 397              | 397              |
| Movement during period   | -                | -                | -                |
| <b>Balance at end of period</b>                                    | <b>397</b>       | <b>397</b>       | <b>397</b>       |

|  | As at            |                  |                  |
|--|------------------|------------------|------------------|
|  | 31 Mar 12<br>\$m | 30 Sep 11<br>\$m | 31 Mar 11<br>\$m |
| <b>Reserves</b>  |                  |                  |                  |
| General reserve  | 953              | 1,267            | 1,052            |
| Asset revaluation reserve  | 76               | 76               | 68               |
| Foreign currency translation reserve                                       | (3,925)          | (3,667)          | (4,088)          |
| Cash flow hedge reserve  | 301              | 355              | 114              |
| Equity-based compensation reserve  | 361              | 433              | 556              |
| General reserve for credit losses  | 710              | 716              | 751              |
| Available for sale investments reserve                                     | 86               | 47               | 56               |
| <b>Total reserves</b>  | <b>(1,438)</b>   | <b>(773)</b>     | <b>(1,491)</b>   |
|  |                  |                  |                  |
|  | Half Year to     |                  |                  |
|  | Mar 12<br>\$m    | Sep 11<br>\$m    | Mar 11<br>\$m    |
| <b>Movements in reserves</b>   |                  |                  |                  |
| <b>General reserve</b>   |                  |                  |                  |
| Balance at beginning of period   | 1,267            | 1,052            | 1,166            |
| Transfer (to)/from retained profits  | (314)            | 215              | (114)            |
| <b>Balance at end of period</b>  | <b>953</b>       | <b>1,267</b>     | <b>1,052</b>     |
|  |                  |                  |                  |
| <b>Asset revaluation reserve</b>   |                  |                  |                  |
| Balance at beginning of period   | 76               | 68               | 68               |
| Revaluation of land and buildings  | -                | 11               | -                |
| Tax on revaluation adjustments   | -                | (3)              | -                |
| <b>Balance at end of period</b>  | <b>76</b>        | <b>76</b>        | <b>68</b>        |
|  |                  |                  |                  |
| <b>Foreign currency translation reserve</b>                                |                  |                  |                  |
| Balance at beginning of period   | (3,667)          | (4,088)          | (3,494)          |
| Currency translation adjustments   | (258)            | 421              | (592)            |
| Reclassification to the income statement on disposal of foreign operations | -                | -                | (2)              |
| <b>Balance at end of period</b>  | <b>(3,925)</b>   | <b>(3,667)</b>   | <b>(4,088)</b>   |
|  |                  |                  |                  |
| <b>Cash flow hedge reserve</b>   |                  |                  |                  |
| Balance at beginning of period   | 355              | 114              | 182              |
| (Losses)/gains on cash flow hedging instruments                            | (78)             | 319              | (98)             |
| Losses/(gains) transferred to the income statement                         | 5                | (4)              | 4                |
| Tax on cash flow hedging instruments                                       | 19               | (74)             | 26               |
| <b>Balance at end of period</b>  | <b>301</b>       | <b>355</b>       | <b>114</b>       |
|  |                  |                  |                  |
| <b>Equity-based compensation reserve</b>                                   |                  |                  |                  |
| Balance at beginning of period   | 433              | 556              | 668              |
| Equity-based compensation  | 116              | 49               | 40               |
| Transfer to contributed equity - issued shares                             | (190)            | (33)             | (147)            |
| Transfer to contributed equity - purchased shares                          | -                | (2)              | (3)              |
| Transfer of shares, options and rights lapsed to retained profits          | -                | (136)            | -                |
| Tax on equity-based compensation   | 2                | (1)              | (2)              |
| <b>Balance at end of period</b>  | <b>361</b>       | <b>433</b>       | <b>556</b>       |



|  | Half Year to  |               |               |
|--|---------------|---------------|---------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| <b>General reserve for credit losses</b> |               |               |               |
| Balance at beginning of period           | 716           | 751           | 698           |
| Transfer (to)/from retained profits      | (6)           | (35)          | 53            |
| <b>Balance at end of period</b>          | <b>710</b>    | <b>716</b>    | <b>751</b>    |

|   |           |           |           |
|---|-----------|-----------|-----------|
| <b>Available for sale investments reserve</b>       |           |           |           |
| Balance at beginning of period                      | 47        | 56        | 73        |
| Revaluation gains/(losses)                          | 71        | (10)      | (26)      |
| Gains from sale transferred to the income statement | (15)      | (11)      | (9)       |
| Impairment transferred to the income statement      | -         | -         | 10        |
| Tax on available for sale investments reserve       | (17)      | 12        | 8         |
| <b>Balance at end of period</b>                     | <b>86</b> | <b>47</b> | <b>56</b> |

|  | Half Year to  |               |               |
|--|---------------|---------------|---------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| <b>Reconciliation of movement in retained profits</b>                                |               |               |               |
| Balance at beginning of period   | 17,667        | 16,931        | 16,028        |
| Actuarial (losses)/gains on defined benefit superannuation plans                     | (205)         | (145)         | 225           |
| Tax on items taken directly to/(from) equity   | 39            | 30            | (69)          |
| Net profit attributable to owners of the Company                                     | 2,052         | 2,791         | 2,428         |
| Transfer from/(to) general reserve for credit losses                                 | 6             | 35            | (53)          |
| Transfer from/(to) general reserves  | 314           | (215)         | 114           |
| Transfer of shares, options and rights lapsed from equity-based compensation reserve | -             | 136           | -             |
| Dividends paid   | (1,903)       | (1,785)       | (1,628)       |
| Distributions on other equity instruments  | (105)         | (111)         | (114)         |
| <b>Balance at end of period</b>  | <b>17,865</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 (used in)/provided by operating activities

|  | Half Year to  |               |                |
|--|---------------|---------------|----------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m  |
| <b>Net profit attributable to owners of the Company</b>                        | <b>2,052</b>  | <b>2,791</b>  | <b>2,428</b>   |
| Add/(deduct) non-cash items in the income statement:                           |               |               |                |
| Decrease/(increase) in interest receivable                                     | 191           | 225           | (447)          |
| (Decrease)/increase in interest payable  | (330)         | (51)          | 342            |
| Decrease in unearned income and deferred net fee income                        | (291)         | (31)          | (176)          |
| Fair value movements in assets, liabilities and derivatives held at fair value | (544)         | 269           | 1,439          |
| (Decrease)/increase in personnel provisions                                    | (316)         | 203           | (166)          |
| (Decrease)/increase in other operating provisions                              | (40)          | 206           | (101)          |
| Equity-based payments recognised in equity or reserves                         | 116           | 82            | 7              |
| Superannuation costs - defined benefit superannuation plans                    | 24            | 20            | 24             |
| Impairment losses on non-financial assets                                      | 350           | 16            | -              |
| Impairment losses on financial assets  | -             | -             | 10             |
| Charge to provide for bad and doubtful debts                                   | 1,321         | 827           | 923            |
| Depreciation and amortisation expense  | 342           | 298           | 326            |
| Movement in life insurance policyholder liabilities                            | 2,916         | (3,275)       | 2,445          |
| Unrealised (gain)/loss on investments relating to life insurance business      | (3,504)       | 5,715         | (2,113)        |
| Decrease/(increase) in other assets  | 1,119         | 588           | (374)          |
| Increase/(decrease) in other liabilities                                       | 356           | (429)         | 21             |
| Increase/(decrease) in income tax payable                                      | 175           | 984           | (209)          |
| Increase/(decrease) in deferred tax liabilities                                | 230           | (609)         | 81             |
| (Increase)/decrease in deferred tax assets                                     | (165)         | (2)           | 92             |
| Operating cash flow items not included in profit                               | (4,559)       | 4,158         | (7,357)        |
| Investing or financing cash flow items included in profit:                     |               |               |                |
| Gain on disposal of controlled entities, before income tax                     | -             | -             | (11)           |
| Gain on investments classified as available for sale                           | (15)          | (11)          | (9)            |
| Loss on disposal of disposal of property, plant, equipment and other assets    | -             | 14            | 2              |
| <b>Net cash (used in)/provided by operating activities</b>                     | <b>(572)</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:

|  | Half Year to  |               |               |
|--|---------------|---------------|---------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| <b>Cash and cash equivalents</b>   |               |               |               |
| <b>Assets</b>  |               |               |               |
| Cash and liquid assets   | 23,376        | 27,093        | 22,534        |
| Treasury and other eligible bills  | 42            | 159           | 773           |
| Due from other banks (excluding mandatory deposits with supervisory central banks) | 52,300        | 45,241        | 36,552        |
|  | <b>75,718</b> | <b>72,493</b> | <b>59,859</b> |
| <b>Liabilities</b>   |               |               |               |
| Due to other banks   | (41,184)      | (36,487)      | (34,628)      |
| <b>Total cash and cash equivalents</b>   | <b>34,534</b> | <b>36,006</b> | <b>25,231</b> |

**(c) Non-cash financing and investing activities**

|  | <b>Half Year to</b>   |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | <b>Mar 12<br/>\$m</b> | <b>Sep 11<br/>\$m</b> | <b>Mar 11<br/>\$m</b> |
| New share issues                       |                       |                       |                       |
| Dividend reinvestment plan             | 700                   | 729                   | 635                   |
| Bonus share plan                       | 25                    | 24                    | 22                    |
| Movement in assets under finance lease | (1)                   | 5                     | 10                    |

**(d) Acquisitions of controlled entities and business combinations**

On 1 October 2011, the Group acquired 100% of the issued share capital of Antares Capital Partners Limited (Antares), formerly known as Aviva Investors Australia Limited. Antares is an Australian investment management business and the acquisition is expected to enhance the Group's offering in Australian equities. The acquisition agreement contains a provision for contingent consideration of up to \$10 million depending on the relative position of the ASX 200 as at 1 April 2012 relative to where it was on 3 August 2011. The fair value of this contingent consideration has been assessed as \$6 million as at acquisition date and this amount was paid in April 2012.

Goodwill arose on the acquisition as the purchase consideration included a premium for the intrinsic value in the expanded distribution network and capabilities and the enhanced offering to customers. None of the goodwill is expected to be deductible for tax purposes. The accounting for the acquisition has been provisionally determined as at 31 March 2012 and will be finalised prior to 30 September 2012.

Since the acquisition date, Antares has not contributed a material amount to the net operating income and the statutory net profit of the Group.

Details of the acquisitions were as follows:

|  | <b>Half Year to</b>   |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | <b>Mar 12<br/>\$m</b> | <b>Sep 11<br/>\$m</b> | <b>Mar 11<br/>\$m</b> |
| <b>Consideration transferred</b>       |                       |                       |                       |
| Cash paid                              | 50                    | -                     | 14                    |
| Deferred or contingent consideration   | 6                     | (1)                   | 13                    |
| <b>Total consideration transferred</b> | <b>56</b>             | <b>(1)</b>            | <b>27</b>             |

|  | <b>Half Year to</b>   |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | <b>Mar 12<br/>\$m</b> | <b>Sep 11<br/>\$m</b> | <b>Mar 11<br/>\$m</b> |
| <b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>  |                       |                       |                       |
| Cash and liquid assets   | 14                    | -                     | 8                     |
| Other intangible assets  | -                     | 9                     | -                     |
| Deferred tax assets  | 6                     | -                     | -                     |
| Other assets   | 6                     | -                     | 2                     |
| Provisions   | (18)                  | -                     | (1)                   |
| Deferred tax liabilities   | -                     | (3)                   | -                     |
| Other liabilities  | (2)                   | -                     | -                     |
| Net identifiable assets and liabilities  | 6                     | 6                     | 9                     |
| Less: Fair value of equity interest in the acquiree held before the consideration date included in other assets <sup>(1)</sup> | -                     | -                     | (11)                  |
| Goodwill on acquisition  | 50                    | (7)                   | 29                    |
| Total purchase consideration   | 56                    | (1)                   | 27                    |
| Less: Deferred or contingent consideration   | (6)                   | 1                     | (13)                  |
| Less: Cash and cash equivalents acquired   |                       |                       |                       |
| Cash and liquid assets   | (14)                  | -                     | (8)                   |
| <b>Net cash outflow</b>  | <b>36</b>             | <b>-</b>              | <b>6</b>              |

<sup>(1)</sup> There was nil gain or loss recognised as a result of re-measuring to fair value of the equity interest in the acquiree held before the business combination.

**(e) Loss of control of controlled entities**

|  | Half year to  |               |               |
|--|---------------|---------------|---------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| <b>Loss of control of controlled entities</b>                      |               |               |               |
| Net assets over which control was lost                             | -             | -             | -             |
| Gain on disposal   | -             | -             | 11            |
| Cash consideration received  | -             | -             | 11            |
| Less: Cash and cash equivalents disposed                           | -             | -             | -             |
| <b>Net cash inflow from loss of control of controlled entities</b> | -             | -             | 11            |

**(f) Reconciliation of goodwill**

The following is a reconciliation of the carrying amount of goodwill:

|  | Half year to  |               |               |
|--|---------------|---------------|---------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| <b>Movements in goodwill</b>   |               |               |               |
| Balance at beginning of period   | 5,567         | 5,533         | 5,546         |
| Additions from the acquisition of controlled entities and business combinations <sup>(1)</sup> | 50            | (7)           | 33            |
| Impairment losses recognised on UK Banking   | (295)         | -             | -             |
| Foreign currency translation adjustments   | (43)          | 41            | (46)          |
| <b>Balance at end of period</b>  | <b>5,279</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 nil (September 2011 nil, March 2011 \$4 million).

**(g) Investments in associates and joint ventures**

The Group holds no material interests in associates or joint venture entities as at 31 March 2012.

**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 actions**

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). Maurice Blackburn Lawyers 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 16 December 2011, Maurice Blackburn Lawyers commenced a class action proceeding against the Group in relation to the payment of exception fees, along with similar proceedings against several other financial institutions. The quantum of the claim against the Group has not yet been identified in the proceeding. The proceeding is being vigorously defended.

**(iii) Contingent liability - United Kingdom Financial Services Compensation Scheme**

The United Kingdom (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.

A provision of £169 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**

The Group announced the outcome of the strategic review of UK Banking on 30 April 2012. The main outcomes of the review are to:

- Simplify the business model to focus on retail operations and SME business lending in Scotland and Northern England.
- Improve the UK Banking balance sheet structure by transferring the vast majority of its commercial real estate (CRE) assets to NAB in the first half of the 2013 financial year (as at 31 March 2012 the portfolio to be transferred has an outstanding balance before provisions of approximately £6.2 billion).
- Place the transferred portfolio into run-off to be managed separately.

Restructuring costs totalling £195 million (\$300 million) will be incurred relating to redundancy, software impairment, lease break fees and other costs, of which £36 million (\$54 million) has been recognised in the Income Statement as at 31 March 2012. An estimated £139 million (\$214 million) will be incurred in the half year ending 30 September 2012, with the remainder being incurred by the end of the 2015 financial year.

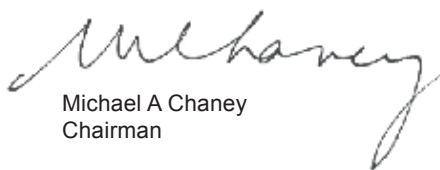
The implementation of the UK Banking restructure remains subject to final prudential regulatory approvals.

## Directors' Declaration

The directors of National Australia Bank Limited declare that, in the directors' opinion:

- a) as at the date of this declaration, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- b) the financial statements and the notes, as set out on pages 82 to 109, are in accordance with the *Corporations Act 2001* (Cth), including:
  - i) section 304, which requires that the half-year financial report comply with Accounting Standards made by the Australian Accounting Standards Board for the purposes of the *Corporations Act 2001* (Cth) and any further requirements in the Corporations Regulations 2001; and
  - ii) section 305, which requires that the financial statements and notes give a true and fair view of the financial position of the Group as at 31 March 2012, and of the performance of the Group for the six months ended 31 March 2012.

Dated this 10th day of May, 2012 and signed in accordance with a resolution of the directors.



Michael A Chaney  
Chairman



Cameron Clyne  
Group Chief Executive Officer

To the members of National Australia Bank Limited

## Report on the Half Year Financial Report

We have reviewed the accompanying half year financial report of National Australia Bank Limited (the "Company"), which comprises the consolidated balance sheet as at 31 March 2012, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half year ended on that date, other explanatory notes, and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled (the "Group") at the half year end or from time to time during the half year.

### Directors' Responsibility for the Half Year Financial Report

The directors of the Company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 March 2012 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of National Australia Bank Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.



## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of National Australia Bank Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Group's financial position as at 31 March 2012 and of its performance for the half year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



AJ (Tony) Johnson  
Partner  
Melbourne

10 May 2012

**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 30 September 2011 is provided, with further detail available in the 2011 Full 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 SGA division.

|  | Group facilities |  |                       |                                  | SPE  |   |                                     |
|--|------------------|--|-----------------------|----------------------------------|--|---|-------------------------------------|
|  | Limit<br>\$m     | Drawn &<br>available <sup>(1)</sup><br>\$m | Drawn-<br>down<br>\$m | Provisions <sup>(2)</sup><br>\$m | Securities<br>on issue <sup>(3)</sup><br>\$m | Total<br>asset<br>value <sup>(4)</sup><br>\$m | Fair<br>value <sup>(5)</sup><br>\$m |
| <b>Table 1</b>   |                  |  |                       |                                  |  |   |                                     |
| <b>As at 31 March 2012</b>                               |                  |  |                       |                                  |  |   |                                     |
| SPE other purchased assets:                              |                  |  |                       |                                  |  |   |                                     |
| Infrastructure (credit wrapped bonds)                    | 150              | 150  | 150                   | -                                | -  | 150   | 148                                 |
| Leveraged loans (CLOs)                                   | 1,317            | 1,317                                      | 1,317                 | -                                | -  | 1,317   | 1,224                               |
| Commercial property (CMBS)                               | 513              | 513  | 513                   | -                                | -  | 513   | 446                                 |
| Corporates (SCDO) <sup>(6)</sup>                         | 540              | 540  | 540                   | -                                | -  | 540   | 540                                 |
| Total SPE other purchased assets                         | 2,520            | 2,520                                      | 2,520                 | -                                | -  | 2,520   | 2,358                               |
| NAB client originated assets:                            |                  |  |                       |                                  |  |   |                                     |
| Auto / equipment   | 101              | 94   | 94                    | (4)                              | -  | 94  | 90                                  |
| Credit wrapped bonds                                     | 566              | 501  | 501                   | -                                | -  | 501   | 442                                 |
| Prime residential mortgages                              | 2,678            | 1,969                                      | 969                   | -                                | 2,657  | 3,626   | 3,626                               |
| Non-conforming residential mortgages                     | 532              | 294  | 294                   | -                                | 5  | 299   | 288                                 |
| Sub-prime residential mortgages                          | 79               | 79   | 79                    | -                                | -  | 79  | 69                                  |
| Commercial property (CMBS)                               | 1                | 1  | 1                     | -                                | 28   | 29  | 29                                  |
| Credit wrapped ABS                                       | 512              | 512  | 512                   | (86)                             | -  | 512   | 285                                 |
| Other <sup>(7)</sup>                                     | 581              | 311  | 311                   | -                                | -  | 311   | 299                                 |
| Total NAB client originated assets                       | 5,050            | 3,761                                      | 2,761                 | (90)                             | 2,690  | 5,451   | 5,128                               |
| Represented by:  |                  |  |                       |                                  |  |   |                                     |
| NAB sponsored SPEs                                       | 2,392            | 2,066                                      | 2,066                 | -                                | 718  | 2,784   | 2,465                               |
| Non-NAB sponsored SPEs                                   | 2,658            | 1,695                                      | 695                   | -                                | 1,972  | 2,667   | 2,663                               |
| Total NAB client originated assets                       | 5,050            | 3,761                                      | 2,761                 | (3)                              | 2,690  | 5,451   | 5,128                               |
| <b>Total standby liquidity facilities <sup>(8)</sup></b> | <b>7,570</b>     | <b>6,281</b>                               | <b>5,281</b>          | <b>(93)</b>                      | <b>2,690</b>                                 | <b>7,971</b>                                  | <b>7,486</b>                        |

| As at 30 September 2011                   | Group facilities |  |                       |                                  | SPE  |   |                                     |
|---|------------------|--|-----------------------|----------------------------------|--|---|-------------------------------------|
|   | Limit<br>\$m     | Drawn &<br>available <sup>(1)</sup><br>\$m | Drawn-<br>down<br>\$m | Provisions <sup>(2)</sup><br>\$m | Securities<br>on issue <sup>(3)</sup><br>\$m | Total<br>asset<br>value <sup>(4)</sup><br>\$m | Fair<br>value <sup>(5)</sup><br>\$m |
| Total SPE purchased ABS CDOs              | 223              | 223  | 223                   | (107)                            | -  | 223   | 60                                  |
| Total SPE other purchased assets          | 3,439            | 3,439                                      | 3,439                 | -                                | -  | 3,439   | 2,941                               |
| Total NAB client originated assets        | 6,210            | 4,697                                      | 3,507                 | (97)                             | 2,286  | 5,793   | 5,403                               |
| Represented by:                           |                  |  |                       |                                  |  |   |                                     |
| 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</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>                        |

<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").

<sup>(3)</sup> Securities on issue exclude amounts drawn under the facilities and include ABCP issued of \$1,000 million (NAB does not hold any of the ABCP on issue) and MTN of \$1,690 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 31 March 2012 and 30 September 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> The limit, drawn and available, drawn-down amounts and asset value represent the two remaining (out of six original) underlying asset exposures which are entitled to recovery under the risk mitigation strategy (refer "Protection purchased to hedge exposure to SPE other purchased assets"). SGA has removed the economic risk associated with the six sold protection SCDO derivative exposures.

<sup>(7)</sup> Other exposures includes trade receivables and other asset backed securities.

<sup>(8)</sup> The movement in drawn and available from 30 September 2011 to 31 March 2012 is comprised of a net \$1.9 billion reduction for repayments and terminations offset by new facilities and \$0.2 billion reduction 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<br>Divisional distribution <sup>(1)</sup>       | Group facilities |                             |                       |                                  | SPE                           |                                |                      |
|---|------------------|-----------------------------|-----------------------|----------------------------------|-------------------------------|--------------------------------|----------------------|
|   | Limit<br>\$m     | Drawn &<br>available<br>\$m | Drawn-<br>down<br>\$m | Provisions <sup>(2)</sup><br>\$m | Securities<br>on issue<br>\$m | Total<br>asset<br>value<br>\$m | Fair<br>value<br>\$m |
| <b>As at 31 March 2012</b>                              |                  |                             |                       |                                  |                               |                                |                      |
| <b>Specialised Group Assets managed:</b>                |                  |                             |                       |                                  |                               |                                |                      |
| Leveraged loans (CLOs)                                  | 1,317            | 1,317                       | 1,317                 | -                                | -                             | 1,317                          | 1,224                |
| Commercial property (CMBS)                              | 513              | 513                         | 513                   | -                                | -                             | 513                            | 446                  |
| Corporates (SCDO)                                       | 540              | 540                         | 540                   | -                                | -                             | 540                            | 540                  |
| Infrastructure (credit wrapped bonds)                   | 150              | 150                         | 150                   | -                                | -                             | 150                            | 148                  |
| Credit wrapped bonds                                    | 566              | 501                         | 501                   | -                                | -                             | 501                            | 442                  |
| Credit wrapped ABS                                      | 512              | 512                         | 512                   | (86)                             | -                             | 512                            | 285                  |
| Non-conforming residential mortgages                    | 100              | 100                         | 100                   | -                                | -                             | 100                            | 89                   |
| Sub-prime residential mortgages                         | 79               | 79                          | 79                    | -                                | -                             | 79                             | 69                   |
| Other <sup>(4)</sup>                                    | 34               | 34                          | 34                    | -                                | -                             | 34                             | 22                   |
| <b>Total Specialised Group Assets <sup>(2)(3)</sup></b> | <b>3,811</b>     | <b>3,746</b>                | <b>3,746</b>          | <b>(89)</b>                      | -                             | <b>3,746</b>                   | <b>3,265</b>         |
| <b>Wholesale Banking managed:</b>                       |                  |                             |                       |                                  |                               |                                |                      |
| Auto / equipment  | 101              | 94                          | 94                    | (4)                              | -                             | 94                             | 90                   |
| Commercial property (CMBS)                              | 1                | 1                           | 1                     | -                                | 28                            | 29                             | 29                   |
| Prime residential mortgages                             | 2,678            | 1,969                       | 969                   | -                                | 2,657                         | 3,626                          | 3,626                |
| Non-conforming residential mortgages                    | 432              | 194                         | 194                   | -                                | 5                             | 199                            | 199                  |
| Other <sup>(4)</sup>                                    | 547              | 277                         | 277                   | -                                | -                             | 277                            | 277                  |
| <b>Total Wholesale Banking <sup>(5)</sup></b>           | <b>3,759</b>     | <b>2,535</b>                | <b>1,535</b>          | <b>(4)</b>                       | <b>2,690</b>                  | <b>4,225</b>                   | <b>4,221</b>         |
| <i>Represented by:</i>                                  |                  |                             |                       |                                  |                               |                                |                      |
| NAB sponsored SPEs                                      | 1,101            | 840                         | 840                   | -                                | 718                           | 1,558                          | 1,558                |
| Non-NAB sponsored SPEs                                  | 2,658            | 1,695                       | 695                   | -                                | 1,972                         | 2,667                          | 2,663                |
| <b>Total Wholesale Banking <sup>(2) (5)</sup></b>       | <b>3,759</b>     | <b>2,535</b>                | <b>1,535</b>          | <b>(4)</b>                       | <b>2,690</b>                  | <b>4,225</b>                   | <b>4,221</b>         |
| <b>Total exposure to standby liquidity facilities</b>   | <b>7,570</b>     | <b>6,281</b>                | <b>5,281</b>          | <b>(93)</b>                      | <b>2,690</b>                  | <b>7,971</b>                   | <b>7,486</b>         |

| As at 30 September 2011                               | Group facilities |                             |                       |                                  | SPE                           |                                |                      |
|---|------------------|-----------------------------|-----------------------|----------------------------------|-------------------------------|--------------------------------|----------------------|
|   | Limit<br>\$m     | Drawn &<br>available<br>\$m | Drawn-<br>down<br>\$m | Provisions <sup>(2)</sup><br>\$m | Securities<br>on issue<br>\$m | Total<br>asset<br>value<br>\$m | Fair<br>value<br>\$m |
| <b>Specialised Group Assets managed:</b>              |                  |                             |                       |                                  |                               |                                |                      |
| <i>Represented by:</i>                                |                  |                             |                       |                                  |                               |                                |                      |
| NAB sponsored SPEs                                    | 5,489            | 5,415                       | 5,415                 | -                                | -                             | 5,415                          | 4,405                |
| <b>Total Specialised Group Assets <sup>(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>                     |                  |                             |                       |                                  |                               |                                |                      |
| <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>(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>         |

<sup>(1)</sup> Management of underlying exposure i.e. the management of the exposure between Wholesale Banking and SGA.

<sup>(2)</sup> Provisions include both specific and collective provisions. Collective provisions for SGA (\$3.0 million) and Wholesale Banking (\$0.3 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 30 September 2011 to 31 March 2012 is comprised of a net \$1.6 billion reduction for repayments and terminations and \$0.1 billion reduction attributable to exchange rate movements.

<sup>(4)</sup> Other exposures include trade receivables and other asset backed securities.

<sup>(5)</sup> The movement in drawn and available from 30 September 2011 to 31 March 2012 is comprised of an overall reduction of \$0.4 billion due to repayments and terminations offset by new facilities.

Table 3 shows the total drawn and available securitisation funding and standby liquidity facilities of the Group to securitisation SPEs by geography.

| <b>Table 3<br/>Geographic distribution <sup>(1)</sup></b> | <b>Australia &amp;<br/>New<br/>Zealand<br/>\$m</b> | <b>Europe<br/>\$m</b> | <b>North<br/>America<br/>\$m</b> | <b>Asia &amp;<br/>other<br/>\$m</b> | <b>Total<br/>drawn<br/>&amp; available<br/>\$m</b> | <b>Weighted<br/>average<br/>term to<br/>maturity <sup>(2)</sup><br/>yrs</b> |
|---|--|-----------------------|----------------------------------|-------------------------------------|--|---|
| <b>As at 31 March 2012</b>                                |  |                       |                                  |                                     |  |   |
| SPE other purchased assets:                               |  |                       |                                  |                                     |  |   |
| Infrastructure (credit wrapped bonds) <sup>(3)</sup>      | 150  | -                     | -                                | -                                   | 150  | 0.6   |
| Leveraged loans (CLOs) <sup>(4)</sup>                     | -  | 656                   | 661                              | -                                   | 1,317  | 4.4   |
| Commercial property (CMBS) <sup>(5)</sup>                 | -  | 465                   | 48                               | -                                   | 513  | 2.3   |
| Corporates (SCDO) <sup>(6)</sup>                          | 11   | 172                   | 336                              | 21                                  | 540  | 3.8   |
| Total SPE other purchased assets                          | 161  | 1,293                 | 1,045                            | 21                                  | 2,520  | 3.6   |
| NAB client originated assets:                             |  |                       |                                  |                                     |  |   |
| Auto / equipment  | 94   | -                     | -                                | -                                   | 94   | 0.6   |
| Credit wrapped bonds <sup>(3)</sup>                       | 501  | -                     | -                                | -                                   | 501  | 8.0   |
| Prime residential mortgages                               | 1,969  | -                     | -                                | -                                   | 1,969  | 24.5  |
| Non-conforming residential mortgages                      | 194  | 100                   | -                                | -                                   | 294  | 22.8  |
| Sub-prime residential mortgages                           | -  | -                     | 79                               | -                                   | 79   | 23.7  |
| Commercial property (CMBS)                                | 1  | -                     | -                                | -                                   | 1  | 0.1   |
| Credit wrapped ABS <sup>(3)</sup>                         | -  | -                     | 502                              | 10                                  | 512  | 24.1  |
| Other   | 277  | -                     | 34                               | -                                   | 311  | 2.9   |
| Total NAB client originated assets                        | 3,036  | 100                   | 615                              | 10                                  | 3,761  | 19.7  |
| <b>Total exposure to standby liquidity facilities</b>     | <b>3,197</b>                                       | <b>1,393</b>          | <b>1,660</b>                     | <b>31</b>                           | <b>6,281</b>                                       | <b>13.3</b>   |
| <b>Managed within:</b>                                    |  |                       |                                  |                                     |  |   |
| Wholesale Banking   | 2,535  | -                     | -                                | -                                   | 2,535  | 21.9  |
| Specialised Group Assets                                  | 662  | 1,393                 | 1,660                            | 31                                  | 3,746  | 7.9   |
| <b>Total exposure to standby liquidity facilities</b>     | <b>3,197</b>                                       | <b>1,393</b>          | <b>1,660</b>                     | <b>31</b>                           | <b>6,281</b>                                       | <b>13.3</b>   |

| <b>As at 30 September 2011</b>                        | <b>Australia &amp;<br/>New<br/>Zealand<br/>\$m</b> | <b>Europe<br/>\$m</b> | <b>North<br/>America<br/>\$m</b> | <b>Asia &amp;<br/>other<br/>\$m</b> | <b>Total<br/>drawn<br/>&amp; available<br/>\$m</b> | <b>Weighted<br/>average<br/>term to<br/>maturity<br/>yrs</b> |
|---|--|-----------------------|----------------------------------|-------------------------------------|--|--|
| Total SPE purchased ABS CDOs                          | -  | -                     | 223                              | -                                   | 223  | 26.2   |
| Total SPE other purchased assets                      | 198  | 1,754                 | 1,422                            | 65                                  | 3,439  | 3.9  |
| 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>  |

<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 23-38%. Reported defaults to date range from 0-6% 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 53-82%. 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.

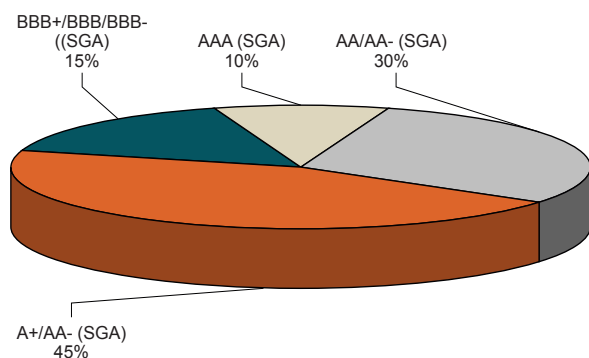
<sup>(6)</sup> The limit, drawn and available, drawn-down amounts and asset value represent the two remaining (out of six original) underlying asset exposures which are entitled to recovery under the risk mitigation strategy (refer "Protection purchased to hedge exposure to SPE other purchased assets"). SGA has removed the economic risk associated with the six sold protection SCDO derivative exposures.

## Further analysis of facilities

## Rating analysis

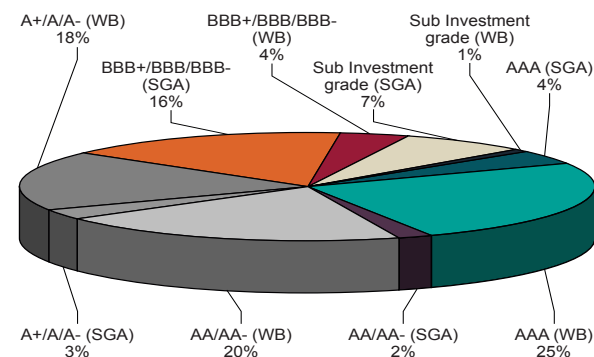
The last remaining ABS CDO was sold during the current year.

**Current S&P equivalent ratings - \$2.5 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 - \$3.8 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

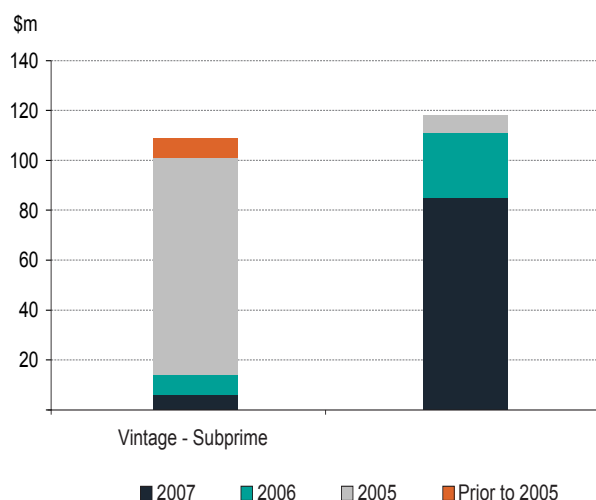
Table 4 shows asset quality and past due analysis of underlying collateral of NAB client originated assets.

| Table 4<br>As at 31 March 2012                      | Weighted<br>average<br>current LVR<br>% | Mortgage<br>insurance<br>coverage<br>% | Days past due |            |          |
|---|---|--|---------------|------------|----------|
|   |   |  | 31-60<br>%    | 61-90<br>% | >90<br>% |
| Specialised Group Assets managed:                   |   |  |               |            |          |
| Non-conforming residential mortgages <sup>(1)</sup> | 82.54%                                  | -                                      | 4.63%         | 2.33%      | 15.19%   |
| Sub-prime residential mortgages <sup>(1)</sup>      | 80.39%                                  | 52.37%                                 | 3.55%         | 1.24%      | 6.57%    |
| Wholesale Banking managed:                          |   |  |               |            |          |
| Auto / equipment <sup>(2)</sup>                     | n/a                                     | n/a                                    | 0.75%         | 0.53%      | 0.95%    |
| Prime residential mortgages                         | 68.72%                                  | 89.84%                                 | 1.19%         | 0.36%      | 1.92%    |
| Non-conforming residential mortgages                | 62.00%                                  | 2.00%                                  | -             | 1.00%      | 1.00%    |

<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 29.41% of the current principal balance. Foreclosures and repossessed properties for non-conforming residential mortgages represent 1.69% of the current principal balance which together with >90 days represents 16.88% of the current principal balance. The above percentages excludes sub-prime residential mortgage exposures that exists within Credit wrapped ABS.

<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 \$109 million as at 31 March 2012. This amount represents \$79 million of sub-prime residential mortgage backed securities and \$30 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 \$118 million as at 31 March 2012, fully represented 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)

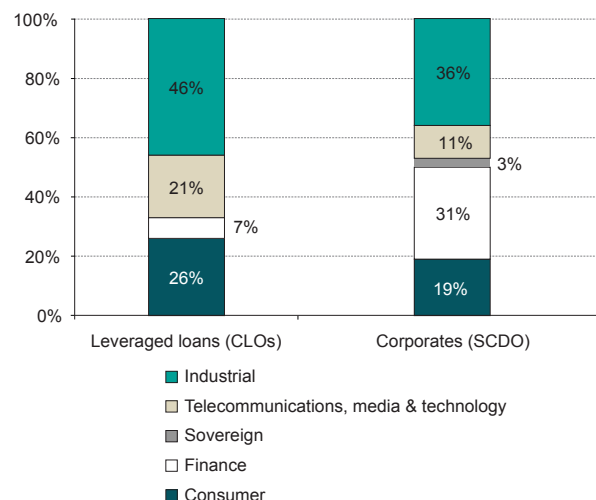
Table 5 summarises the indirect exposures to third party transactions supported by monoline financial guarantees. In the event of monoline failure, the benefit of the financial guarantee falls away resulting in exposure to the underlying asset.

| Table 5  | Exposures to monoline insurers |               |
|--|--------------------------------|---------------|
|  | Mar 12<br>\$m                  | Sep 11<br>\$m |
| <b>Specialised Group Assets managed:</b>             |                                |               |
| Infrastructure (credit wrapped bonds) <sup>(1)</sup> | 150                            | 150           |
| Credit wrapped bonds <sup>(1)</sup>                  | 566                            | 564           |
| Credit wrapped ABS <sup>(2)</sup>                    | 366                            | 570           |
| Other  | 34                             | 36            |
| <b>Total Specialised Group Assets <sup>(3)</sup></b> | <b>1,116</b>                   | <b>1,320</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.

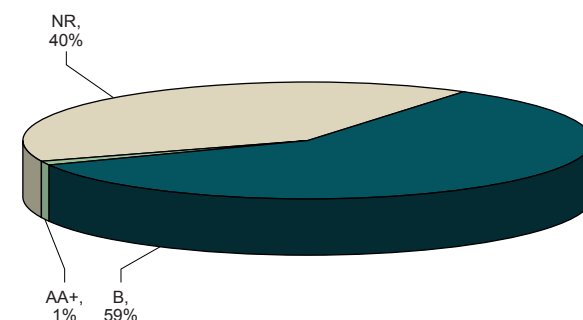
<sup>(2)</sup> Credit wrapped ABS benefit from a monoline financial guarantee including both portfolio and security level policies.

<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 \$1.3 billion.

<sup>(2)</sup> Corporates (SCDO) total \$0.5 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 BBB+ and D.

## 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.

As announced on 22 March 2012, the Group entered into transactions to remove the economic risk on the two remaining SCDO assets.

To date the Group has recovered losses of \$747 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 these write downs. The recovery under the hedging strategy was recognised within Other operating income in the Income Statement.

### 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 (\$702 million), credit enhancements (\$218 million), investments in securitisation debt securities (\$4,074 million), derivatives (\$236 million), lines of credit (\$66 million) and redraw facilities (\$2 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 31 March 2012</b>                                    | <b>\$m</b>   | <b>\$m</b>        |
| <b>Wholesale Banking managed:</b>                             |              |                   |
| Prime residential mortgages                                   | 4,120        | 3,786             |
| Non-conforming residential mortgages                          | 1,426        | 1,242             |
| Auto / equipment  | 428          | 304               |
| Other   | 150          | 137               |
| Total warehouse facilities - Wholesale Banking <sup>(1)</sup> | 6,124        | 5,469             |
| <b>Total warehouse facilities</b>                             | <b>6,124</b> | <b>5,469</b>      |

| <b>As at 30 September 2011</b>    | <b>Limit</b> | <b>Drawn-down</b> |
|-----------------------------------|--------------|-------------------|
|                                   | <b>\$m</b>   | <b>\$m</b>        |
| <b>Total warehouse facilities</b> | <b>5,719</b> | <b>4,656</b>      |

<sup>(1)</sup> Of the drawn-down amount \$1.3 billion (September 2011 \$1.2 billion) is via consolidated NAB-sponsored SPEs resulting in the recognition of the underlying assets on the balance sheet. There are no warehouse facilities in SGA.

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 31 March 2012</b>                 | <b>%</b>                            | <b>%</b>                           | <b>%</b>             | <b>%</b>     | <b>%</b>       |
| Wholesale Banking managed:                 |                                     |                                    |                      |              |                |
| Auto / equipment                           | n/a                                 | n/a                                | 1.00%                | -            | 1.51%          |
| Prime residential mortgages <sup>(1)</sup> | 69.28%                              | 97.89%                             | 0.19%                | 0.97%        | 1.57%          |
| Non-conforming residential mortgages       | 72.69%                              | -                                  | 1.22%                | 0.77%        | 1.58%          |
| Other                                      | n/a                                 | n/a                                | -                    | -            | 1.00%          |

<sup>(1)</sup> Includes the most senior position in a transaction, structured to invest in fully insured non-conforming 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. Following a change in treatment, the risk-weighted asset (RWA) percentages applied to the Credit wrapped ABS exposure have been amended resulting in a reduction of RWAs of \$3.2 billion and an increase in deductions of \$229 million. The sale of the remaining ABS CDO in March 2012 reduced deductions by \$116 million. The termination of the remaining two sold protection SCDO derivative exposures reduced RWAs by \$1.5 billion.

|   | Mar 12                         |              | Sep 11                         |              |
|---|--------------------------------|--------------|--------------------------------|--------------|
|   | Exposure <sup>(1)</sup><br>\$m | RWA<br>\$m   | Exposure <sup>(1)</sup><br>\$m | RWA<br>\$m   |
| <b>Table 8</b>                                |                                |              |                                |              |
| <b>Specialised Group Assets managed:</b>      |                                |              |                                |              |
| > 10% ≤ 25%                                   | 125                            | 18           | 895                            | 167          |
| > 25% ≤ 35%                                   | 48                             | 17           | 130                            | 46           |
| > 35% ≤ 50%                                   | 1,193                          | 509          | 901                            | 452          |
| > 50% ≤ 75%                                   | 218                            | 152          | 196                            | 139          |
| > 75% ≤ 100%                                  | 1,497                          | 1,497        | 1,531                          | 1,531        |
| >100% ≤ 650%                                  | 93                             | 432          | 1,170                          | 5,206        |
| Deductions                                    | 230                            | -            | 116                            | -            |
| <b>Total Specialised Group Assets</b>         | <b>3,404</b>                   | <b>2,625</b> | <b>4,939</b>                   | <b>7,541</b> |
| <b>Wholesale Banking managed:</b>             |                                |              |                                |              |
| ≤ 10%   | 7,921                          | 556          | 8,027                          | 563          |
| > 10% ≤ 25%                                   | 5,174                          | 746          | 4,906                          | 695          |
| > 25% ≤ 35%                                   | 209                            | 64           | 42                             | 13           |
| > 35% ≤ 50%                                   | 14                             | 7            | 14                             | 7            |
| > 50% ≤ 75%                                   | 210                            | 155          | 215                            | 159          |
| > 75% ≤ 100%                                  | 27                             | 27           | 16                             | 16           |
| >100% ≤ 650%                                  | 30                             | 134          | 20                             | 55           |
| Deductions                                    | 2                              | -            | 24                             | -            |
| <b>Total Wholesale Banking <sup>(2)</sup></b> | <b>13,587</b>                  | <b>1,689</b> | <b>13,264</b>                  | <b>1,508</b> |
| <b>Total securitisation exposure</b>          | <b>16,991</b>                  | <b>4,314</b> | <b>18,203</b>                  | <b>9,049</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 \$143 million (September 2011 \$74 million). The RWAs for these exposures are \$21 million (September 2011 \$25 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.

|  | Mar 12<br>\$m | Sep 11<br>\$m |
|--|---------------|---------------|
| <b>Table 9</b>                                 |               |               |
| Total group facilities (Table 1)               | 7,570         | 9,872         |
| Total warehouse facilities (Table 6)           | 6,124         | 5,719         |
| Total other exposures <sup>(1)</sup>           | 5,298         | 4,669         |
| <b>Less:</b>                                   |               |               |
| Other banking book exposures <sup>(2)</sup>    | (1,371)       | (1,256)       |
| Specific provisions (Table 1) <sup>(3)</sup>   | (90)          | (111)         |
| SCDO notes protected by hedging <sup>(4)</sup> | (540)         | (690)         |
| Total securitisation exposures (APS 120)       | 16,991        | 18,203        |
| Other securities <sup>(5)</sup>                | 30            | 34            |
| <b>Total securitisation exposures</b>          | <b>17,021</b> | <b>18,237</b> |

<sup>(1)</sup> The other exposures includes asset liquidity facilities \$702 million (September 2011 \$699 million), redraw facilities \$2 million (September 2011 \$17 million), derivative transactions \$236 million (September 2011 \$133 million), credit enhancements \$218 million (September 2011 \$247 million), lines of credit \$66 million (September 2011 \$nil) and investment in securitisation debt securities \$4,074 million (September 2011 \$3,573 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 auto/equipment and credit wrapped ABS asset classes as disclosed in Table 1. Securitisation exposures are disclosed net of these provisions in the above table.

<sup>(4)</sup> This represents the two remaining (out of six original) underlying asset exposures which are entitled to recovery under the risk mitigation strategy.

<sup>(5)</sup> Includes exposure to securitisation SPEs which are not subject to APS 120 but rather APS 113 and APS 116 for the purposes of calculating the associated RWA. These exposures are required to be disclosed under APS 330 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 interest cash flows for securitisation structures).
- Redemption provider (a provider of liquidity to cover mismatch in principal cash flows 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:

| <b>Table 10</b>               | <b>Mar 12<br/>\$m</b> | <b>Sep 11<br/>\$m</b> |
|-------------------------------|-----------------------|-----------------------|
| 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 consolidated 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.

| <b>Table 11</b>                     | <b>Mar 12<br/>\$m</b> | <b>Sep 11<br/>\$m</b> |
|-------------------------------------|-----------------------|-----------------------|
| Consolidated SPEs                   |                       |                       |
| <b>Group exposure excluding SGA</b> |                       |                       |
| Investments in debt securities      | 301                   | 684                   |
| Investments in property trusts      | 185                   | 128                   |
| Funding transactions                | -                     | (1,914)               |
| Lease finance                       | 335                   | 66                    |
| <b>SGA Exposure</b>                 |                       |                       |
| Lease finance                       | 777                   | 831                   |

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  | Half Year to |             |             | Mar 12 v<br>Sep 11 | Mar 12 v<br>Mar 11 |
|--|--------------|-------------|-------------|--------------------|--------------------|
|  | Mar 12<br>%  | Sep 11<br>% | Mar 11<br>% |                    |                    |
| Net interest spread <sup>(1)</sup>                     | 1.74         | 1.82        | 1.79        | (8 bps)            | (5 bps)            |
| Benefit of net free liabilities, provisions and equity | 0.42         | 0.45        | 0.43        | (3 bps)            | (1 bps)            |
| Net interest margin - statutory basis <sup>(2)</sup>   | 2.16         | 2.27        | 2.22        | (11 bps)           | (6 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 | Half Year to   |              |                |              | Movement<br>in mix % of<br>Group AIEA |
|---------------------------------|----------------|--------------|----------------|--------------|---------------------------------------|
|                                 | Mar 12<br>\$bn | Mix %        | Mar 11<br>\$bn | Mix %        |                                       |
| Business Banking                | 197.6          | 31.9         | 190.6          | 33.6         | (1.7)                                 |
| Personal Banking                | 143.3          | 23.2         | 123.8          | 21.8         | 1.4                                   |
| Wholesale Banking               | 184.9          | 29.9         | 153.5          | 27.1         | 2.8                                   |
| NZ Banking                      | 45.6           | 7.4          | 43.5           | 7.7          | (0.3)                                 |
| UK Banking                      | 65.3           | 10.6         | 66.2           | 11.7         | (1.1)                                 |
| Great Western Bank              | 7.0            | 1.1          | 7.1            | 1.3          | (0.2)                                 |
| Specialised Group Assets        | 8.5            | 1.4          | 11.8           | 2.1          | (0.7)                                 |
| Other <sup>(1)</sup>            | (33.3)         | (5.5)        | (29.9)         | (5.3)        | (0.2)                                 |
| <b>Group</b>                    | <b>618.9</b>   | <b>100.0</b> | <b>566.6</b>   | <b>100.0</b> | <b>-</b>                              |

| Net interest income and margins    | Half Year to  |             |               |             | NIM<br>Change  |
|------------------------------------|---------------|-------------|---------------|-------------|----------------|
|                                    | Mar 12<br>\$m | NIM %       | Mar 11<br>\$m | NIM %       |                |
| Business Banking                   | 2,530         | 2.56        | 2,446         | 2.57        | (1 bps)        |
| Personal Banking                   | 1,445         | 2.02        | 1,368         | 2.22        | (20 bps)       |
| Wholesale Banking                  | 784           | 0.85        | 522           | 0.68        | 17 bps         |
| NZ Banking                         | 549           | 2.41        | 487           | 2.24        | 17 bps         |
| UK Banking                         | 684           | 2.09        | 768           | 2.33        | (24 bps)       |
| Great Western Bank                 | 132           | 3.78        | 155           | 4.38        | (60 bps)       |
| Specialised Group Assets           | 54            | 1.27        | 65            | 1.10        | 17 bps         |
| Other <sup>(1)</sup>               | 530           | n/a         | 493           | n/a         | n/a            |
| <b>Group - cash earnings basis</b> | <b>6,708</b>  | <b>2.17</b> | <b>6,304</b>  | <b>2.23</b> | <b>(6 bps)</b> |
| NAB Wealth net interest income     | (36)          | (0.01)      | (25)          | (0.01)      | -              |
| <b>Group - statutory basis</b>     | <b>6,672</b>  | <b>2.16</b> | <b>6,279</b>  | <b>2.22</b> | <b>(6 bps)</b> |

## Half year ended March 2012 v Half year ended March 2011

| Contribution to Group Margin       | Impact of                       |                                 | Impact on<br>Group<br>NIM |
|------------------------------------|---------------------------------|---------------------------------|---------------------------|
|                                    | Change in<br>NIM <sup>(2)</sup> | Change in<br>MIX <sup>(3)</sup> |                           |
| Business Banking                   | -                               | (1 bps)                         | (1 bps)                   |
| Personal Banking                   | (4 bps)                         | -                               | (4 bps)                   |
| Wholesale Banking                  | 5 bps                           | (4 bps)                         | 1 bps                     |
| NZ Banking                         | 1 bps                           | -                               | 1 bps                     |
| UK Banking                         | (3 bps)                         | -                               | (3 bps)                   |
| Great Western Bank                 | (1 bps)                         | -                               | (1 bps)                   |
| Specialised Group Assets           | -                               | 1 bps                           | 1 bps                     |
| Other <sup>(1)</sup>               | (1 bps)                         | 1 bps                           | -                         |
| <b>Group - cash earnings basis</b> | <b>(3 bps)</b>                  | <b>(3 bps)</b>                  | <b>(6 bps)</b>            |
| NAB Wealth net interest income     | -                               | -                               | -                         |
| <b>Group - statutory basis</b>     | <b>(3 bps)</b>                  | <b>(3 bps)</b>                  | <b>(6 bps)</b>            |

<sup>(1)</sup> Includes 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 average interest earning assets.

| Average interest earning assets | Half Year to |              |              |              | Movement<br>in mix % of<br>Group AIEA |
|---------------------------------|--------------|--------------|--------------|--------------|---------------------------------------|
|                                 | Mar 12       | Mix %        | Sep 11       | Mix %        |                                       |
|                                 | \$bn         |              | \$bn         |              |                                       |
| Business Banking                | 197.6        | 31.9         | 194.0        | 32.6         | (0.7)                                 |
| Personal Banking                | 143.3        | 23.2         | 134.2        | 22.6         | 0.6                                   |
| Wholesale Banking               | 184.9        | 29.9         | 175.3        | 29.5         | 0.4                                   |
| NZ Banking                      | 45.6         | 7.4          | 44.8         | 7.5          | (0.1)                                 |
| UK Banking                      | 65.3         | 10.6         | 64.4         | 10.8         | (0.2)                                 |
| Great Western Bank              | 7.0          | 1.1          | 6.6          | 1.1          | -                                     |
| Specialised Group Assets        | 8.5          | 1.4          | 9.8          | 1.6          | (0.2)                                 |
| Other <sup>(1)</sup>            | (33.3)       | (5.5)        | (34.5)       | (5.7)        | 0.2                                   |
| <b>Group</b>                    | <b>618.9</b> | <b>100.0</b> | <b>594.6</b> | <b>100.0</b> | <b>-</b>                              |

| Net interest income and margins    | Half Year to |             |              |             | NIM<br>Change   |
|------------------------------------|--------------|-------------|--------------|-------------|-----------------|
|                                    | Mar 12       | NIM %       | Sep 11       | NIM %       |                 |
|                                    | \$m          |             | \$m          |             |                 |
| Business Banking                   | 2,530        | 2.56        | 2,587        | 2.66        | (10 bps)        |
| Personal Banking                   | 1,445        | 2.02        | 1,458        | 2.17        | (15 bps)        |
| Wholesale Banking                  | 784          | 0.85        | 708          | 0.81        | 4 bps           |
| NZ Banking                         | 549          | 2.41        | 528          | 2.35        | 6 bps           |
| UK Banking                         | 684          | 2.09        | 754          | 2.33        | (24 bps)        |
| Great Western Bank                 | 132          | 3.78        | 130          | 3.99        | (21 bps)        |
| Specialised Group Assets           | 54           | 1.27        | 58           | 1.18        | 9 bps           |
| Other <sup>(1)</sup>               | 530          | n/a         | 565          | n/a         | n/a             |
| <b>Group - cash earnings basis</b> | <b>6,708</b> | <b>2.17</b> | <b>6,788</b> | <b>2.28</b> | <b>(11 bps)</b> |
| NAB Wealth net interest income     | (36)         | (0.01)      | (33)         | (0.01)      | -               |
| <b>Group - statutory basis</b>     | <b>6,672</b> | <b>2.16</b> | <b>6,755</b> | <b>2.27</b> | <b>(11 bps)</b> |

Half year ended March 2012 v Half year ended September 2011

| Contribution to Group Margin       | Impact of                       |                                 | Impact on<br>Group<br>NIM |
|------------------------------------|---------------------------------|---------------------------------|---------------------------|
|                                    | Change in<br>NIM <sup>(2)</sup> | Change in<br>MIX <sup>(3)</sup> |                           |
| Business Banking                   | (4 bps)                         | -                               | (4 bps)                   |
| Personal Banking                   | (3 bps)                         | -                               | (3 bps)                   |
| Wholesale Banking                  | 1 bps                           | -                               | 1 bps                     |
| NZ Banking                         | -                               | -                               | -                         |
| UK Banking                         | (3 bps)                         | -                               | (3 bps)                   |
| Great Western Bank                 | -                               | -                               | -                         |
| Specialised Group Assets           | -                               | -                               | -                         |
| Other <sup>(1)</sup>               | (1 bps)                         | (1 bps)                         | (2 bps)                   |
| <b>Group - cash earnings basis</b> | <b>(10 bps)</b>                 | <b>(1 bps)</b>                  | <b>(11 bps)</b>           |
| NAB Wealth net interest income     | -                               | -                               | -                         |
| <b>Group - statutory basis</b>     | <b>(10 bps)</b>                 | <b>(1 bps)</b>                  | <b>(11 bps)</b>           |

<sup>(1)</sup> Includes NAB Wealth, Group Funding and other supporting units.

<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 average interest earning assets.

## 3. Loans and Advances by Industry and Geography

| <b>As at 31 March 2012</b>   | <b>Australia<br/>\$m</b> | <b>Europe<br/>\$m</b> | <b>New<br/>Zealand<br/>\$m</b> | <b>United<br/>States<br/>\$m</b> | <b>Asia<br/>\$m</b> | <b>Total<br/>\$m</b> |
|--|--------------------------|-----------------------|--------------------------------|----------------------------------|---------------------|----------------------|
| Government and public authorities  | 1,627                    | 57                    | 274                            | 108                              | -                   | 2,066                |
| Agriculture, forestry, fishing and mining  | 18,082                   | 2,867                 | 8,371                          | 1,192                            | 14                  | 30,526               |
| Financial, investment and insurance  | 12,331                   | 3,716                 | 575                            | 482                              | 61                  | 17,165               |
| Real estate - construction   | 1,743                    | 6,518                 | 468                            | 336                              | -                   | 9,065                |
| Manufacturing  | 8,333                    | 1,767                 | 1,686                          | 6                                | 547                 | 12,339               |
| Instalment loans to individuals and other personal lending<br>(including credit cards) | 9,530                    | 3,805                 | 1,577                          | 52                               | 5                   | 14,969               |
| Real estate - mortgage   | 213,075                  | 22,466                | 21,954                         | 540                              | 1,399               | 259,434              |
| Asset and lease financing  | 12,783                   | 2,168                 | 15                             | -                                | 8                   | 14,974               |
| Commercial property services   | 47,884                   | 4,711                 | 5,987                          | 32                               | 430                 | 59,044               |
| Other commercial and industrial  | 50,643                   | 10,086                | 4,953                          | 3,266                            | 1,877               | 70,825               |
| <b>Gross loans and advances including<br/>acceptances <sup>(1)</sup></b>               | <b>376,031</b>           | <b>58,161</b>         | <b>45,860</b>                  | <b>6,014</b>                     | <b>4,341</b>        | <b>490,407</b>       |
| Deduct:  |                          |                       |                                |                                  |                     |                      |
| Unearned income and deferred net fee income  | (1,633)                  | (316)                 | (36)                           | (12)                             | (21)                | (2,018)              |
| Provisions for doubtful debts  | (2,394)                  | (1,147)               | (265)                          | (67)                             | (12)                | (3,885)              |
| <b>Total net loans and advances including<br/>acceptances</b>                          | <b>372,004</b>           | <b>56,698</b>         | <b>45,559</b>                  | <b>5,935</b>                     | <b>4,308</b>        | <b>484,504</b>       |

| <b>As at 30 September 2011 <sup>(2)</sup></b>  | <b>Australia<br/>\$m</b> | <b>Europe<br/>\$m</b> | <b>New<br/>Zealand<br/>\$m</b> | <b>United<br/>States<br/>\$m</b> | <b>Asia<br/>\$m</b> | <b>Total<br/>\$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<br>(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<br/>acceptances <sup>(1)</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<br/>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<br/>\$m</b> | <b>Europe<br/>\$m</b> | <b>New<br/>Zealand<br/>\$m</b> | <b>United<br/>States<br/>\$m</b> | <b>Asia<br/>\$m</b> | <b>Total<br/>\$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<br>(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<br/>acceptances <sup>(1)</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<br/>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>       |

<sup>(1)</sup> Includes loans at fair value.

<sup>(2)</sup> For the half year ended 30 September 2011, certain reclassifications have occurred to better align underlying loan balances with regulatory classifications.



#### 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

|  | Half Year Ended Mar 12 |                 |                   | Half Year Ended Sep 11 |                 |                   | Half Year Ended Mar 11 |                 |                   |
|--|------------------------|-----------------|-------------------|------------------------|-----------------|-------------------|------------------------|-----------------|-------------------|
|  | Average balance<br>\$m | Interest<br>\$m | Average rate<br>% | Average balance<br>\$m | Interest<br>\$m | Average rate<br>% | Average balance<br>\$m | Interest<br>\$m | Average rate<br>% |
| <b>Average interest earning assets</b>   |                        |                 |                   |                        |                 |                   |                        |                 |                   |
| Due from other banks   |                        |                 |                   |                        |                 |                   |                        |                 |                   |
| Australia  | 17,320                 | 305             | 3.5               | 16,935                 | 337             | 4.0               | 13,552                 | 260             | 3.8               |
| Europe   | 22,328                 | 46              | 0.4               | 25,562                 | 55              | 0.4               | 24,137                 | 58              | 0.5               |
| Other International  | 12,869                 | 32              | 0.5               | 5,926                  | 34              | 1.1               | 4,488                  | 34              | 1.5               |
| Marketable debt securities   |                        |                 |                   |                        |                 |                   |                        |                 |                   |
| Australia  | 35,194                 | 859             | 4.9               | 30,192                 | 810             | 5.4               | 26,805                 | 692             | 5.2               |
| Europe   | 14,689                 | 129             | 1.8               | 16,863                 | 121             | 1.4               | 15,058                 | 94              | 1.3               |
| Other International  | 13,968                 | 110             | 1.6               | 15,521                 | 125             | 1.6               | 14,557                 | 124             | 1.7               |
| Loans and advances - housing   |                        |                 |                   |                        |                 |                   |                        |                 |                   |
| Australia  | 209,824                | 6,771           | 6.5               | 201,168                | 6,755           | 6.7               | 188,286                | 6,286           | 6.7               |
| Europe   | 21,687                 | 356             | 3.3               | 20,849                 | 347             | 3.3               | 20,656                 | 344             | 3.3               |
| Other International  | 23,267                 | 663             | 5.7               | 22,733                 | 658             | 5.8               | 21,979                 | 672             | 6.1               |
| Loans and advances - non-housing   |                        |                 |                   |                        |                 |                   |                        |                 |                   |
| Australia  | 118,134                | 4,443           | 7.5               | 110,467                | 4,333           | 7.8               | 104,626                | 4,115           | 7.9               |
| Europe   | 36,229                 | 828             | 4.6               | 37,598                 | 818             | 4.3               | 38,699                 | 833             | 4.3               |
| Other International  | 31,352                 | 903             | 5.8               | 29,966                 | 858             | 5.7               | 29,281                 | 870             | 6.0               |
| Acceptances  |                        |                 |                   |                        |                 |                   |                        |                 |                   |
| Australia  | 41,588                 | 1,579           | 7.6               | 44,762                 | 1,764           | 7.9               | 48,032                 | 1,845           | 7.7               |
| Europe   | 10                     | -               | -                 | 12                     | -               | -                 | 14                     | -               | -                 |
| Other interest earning assets  |                        |                 |                   |                        |                 |                   |                        |                 |                   |
| Australia  | 2,267                  | 509             | n/a               | 3,833                  | 456             | n/a               | 2,733                  | 407             | n/a               |
| Europe   | 14,068                 | 61              | n/a               | 7,250                  | 38              | n/a               | 9,722                  | 38              | n/a               |
| Other International  | 4,151                  | 52              | n/a               | 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>424,327</b>         | <b>14,466</b>   | <b>6.8</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>109,011</b>         | <b>1,420</b>    | <b>2.6</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>85,607</b>          | <b>1,760</b>    | <b>4.1</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>618,945</b>         | <b>17,646</b>   | <b>5.7</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  | 65,102                 |                 |                   | 65,808                 |                 |                   | 65,767                 |                 |                   |
| Other International  | 47                     |                 |                   | 47                     |                 |                   | 40                     |                 |                   |
| Other assets   | 64,669                 |                 |                   | 59,314                 |                 |                   | 57,405                 |                 |                   |
| <b>Total average non-interest earning assets</b>   | <b>129,818</b>         |                 |                   | <b>125,169</b>         |                 |                   | <b>123,212</b>         |                 |                   |
| Provision for doubtful debts   |                        |                 |                   |                        |                 |                   |                        |                 |                   |
| Australia  | (2,690)                |                 |                   | (2,961)                |                 |                   | (3,006)                |                 |                   |
| Europe   | (584)                  |                 |                   | (705)                  |                 |                   | (866)                  |                 |                   |
| Other International  | (387)                  |                 |                   | (384)                  |                 |                   | (366)                  |                 |                   |
| <b>Total average assets</b>  | <b>745,102</b>         |                 |                   | <b>715,697</b>         |                 |                   | <b>685,598</b>         |                 |                   |
| Percentage of total average interest earning assets applicable to international operations | 31.4%                  |                 |                   | 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 Mar 12 |                 |                   | Half Year Ended Sep 11 |                 |                   | Half Year Ended Mar 11 |                 |                   |
|--|------------------------|-----------------|-------------------|------------------------|-----------------|-------------------|------------------------|-----------------|-------------------|
|  | Average balance<br>\$m | Interest<br>\$m | Average rate<br>% | Average balance<br>\$m | Interest<br>\$m | Average rate<br>% | Average balance<br>\$m | Interest<br>\$m | Average rate<br>% |
| <b>Average interest bearing liabilities</b>                                |                        |                 |                   |                        |                 |                   |                        |                 |                   |
| Due to other banks   |                        |                 |                   |                        |                 |                   |                        |                 |                   |
| Australia  | 22,121                 | 503             | 4.5               | 21,650                 | 524             | 4.8               | 20,753                 | 441             | 4.3               |
| Europe   | 13,267                 | 14              | 0.2               | 14,111                 | 22              | 0.3               | 11,448                 | 12              | 0.2               |
| Other International  | 4,781                  | 31              | 1.3               | 4,732                  | 53              | 2.2               | 3,908                  | 44              | 2.3               |
| On-demand and short-term deposits  |                        |                 |                   |                        |                 |                   |                        |                 |                   |
| Australia  | 100,101                | 1,865           | 3.7               | 96,932                 | 1,916           | 3.9               | 93,366                 | 1,810           | 3.9               |
| Europe   | 25,046                 | 82              | 0.7               | 26,821                 | 76              | 0.6               | 28,079                 | 78              | 0.6               |
| Other International  | 18,185                 | 104             | 1.1               | 17,623                 | 95              | 1.1               | 14,203                 | 98              | 1.4               |
| Certificates of deposit  |                        |                 |                   |                        |                 |                   |                        |                 |                   |
| Australia  | 29,088                 | 670             | 4.6               | 20,922                 | 518             | 4.9               | 18,386                 | 448             | 4.9               |
| Europe   | 30,430                 | 76              | 0.5               | 31,366                 | 69              | 0.4               | 29,228                 | 61              | 0.4               |
| Other International  | 23,719                 | 72              | 0.6               | 16,617                 | 50              | 0.6               | 13,209                 | 46              | 0.7               |
| Term deposits  |                        |                 |                   |                        |                 |                   |                        |                 |                   |
| Australia  | 104,025                | 2,993           | 5.8               | 94,268                 | 2,781           | 5.9               | 91,734                 | 2,657           | 5.8               |
| Europe   | 15,847                 | 174             | 2.2               | 15,880                 | 155             | 1.9               | 17,104                 | 162             | 1.9               |
| Other International  | 28,955                 | 439             | 3.0               | 29,956                 | 452             | 3.0               | 28,974                 | 467             | 3.2               |
| Other borrowings   |                        |                 |                   |                        |                 |                   |                        |                 |                   |
| Australia  | 3,919                  | 71              | 3.6               | 4,865                  | 70              | 2.9               | 5,423                  | 137             | 5.1               |
| Europe   | 1,410                  | 3               | 0.4               | 1,345                  | 1               | 0.1               | 254                    | 1               | 0.8               |
| Other International  | 16,819                 | 27              | 0.3               | 14,592                 | 20              | 0.3               | 12,174                 | 17              | 0.3               |
| Liability on acceptances   |                        |                 |                   |                        |                 |                   |                        |                 |                   |
| Australia  | 8,885                  | 356             | 8.0               | 10,700                 | 421             | 7.8               | 12,696                 | 485             | 7.7               |
| Europe   | 10                     | -               | -                 | 12                     | -               | -                 | 14                     | -               | -                 |
| Bonds, notes and subordinated debt   |                        |                 |                   |                        |                 |                   |                        |                 |                   |
| Australia  | 90,702                 | 3,080           | 6.8               | 87,938                 | 3,172           | 7.2               | 88,964                 | 3,010           | 6.8               |
| Europe   | 4,177                  | 29              | 1.4               | 5,788                  | 48              | 1.7               | 6,837                  | 51              | 1.5               |
| Other International  | 9,967                  | 206             | 4.1               | 9,186                  | 182             | 4.0               | 8,120                  | 156             | 3.9               |
| Other interest bearing liabilities   |                        |                 |                   |                        |                 |                   |                        |                 |                   |
| Australia  | 274                    | 5               | n/a               | 1,254                  | 4               | n/a               | 238                    | 11              | n/a               |
| Europe   | 435                    | 10              | n/a               | 31                     | -               | n/a               | 35                     | 6               | n/a               |
| Other International  | 2,505                  | 164             | n/a               | 3,059                  | 185             | n/a               | 1,777                  | 224             | n/a               |
| <b>Total average interest bearing liabilities and interest expense by:</b> |                        |                 |                   |                        |                 |                   |                        |                 |                   |
| <b>Australia</b>   | 359,115                | 9,543           | 5.3               | 338,529                | 9,406           | 5.5               | 331,560                | 8,999           | 5.4               |
| <b>Europe</b>  | 90,622                 | 388             | 0.9               | 95,354                 | 371             | 0.8               | 92,999                 | 371             | 0.8               |
| <b>Other International</b>   | 104,931                | 1,043           | 2.0               | 95,765                 | 1,037           | 2.2               | 82,365                 | 1,052           | 2.6               |
| <b>Total average interest bearing liabilities and interest expense</b>     | <b>554,668</b>         | <b>10,974</b>   | <b>4.0</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 |                |                |
|---|-----------------|----------------|----------------|
|   | Mar 12<br>\$m   | Sep 11<br>\$m  | Mar 11<br>\$m  |
| <b>Average non-interest bearing liabilities</b>   |                 |                |                |
| Deposits not bearing interest:  |                 |                |                |
| Australia   | 16,904          | 15,839         | 14,124         |
| Europe  | 2,292           | 2,113          | 1,996          |
| Other International   | 2,635           | 2,697          | 1,699          |
| Life insurance policy liabilities:  |                 |                |                |
| Australia   | 54,582          | 55,258         | 55,706         |
| Other International   | 1               | 10             | -              |
| Other liabilities   | 72,139          | 69,438         | 65,873         |
| <b>Total average non-interest bearing liabilities</b>   | <b>148,553</b>  | <b>145,355</b> | <b>139,398</b> |
| <b>Total average liabilities</b>  | <b>703,221</b>  | <b>675,003</b> | <b>646,322</b> |
| <b>Average equity</b>   |                 |                |                |
| Ordinary shares   | 20,701          | 19,996         | 19,017         |
| Trust Preferred Securities  | 975             | 975            | 975            |
| Trust Preferred Securities II   | 1,014           | 1,014          | 1,014          |
| National Income Securities  | 1,945           | 1,945          | 1,945          |
| National Capital Instruments  | 397             | 397            | 397            |
| BNZ Income Securities   | 380             | 380            | 380            |
| BNZ Income Securities 2   | 203             | 203            | 203            |
| Contributed equity  | 25,615          | 24,910         | 23,931         |
| Reserves  | (1,376)         | (1,390)        | (1,044)        |
| Retained profits  | 17,614          | 17,156         | 16,374         |
| Parent entity interest  | 41,853          | 40,676         | 39,261         |
| Non-controlling interest in controlled entities   | 28              | 18             | 15             |
| <b>Total average equity</b>   | <b>41,881</b>   | <b>40,694</b>  | <b>39,276</b>  |
| <b>Total average liabilities and equity</b>   | <b>745,102</b>  | <b>715,697</b> | <b>685,598</b> |
| Percentage of total average interest bearing liabilities applicable to international operations | 35.3%           | 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            |                  |                  |
|---|------------------|------------------|------------------|
|   | 31 Mar 12<br>\$m | 30 Sep 11<br>\$m | 31 Mar 11<br>\$m |
| <b>Reconciliation to shareholders' funds</b>                                      |                  |                  |                  |
| Contributed equity  | 26,090           | 25,274           | 24,365           |
| Reserves  | (1,438)          | (773)            | (1,491)          |
| Retained profits  | 17,865           | 17,667           | 16,931           |
| Non-controlling interest in controlled entities                                   | 38               | 20               | 15               |
| <b>Total equity per consolidated balance sheet</b>                                | <b>42,555</b>    | <b>42,188</b>    | <b>39,820</b>    |
| Liability-accounted Residual Tier 1 hybrid capital <sup>(1)</sup>                 | 2,238            | 2,322            | 2,242            |
| Treasury shares   | 939              | 782              | 1,040            |
| Eligible deferred fee income  | 227              | 266              | 251              |
| Revaluation reserves  | (162)            | (123)            | (124)            |
| General reserve for credit losses   | (710)            | (716)            | (751)            |
| Estimated dividend  | (2,015)          | (1,937)          | (1,823)          |
| Estimated reinvestment under dividend reinvestment plan and bonus share plan      | 806              | 800              | 720              |
| Deconsolidation of Wealth Management profits (net of dividends)                   | (354)            | (495)            | (345)            |
| <b>Adjusted total equity for capital purposes</b>                                 | <b>43,524</b>    | <b>43,087</b>    | <b>41,030</b>    |
| Banking goodwill  | (1,321)          | (1,695)          | (1,667)          |
| Wealth Management goodwill and other intangibles                                  | (4,230)          | (4,253)          | (4,277)          |
| DTA (excluding DTA on the collective provision for doubtful debts) <sup>(2)</sup> | (794)            | (990)            | (717)            |
| Non qualifying non-controlling interest   | (13)             | (13)             | (12)             |
| Capitalised expenses <sup>(3)</sup>   | (121)            | (99)             | (87)             |
| Capitalised software (excluding Wealth Management)                                | (1,275)          | (1,225)          | (1,077)          |
| Defined benefit superannuation plans surplus                                      | (15)             | (15)             | (12)             |
| Change in own creditworthiness  | (57)             | (97)             | (37)             |
| Cash flow hedge reserve <sup>(4)</sup>  | (334)            | (391)            | (127)            |
| Deductions taken 50% from Tier 1 and 50% from Tier 2:                             |                  |                  |                  |
| Investment in non-consolidated controlled entities (net of intangible component)  | (827)            | (801)            | (866)            |
| Expected loss in excess of eligible provisions                                    | (282)            | (348)            | (252)            |
| Other   | (142)            | (85)             | (161)            |
| <b>Tier 1 capital</b>   | <b>34,113</b>    | <b>33,075</b>    | <b>31,738</b>    |

|  | As at            |                  |                  |
|--|------------------|------------------|------------------|
|  | 31 Mar 12<br>\$m | 30 Sep 11<br>\$m | 31 Mar 11<br>\$m |
| Collective provision for doubtful debts <sup>(5)</sup>                           | 476              | 681              | 682              |
| Revaluation reserves   | 73               | 56               | 56               |
| Perpetual floating rate notes  | 161              | 172              | 162              |
| Eligible dated subordinated debt   | 5,098            | 5,658            | 7,761            |
| Deductions taken 50% from Tier 1 and 50% from Tier 2:                            |                  |                  |                  |
| Investment in non-consolidated controlled entities (net of intangible component) | (827)            | (801)            | (866)            |
| Expected loss in excess of eligible provisions                                   | (282)            | (348)            | (252)            |
| Other  | (142)            | (85)             | (161)            |
| <b>Tier 2 capital</b>  | <b>4,557</b>     | <b>5,333</b>     | <b>7,382</b>     |
| <b>Total capital</b>   | <b>38,670</b>    | <b>38,408</b>    | <b>39,120</b>    |
| Risk-weighted assets - credit risk   | 300,185          | 308,648          | 311,625          |
| Risk-weighted assets - market risk   | 5,277            | 2,968            | 3,159            |
| Risk-weighted assets - operational risk  | 23,810           | 22,255           | 21,862           |
| Risk-weighted assets - interest rate risk in the banking book                    | 6,281            | 7,198            | 8,565            |
| <b>Total risk-weighted assets</b>  | <b>335,553</b>   | <b>341,069</b>   | <b>345,211</b>   |
| <b>Risk adjusted capital ratios</b>  |                  |                  |                  |
| <b>Tier 1</b>  | <b>10.17%</b>    | <b>9.70%</b>     | <b>9.19%</b>     |
| <b>Total capital</b>   | <b>11.52%</b>    | <b>11.26%</b>    | <b>11.33%</b>    |

|  | As at            |                  |                  |
|--|------------------|------------------|------------------|
|  | 31 Mar 12<br>\$m | 30 Sep 11<br>\$m | 31 Mar 11<br>\$m |
| <b>Regulatory capital summary</b>      |                  |                  |                  |
| <b>Fundamental Tier 1 capital</b>      | <b>36,371</b>    | <b>35,850</b>    | <b>33,874</b>    |
| Non-innovative residual Tier 1 capital | 2,742            | 2,742            | 2,742            |
| Innovative residual Tier 1 capital     | 4,411            | 4,495            | 4,414            |
| <b>Total residual Tier 1 capital</b>   | <b>7,153</b>     | <b>7,237</b>     | <b>7,156</b>     |
| Tier 1 deductions                      | (9,411)          | (10,012)         | (9,292)          |
| <b>Tier 1 capital</b>                  | <b>34,113</b>    | <b>33,075</b>    | <b>31,738</b>    |
| <b>Tier 2 capital</b>                  | <b>4,557</b>     | <b>5,333</b>     | <b>7,382</b>     |
| <b>Total capital</b>                   | <b>38,670</b>    | <b>38,408</b>    | <b>39,120</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> 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>(3)</sup> Comprises capitalised costs associated with debt raisings and securitisations. Loan origination fees are netted against eligible deferred fee income.

<sup>(4)</sup> For regulatory capital purposes the cash flow hedge reserve is treated on a pre-tax basis.

<sup>(5)</sup> 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<br>as at |                  |                  | Exposures<br>as at |                  |                  |
|---|-------------------------------|------------------|------------------|--------------------|------------------|------------------|
|   | 31 Mar 12<br>\$m              | 30 Sep 11<br>\$m | 31 Mar 11<br>\$m | 31 Mar 12<br>\$m   | 30 Sep 11<br>\$m | 31 Mar 11<br>\$m |
| <b>Credit risk <sup>(1)</sup></b>                 |                               |                  |                  |                    |                  |                  |
| <b>IRB approach</b>                               |                               |                  |                  |                    |                  |                  |
| Corporate (including SME)                         | 109,312                       | 112,620          | 116,297          | 193,723            | 189,882          | 177,571          |
| Sovereign <sup>(2)</sup>                          | 1,290                         | 1,170            | 1,028            | 43,882             | 35,881           | 26,913           |
| Bank <sup>(3)</sup>                               | 8,179                         | 7,617            | 6,651            | 78,607             | 71,438           | 58,223           |
| Residential mortgage <sup>(3)</sup>               | 56,351                        | 51,620           | 51,389           | 270,525            | 250,960          | 239,040          |
| Qualifying revolving retail <sup>(3)</sup>        | 4,055                         | 4,377            | 4,186            | 11,100             | 10,978           | 10,693           |
| Retail SME  | 7,318                         | 8,227            | 8,985            | 19,212             | 19,656           | 19,706           |
| Other retail                                      | 3,652                         | 3,594            | 3,699            | 4,591              | 4,590            | 4,542            |
| <b>Total IRB approach</b>                         | <b>190,157</b>                | <b>189,225</b>   | <b>192,235</b>   | <b>621,640</b>     | <b>583,385</b>   | <b>536,688</b>   |
| <b>Specialised lending (SL)</b>                   | <b>45,439</b>                 | <b>41,752</b>    | <b>41,762</b>    | <b>54,330</b>      | <b>49,406</b>    | <b>46,842</b>    |
| <b>Standardised approach</b>                      |                               |                  |                  |                    |                  |                  |
| Australian and foreign governments                | 81                            | 76               | 49               | 4,248              | 4,412            | 2,951            |
| Bank  | 205                           | 163              | 269              | 9,661              | 10,508           | 6,753            |
| Residential mortgage                              | 18,823                        | 23,202           | 21,785           | 34,963             | 45,533           | 41,023           |
| Corporate   | 29,979                        | 32,863           | 27,698           | 30,424             | 33,202           | 28,065           |
| Other   | 3,165                         | 3,618            | 9,171            | 3,648              | 4,095            | 9,724            |
| <b>Total standardised approach</b>                | <b>52,253</b>                 | <b>59,922</b>    | <b>58,972</b>    | <b>82,944</b>      | <b>97,750</b>    | <b>88,516</b>    |
| <b>Other</b>                                      |                               |                  |                  |                    |                  |                  |
| Securitisation <sup>(4)</sup>                     | 4,314                         | 9,049            | 10,209           | 16,991             | 18,203           | 16,925           |
| Equity  | 2,006                         | 1,949            | 1,541            | 570                | 501              | 399              |
| Other <sup>(5)</sup>                              | 6,016                         | 6,751            | 6,906            | 9,540              | 10,158           | 9,955            |
| <b>Total other</b>                                | <b>12,336</b>                 | <b>17,749</b>    | <b>18,656</b>    | <b>27,101</b>      | <b>28,862</b>    | <b>27,279</b>    |
| <b>Total credit risk</b>                          | <b>300,185</b>                | <b>308,648</b>   | <b>311,625</b>   | <b>786,015</b>     | <b>759,403</b>   | <b>699,325</b>   |
| <b>Market risk <sup>(6)</sup></b>                 | <b>5,277</b>                  | <b>2,968</b>     | <b>3,159</b>     |                    |                  |                  |
| <b>Operational risk</b>                           | <b>23,810</b>                 | <b>22,255</b>    | <b>21,862</b>    |                    |                  |                  |
| <b>Interest rate risk in the banking book</b>     | <b>6,281</b>                  | <b>7,198</b>     | <b>8,565</b>     |                    |                  |                  |
| <b>Total risk-weighted assets &amp; exposures</b> | <b>335,553</b>                | <b>341,069</b>   | <b>345,211</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, overseas banks and non-commercial public sector entities. '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> Following a change in treatment, the RWA percentages applied to the credit wrapped ABS exposure have been amended resulting in a reduction of RWA by \$3.2 billion. The termination of the remaining two sold protection SCDO derivative exposures reduced RWA by \$1.5 billion.

<sup>(5)</sup> 'Other' includes non-lending asset exposures.

<sup>(6)</sup> The increase in Market Risk RWA as at 31 March 2012 was predominantly driven by the implementation of the revised Prudential Standard APS 116 'Capital Adequacy: Market Risk' which became effective 1 January 2012.

### 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  | Half Year to |                        |           |           |           |           |
|---|--------------|------------------------|-----------|-----------|-----------|-----------|
|   | Mar 12       |                        | Sep 11    |           | Mar 11    |           |
|   | Basic        | Diluted <sup>(1)</sup> | Basic     | Diluted   | Basic     | Diluted   |
| <b>Earnings (\$m)</b>                                     |              |                        |           |           |           |           |
| Net profit attributable to owners of the Company          | 2,052        | 2,052                  | 2,791     | 2,791     | 2,428     | 2,428     |
| Distributions on other equity instruments                 | (124)        | (124)                  | (130)     | (130)     | (132)     | (132)     |
| Potential dilutive adjustments                            |              |                        |           |           |           |           |
| Interest expense on convertible notes (after tax)         | -            | -                      | -         | 46        | -         | 45        |
| Adjusted earnings   | 1,928        | 1,928                  | 2,661     | 2,707     | 2,296     | 2,341     |
| <b>Weighted average ordinary shares (no. '000)</b>        |              |                        |           |           |           |           |
| Weighted average ordinary shares (net of treasury shares) | 2,171,827    | 2,171,827              | 2,138,995 | 2,138,995 | 2,109,971 | 2,109,971 |
| Potential dilutive ordinary shares                        |              |                        |           |           |           |           |
| Performance options and performance rights                | -            | 1,925                  | -         | 1,294     | -         | 1,646     |
| Partly paid ordinary shares                               | -            | 68                     | -         | 97        | -         | 114       |
| Employee share plans                                      | -            | 7,946                  | -         | 8,830     | -         | 6,550     |
| Convertible notes   | -            | -                      | -         | 47,519    | -         | 44,207    |
| Total weighted average ordinary shares                    | 2,171,827    | 2,181,766              | 2,138,995 | 2,196,735 | 2,109,971 | 2,162,488 |
| <b>Earnings per share (cents)</b>                         | 88.8         | 88.4                   | 124.4     | 123.2     | 108.8     | 108.3     |

<sup>(1)</sup> During the half year ended 31 March 2012, the impact of all convertible notes has not been included in the diluted earnings per share because they were anti-dilutive.

| Cash Earnings per Share                             | Half Year to |           |           |           |           |           |
|---|--------------|-----------|-----------|-----------|-----------|-----------|
|   | Mar 12       |           | Sep 11    |           | Mar 11    |           |
|   | Basic        | Diluted   | Basic     | Diluted   | Basic     | Diluted   |
| <b>Earnings (\$m)</b>                               |              |           |           |           |           |           |
| Cash earnings - ongoing operations <sup>(1)</sup>   | 2,828        | 2,828     | 2,792     | 2,792     | 2,668     | 2,668     |
| Distributions on other equity instruments           | (19)         | (19)      | (19)      | (19)      | (18)      | (18)      |
| Potential dilutive adjustments                      |              |           |           |           |           |           |
| Interest expense on convertible notes (after tax)   | -            | 45        | -         | 46        | -         | 45        |
| Adjusted cash earnings                              | 2,809        | 2,854     | 2,773     | 2,819     | 2,650     | 2,695     |
| <b>Weighted average ordinary shares (no. '000)</b>  |              |           |           |           |           |           |
| Weighted average ordinary shares                    | 2,224,966    | 2,224,966 | 2,184,494 | 2,184,494 | 2,154,891 | 2,154,891 |
| Potential dilutive weighted average ordinary shares |              |           |           |           |           |           |
| Performance options and performance rights          | -            | 1,925     | -         | 1,294     | -         | 1,646     |
| Partly paid ordinary shares                         | -            | 68        | -         | 97        | -         | 114       |
| Employee share plans                                | -            | 7,946     | -         | 8,830     | -         | 6,550     |
| Convertible notes                                   | -            | 46,818    | -         | 47,519    | -         | 44,207    |
| Total weighted average ordinary shares              | 2,224,966    | 2,281,723 | 2,184,494 | 2,242,234 | 2,154,891 | 2,207,408 |
| <b>Cash earnings per share (cents)</b>              | 126.2        | 125.1     | 126.9     | 125.7     | 123.0     | 122.1     |

<sup>(1)</sup> For a reconciliation between the Group's cash earnings and net profit attributable to owners of the Company refer to Note 16 in Section 6.

## 7. Life Insurance Operations

| Income statement items  | Half Year to  |               |               |
|---|---------------|---------------|---------------|
|   | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| Premium and related revenue   | 691           | 693           | 666           |
| Investment revenue  | 5,216         | (3,975)       | 3,528         |
| Fee income  | 266           | 276           | 277           |
| Claims expense  | (388)         | (427)         | (367)         |
| Change in policy liabilities  | (4,057)       | 3,298         | (2,823)       |
| Policy acquisition and maintenance expense  | (459)         | (459)         | (455)         |
| Investment management expense   | (3)           | 1             | (6)           |
| Movement in external unitholders' liability   | (878)         | 657           | (524)         |
| <b>Net life insurance income</b>  | <b>388</b>    | <b>64</b>     | <b>296</b>    |
| Profit before income tax expense attributable to the life insurance statutory funds and their controlled trusts | 465           | 17            | 346           |
| Income tax (benefit)/expense attributable to the statutory funds of the life insurance business                 | 226           | (209)         | 149           |

| Related balance sheet items                     | As at            |                  |                  |
|---|------------------|------------------|------------------|
|   | 31 Mar 12<br>\$m | 30 Sep 11<br>\$m | 31 Mar 11<br>\$m |
| Investments relating to life insurance business | 67,426           | 63,920           | 67,155           |
| Life policy liabilities                         | 56,402           | 53,608           | 56,810           |
| External unitholders' liability                 | 11,034           | 9,959            | 10,229           |

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.

Improved investment market experience over the March 2012 half year, has affected individual components of the Group's life insurance operations as follows:

- Positive investment revenue attributable to unit linked investments and life insurance business that is largely offset by movements in amounts owing to policyholders.
- Positive investment revenue attributable to equity investment holdings in consolidated trusts. The external unitholders of the trusts share in these gains; 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

|  | Half Year to  |               |               |
|--|---------------|---------------|---------------|
|  | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |
| <b>Gains less losses on financial instruments at fair value</b>                      |               |               |               |
| Trading securities   | 264           | 677           | 240           |
| Trading derivatives:   |               |               |               |
| Trading and risk management purposes   | (83)          | (1,399)       | 373           |
| Recovery on SCDO risk mitigation trades  | 219           | -             | -             |
| Assets, liabilities and derivatives designated in hedge relationships <sup>(1)</sup> | 200           | 235           | (344)         |
| Assets and liabilities designated at fair value                                      | (280)         | 375           | (475)         |
| Impairment of investments - available for sale                                       | -             | -             | (10)          |
| Other  | (18)          | (17)          | 16            |
| <b>Total gains less losses on financial instruments at fair value</b>                | <b>302</b>    | <b>(129)</b>  | <b>(200)</b>  |
| <b>Other operating income</b>  |               |               |               |
| Dividend revenue   | 8             | 7             | 10            |
| Gains from sale of investments - available for sale                                  | 15            | 11            | 9             |
| Gains from sale of property, plant and equipment and other assets                    | -             | 2             | 1             |
| Banking fees   | 454           | 458           | 448           |
| Money transfer fees  | 327           | 324           | 323           |
| Fees and commissions   | 428           | 423           | 482           |
| Investment management fees   | 4             | 3             | 3             |
| Fleet management fees  | 13            | 13            | 10            |
| Rentals received on leased vehicle assets  | 7             | 9             | 10            |
| Revaluation (losses)/gains on investment properties                                  | (8)           | 1             | 3             |
| Other income   | (149)         | (32)          | (17)          |
| <b>Total other operating income</b>  | <b>1,099</b>  | <b>1,219</b>  | <b>1,282</b>  |
| <b>Total other income</b>  | <b>1,401</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

|  | Half Year to |              |              |
|--|--------------|--------------|--------------|
|  | Mar 12       | Sep 11       | Mar 11       |
| <b>Personnel expenses</b>  |              |              |              |
| Salaries and related on-costs                                      | 1,503        | 1,505        | 1,518        |
| Superannuation costs - defined contribution plans                  | 113          | 113          | 112          |
| Superannuation costs - defined benefit plans                       | 23           | 18           | 23           |
| Performance-based compensation                                     |              |              |              |
| Cash   | 133          | 166          | 195          |
| Equity-based compensation  | 107          | 28           | 30           |
| Total performance-based compensation                               | 240          | 194          | 225          |
| Other expenses   | 215          | 230          | 242          |
| <b>Total personnel expenses</b>                                    | <b>2,094</b> | <b>2,060</b> | <b>2,120</b> |
| <b>Occupancy-related expenses</b>                                  |              |              |              |
| Operating lease rental expense                                     | 176          | 192          | 188          |
| Other expenses   | 83           | 85           | 106          |
| <b>Total occupancy-related expenses</b>                            | <b>259</b>   | <b>277</b>   | <b>294</b>   |
| <b>General expenses</b>  |              |              |              |
| Fees and commission expense  | 32           | 35           | 32           |
| Depreciation and amortisation of property, plant and equipment     | 143          | 124          | 143          |
| Amortisation of intangible assets                                  | 161          | 134          | 146          |
| Depreciation on leased vehicle assets                              | 4            | 5            | 4            |
| Operating lease rental expense                                     | 12           | 13           | 13           |
| Advertising and marketing  | 88           | 111          | 87           |
| Charge to provide for operational risk event losses                | 31           | 34           | 19           |
| Communications, postage and stationery                             | 114          | 148          | 130          |
| Computer equipment and software                                    | 265          | 221          | 194          |
| Data communication and processing charges                          | 57           | 62           | 56           |
| Transport expenses   | 41           | 41           | 37           |
| Professional fees  | 151          | 191          | 110          |
| Travel   | 28           | 43           | 34           |
| Loss on disposal of property, plant and equipment and other assets | -            | 16           | 3            |
| Impairment losses recognised                                       | 350          | 16           | -            |
| Other expenses   | 77           | 71           | 96           |
| <b>Total general expenses</b>                                      | <b>1,554</b> | <b>1,265</b> | <b>1,104</b> |
| <b>Total</b>   | <b>3,907</b> | <b>3,602</b> | <b>3,518</b> |

10. Net Interest Income / Other Operating Income Analysis - Wholesale Banking

|                      | Half year ended Mar 12 |                               |                        |                              |                     |                         | Half year ended Sep 11 |                               |                        |                              |                     |                         | Half year ended Mar 11 |                               |                        |                              |                     |                         |
|----------------------|------------------------|-------------------------------|------------------------|------------------------------|---------------------|-------------------------|------------------------|-------------------------------|------------------------|------------------------------|---------------------|-------------------------|------------------------|-------------------------------|------------------------|------------------------------|---------------------|-------------------------|
|                      | Other Operating Income |                               |                        |                              |                     |                         | Other Operating Income |                               |                        |                              |                     |                         | Other Operating Income |                               |                        |                              |                     |                         |
|                      | NII<br>\$m             | Trading <sup>(1)</sup><br>\$m | Fees &<br>Comm.<br>\$m | Income <sup>(1)</sup><br>\$m | Total<br>OOI<br>\$m | Total<br>Revenue<br>\$m | NII<br>\$m             | Trading <sup>(1)</sup><br>\$m | Fees &<br>Comm.<br>\$m | Income <sup>(1)</sup><br>\$m | Total<br>OOI<br>\$m | Total<br>Revenue<br>\$m | NII<br>\$m             | Trading <sup>(1)</sup><br>\$m | Fees &<br>Comm.<br>\$m | Income <sup>(1)</sup><br>\$m | Total<br>OOI<br>\$m | Total<br>Revenue<br>\$m |
| Risk Income          | 558                    | (78)                          | 0                      | 15                           | (63)                | 495                     | 509                    | (347)                         | 0                      | 12                           | (335)               | 174                     | 326                    | 90                            | 0                      | 10                           | 100                 | 426                     |
| Customer Income      | 226                    | 346                           | 127                    | 25                           | 498                 | 724                     | 199                    | 323                           | 115                    | 48                           | 486                 | 685                     | 196                    | 199                           | 144                    | 32                           | 375                 | 571                     |
| <b>Total Revenue</b> | <b>784</b>             | <b>268</b>                    | <b>127</b>             | <b>40</b>                    | <b>435</b>          | <b>1219</b>             | <b>708</b>             | <b>(24)</b>                   | <b>115</b>             | <b>60</b>                    | <b>151</b>          | <b>859</b>              | <b>522</b>             | <b>289</b>                    | <b>144</b>             | <b>42</b>                    | <b>475</b>          | <b>997</b>              |

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

## 11. Asset Funding

|   | As at          |                |                |                       |                       |
|---|----------------|----------------|----------------|-----------------------|-----------------------|
|   | Mar 12<br>\$m  | Sep 11<br>\$m  | Mar 11<br>\$m  | Mar 12 vs<br>Sep 11 % | Mar 12 vs<br>Mar 11 % |
| <b>Customer deposits</b>  |                |                |                |                       |                       |
| On-demand and short-term deposits                                     | 142,777        | 145,700        | 138,206        | (2.0)                 | 3.3                   |
| Term deposits   | 152,260        | 142,243        | 135,200        | 7.0                   | 12.6                  |
| Deposits not bearing interest   | 22,685         | 21,324         | 18,415         | 6.4                   | 23.2                  |
| Due to other banks  | 3,553          | 7,634          | 6,052          | (53.5)                | (41.3)                |
| Customer deposits at fair value                                       | 2,291          | 2,679          | 3,007          | (14.5)                | (23.8)                |
| <b>Total customer deposits</b>  | <b>323,566</b> | <b>319,580</b> | <b>300,880</b> | <b>1.2</b>            | <b>7.5</b>            |
|   |                |                |                |                       |                       |
| <b>Wholesale funding</b>  |                |                |                |                       |                       |
| Bonds, notes and subordinated debt                                    | 96,849         | 99,768         | 91,449         | (2.9)                 | 5.9                   |
| Other debt issues   | 2,399          | 2,494          | 2,404          | (3.8)                 | (0.2)                 |
| Preference shares and other contributed equity                        | 4,914          | 4,914          | 4,914          | -                     | -                     |
| Certificates of deposit   | 79,476         | 75,505         | 59,823         | 5.3                   | 32.9                  |
| Due to other banks  | 39,983         | 32,528         | 31,397         | 22.9                  | 27.3                  |
| Other borrowings  | 10,494         | 11,814         | 9,447          | (11.2)                | 11.1                  |
| Securities sold under repurchase agreements                           | 10,574         | 6,379          | 3,220          | 65.8                  | large                 |
| Liability on acceptances  | 7,984          | 10,633         | 11,774         | (24.9)                | (32.2)                |
| Other financial liabilities at fair value                             | 19,065         | 21,047         | 16,550         | (9.4)                 | 15.2                  |
| <b>Total wholesale funding</b>  | <b>271,738</b> | <b>265,082</b> | <b>230,978</b> | <b>2.5</b>            | <b>17.6</b>           |
| <b>Total funding liabilities</b>                                      | <b>595,304</b> | <b>584,662</b> | <b>531,858</b> | <b>1.8</b>            | <b>11.9</b>           |
|   |                |                |                |                       |                       |
| Total equity excluding preference shares and other contributed equity | 37,641         | 37,274         | 34,906         | 1.0                   | 7.8                   |
| Life insurance liabilities <sup>(1)</sup>                             | 67,436         | 63,567         | 67,039         | 6.1                   | 0.6                   |
| Other liabilities   | 56,462         | 68,254         | 55,660         | (17.3)                | 1.4                   |
| <b>Total liabilities and equity</b>                                   | <b>756,843</b> | <b>753,757</b> | <b>689,463</b> | <b>0.4</b>            | <b>9.8</b>            |
|   |                |                |                |                       |                       |
| <b>Wholesale funding by maturity</b>                                  |                |                |                |                       |                       |
| Short-term funding:   |                |                |                |                       |                       |
| Short-term funding of core assets                                     | 56,169         | 50,459         | 53,193         | 11.3                  | 5.6                   |
| Other short-term funding  | 99,634         | 96,624         | 70,150         | 3.1                   | 42.0                  |
| Term funding:   |                |                |                |                       |                       |
| less than 1 year residual maturity                                    | 20,079         | 22,459         | 21,925         | (10.6)                | (8.4)                 |
| greater than 1 year residual maturity                                 | 95,856         | 95,540         | 85,710         | 0.3                   | 11.8                  |
| <b>Total wholesale funding by maturity <sup>(2)</sup></b>             | <b>271,738</b> | <b>265,082</b> | <b>230,978</b> | <b>2.5</b>            | <b>17.6</b>           |

<sup>(1)</sup> Comprises life policy liabilities and external unitholders' liability.

<sup>(2)</sup> The overall increase in wholesale funding from March 2011 to March 2012 was mainly attributable to:  
(i) an increase in liquid assets, which was funded with short term wholesale funding (\$17.7 billion); and  
(ii) an increase in term funding greater than 1 year residual maturity (\$10.1 billion).

## 12. Number of Ordinary Shares

|  | Half Year to       |                    |                    |
|--|--------------------|--------------------|--------------------|
|  | Mar 12<br>No. '000 | Sep 11<br>No. '000 | Mar 11<br>No. '000 |
| <b>Ordinary shares, fully paid</b>   |                    |                    |                    |
| Balance at beginning of period   | 2,201,189          | 2,169,658          | 2,133,341          |
| Shares issued:   |                    |                    |                    |
| Dividend reinvestment plan   | 30,884             | 30,347             | 27,273             |
| Bonus share plan   | 1,082              | 976                | 949                |
| Employee share plans   | 5,435              | 82                 | 7,901              |
| Executive option plan no. 2  | 669                | 100                | 194                |
| Paying up of partly paid shares  | 44                 | 26                 | -                  |
|  | 2,239,303          | 2,201,189          | 2,169,658          |
| <b>Ordinary shares, partly paid to 25 cents</b>  |                    |                    |                    |
| Balance at beginning of period   | 157                | 183                | 183                |
| Paying up of partly paid shares  | (44)               | (26)               | -                  |
|  | 113                | 157                | 183                |
| <b>Total number of ordinary shares on issue at end of period (including treasury shares)</b> | <b>2,239,416</b>   | <b>2,201,346</b>   | <b>2,169,841</b>   |
| Less: treasury shares  | (57,888)           | (48,390)           | (42,608)           |
| <b>Total number of ordinary shares on issue at end of period (excluding treasury shares)</b> | <b>2,181,528</b>   | <b>2,152,956</b>   | <b>2,127,233</b>   |

## 13. Exchange Rates

|                       | Income Statement - average |        |        |        | Balance Sheet - spot |        |        |
|-----------------------|----------------------------|--------|--------|--------|----------------------|--------|--------|
|                       | Half Year to               |        |        |        | As at                |        |        |
|                       | Mar 12                     | Sep 11 | Mar 11 |        | Mar 12               | Sep 11 | Mar 11 |
| British Pounds        | 0.6577                     | 0.6519 | 0.6261 | 0.6509 | 0.6268               | 0.6417 |        |
| Euros                 | 0.7776                     | 0.7405 | 0.7311 | 0.7791 | 0.7206               | 0.7304 |        |
| United States Dollars | 1.0334                     | 1.0563 | 0.9962 | 1.0406 | 0.9764               | 1.0335 |        |
| New Zealand Dollars   | 1.2960                     | 1.2955 | 1.3161 | 1.2689 | 1.2756               | 1.3578 |        |

## 14. Australian Life Company Margins

| Sources of Operating Profit from Australian Life Companies life insurance funds | Half Year to  |               |               | Mar 12 v<br>Sep 11 % | Mar 12 v<br>Mar 11 % |
|---|---------------|---------------|---------------|----------------------|----------------------|
|   | Mar 12<br>\$m | Sep 11<br>\$m | Mar 11<br>\$m |                      |                      |
| Life company - planned profit margins   | 151           | 156           | 153           | (3.2)                | (1.3)                |
| Life company - experience profit  | 35            | (8)           | 20            | large                | 75.0                 |
| Life company operating margins <sup>(1)</sup>                                   | 186           | 148           | 173           | 25.7                 | 7.5                  |
| loRE (after tax) <sup>(2)</sup>   | 51            | 73            | 30            | (30.1)               | 70.0                 |
| <b>Net profit of life insurance funds after non-controlling interest</b>        | <b>237</b>    | <b>221</b>    | <b>203</b>    | <b>7.2</b>           | <b>16.7</b>          |

<sup>(1)</sup> Reflects operating 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 \$56 million (Half Year September 2011 \$25 million, Half Year March 2011 \$52 million) and loRE discount rate variation of (\$5 million) (Half Year September 2011 \$48 million, Half Year March 2011 (\$22 million)), loRE attributable to non life insurance funds of (\$26 million) (Half Year September 2011 (\$24 million), Half Year March 2011 (\$23 million)) is excluded.

## 15. ASX Appendix 4D

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## 16. Reconciliation between Statutory Net Profit and Cash Earnings

| Half Year ended   | Statutory<br>Net<br>Profit | NAB<br>Wealth<br>adj. <sup>(1)</sup> | Distri-<br>butions | Treasury<br>shares | Fair value<br>and hedge<br>ineffec. | IoRE<br>disc.<br>rate | UK Payment<br>Protection<br>Insurance<br>provision | Hedging<br>costs on<br>SCDO<br>assets | Litigation<br>expense | Software<br>impairment | Goodwill<br>impairment | Amortisation<br>of acquired<br>intangible<br>assets | Due<br>diligence,<br>acquisition<br>and<br>integration<br>costs | Cash<br>Earnings |
|---|----------------------------|--------------------------------------|--------------------|--------------------|-------------------------------------|-----------------------|--|---------------------------------------|-----------------------|------------------------|------------------------|---|---|------------------|
| 31 March 2012   | \$m                        | \$m                                  | \$m                | \$m                | \$m                                 | \$m                   | \$m  | \$m                                   | \$m                   | \$m                    | \$m                    | \$m   | \$m   | \$m              |
| Net interest income   | 6,672                      | 36                                   | -                  | -                  | -                                   | -                     | -  | -                                     | -                     | -                      | -                      | -   | -   | 6,708            |
| Net life insurance income   | 388                        | (498)                                | -                  | 103                | -                                   | 7                     | -  | -                                     | -                     | -                      | -                      | -   | -   | -                |
| Other operating income  | 1,900                      | (432)                                | -                  | -                  | (151)                               | -                     | 182  | 141                                   | -                     | -                      | -                      | -   | -   | 1,640            |
| NAB Wealth net operating income   | -                          | 760                                  | -                  | -                  | -                                   | -                     | -  | -                                     | -                     | -                      | -                      | -   | -   | 760              |
| Net operating income  | 8,960                      | (134)                                | -                  | 103                | (151)                               | 7                     | 182  | 141                                   | -                     | -                      | -                      | -   | -   | 9,108            |
| Operating expenses  | (4,402)                    | (56)                                 | -                  | -                  | -                                   | -                     | -  | -                                     | 32                    | 54                     | 295                    | 65  | 60  | (3,952)          |
| Operating profit pre-charge to provide for doubtful debts                 | 4,558                      | (190)                                | -                  | 103                | (151)                               | 7                     | 182  | 141                                   | 32                    | 54                     | 295                    | 65  | 60  | 5,156            |
| Charge to provide for doubtful debts <sup>(2)</sup>                       | (1,321)                    | -                                    | -                  | -                  | 190                                 | (2)                   | -  | -                                     | -                     | -                      | -                      | -   | -   | (1,131)          |
| Operating profit before tax   | 3,237                      | (190)                                | -                  | 103                | 39                                  | 7                     | 182  | 141                                   | 32                    | 54                     | 295                    | 65  | 60  | 4,025            |
| Income tax (expense)/benefit  | (1,183)                    | 159                                  | -                  | (11)               | 1                                   | (2)                   | -  | (42)                                  | (8)                   | -                      | -                      | (14)  | (21)  | (1,121)          |
| <b>Operating profit before distributions and non-controlling interest</b> | <b>2,054</b>               | <b>(31)</b>                          | <b>-</b>           | <b>92</b>          | <b>40</b>                           | <b>5</b>              | <b>182</b>   | <b>99</b>                             | <b>24</b>             | <b>54</b>              | <b>295</b>             | <b>51</b>   | <b>39</b>   | <b>2,904</b>     |
| Net profit - non-controlling interest                                     | (2)                        | 1                                    | -                  | -                  | -                                   | -                     | -  | -                                     | -                     | -                      | -                      | -   | -   | (1)              |
| IoRE (after tax)  | -                          | 30                                   | -                  | -                  | -                                   | -                     | -  | -                                     | -                     | -                      | -                      | -   | -   | 30               |
| Distributions   | -                          | -                                    | (105)              | -                  | -                                   | -                     | -  | -                                     | -                     | -                      | -                      | -   | -   | (105)            |
| <b>Net profit attributable to owners of the Company</b>                   | <b>2,052</b>               | <b>-</b>                             | <b>(105)</b>       | <b>92</b>          | <b>40</b>                           | <b>5</b>              | <b>182</b>   | <b>99</b>                             | <b>24</b>             | <b>54</b>              | <b>295</b>             | <b>51</b>   | <b>39</b>   | <b>2,828</b>     |

<sup>(1)</sup> Refer to Note 17 in Section 6 for further details regarding the NAB Wealth adjustment.<sup>(2)</sup> Includes provisions associated with the default of fully hedged SCDO assets, where for statutory purposes the offsetting recovery is recorded as other operating income. For cash earnings these items are reported net.

| Half Year ended<br>30 September 2011                                      | Statutory<br>Net Profit<br>\$m | NAB<br>Wealth<br>adj. <sup>(1)</sup><br>\$m | Distributions<br>\$m | Treasury<br>shares<br>\$m | Fair value<br>and hedge<br>ineffec.<br>\$m | LoRE disc.<br>rate<br>\$m | UK<br>Payment<br>Insurance<br>provision<br>\$m | Hedging<br>costs on<br>SCDO<br>assets<br>\$m | Litigation<br>expense<br>\$m | Amortisation<br>of intangible<br>assets<br>\$m | Due<br>diligence,<br>acquisition<br>and<br>integration<br>costs<br>\$m | Cash<br>Earnings<br>\$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                   |
| NAB Wealth 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 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> | <b>2,791</b>                   | <b>(1)</b>                                  | <b>-</b>             | <b>(80)</b>               | <b>(146)</b>                               | <b>(48)</b>               | <b>117</b>                                     | <b>127</b>                                   | <b>4</b>                     | <b>41</b>                                      | <b>97</b>  | <b>2,902</b>            |
| Net profit - non-controlling interest                                     | -                              | -   | -                    | -                         | -  | -                         | -  | -  | -                            | -  | -  | -                       |
| LoRE (after tax)  | -                              | 1   | -                    | -                         | -  | -                         | -  | -  | -                            | -  | -  | 1                       |
| Distributions   | -                              | -   | (111)                | -                         | -  | -                         | -  | -  | -                            | -  | -  | (111)                   |
| <b>Net profit attributable to owners of the Company</b>                   | <b>2,791</b>                   | <b>-</b>                                    | <b>(111)</b>         | <b>(80)</b>               | <b>(146)</b>                               | <b>(48)</b>               | <b>117</b>                                     | <b>127</b>                                   | <b>4</b>                     | <b>41</b>                                      | <b>97</b>  | <b>2,792</b>            |

<sup>(1)</sup> Refer to Note 17 in Section 6 for further details regarding the NAB Wealth adjustment.

| Half Year ended<br>31 March 2011  | Statutory<br>Net Profit<br>\$m | NAB<br>Wealth<br>adj. <sup>(1)</sup><br>\$m | Distri-<br>butions<br>\$m | Treasury<br>shares<br>\$m | Fair value<br>and hedge<br>ineffec.<br>\$m | IoRE disc.<br>rate<br>\$m | Amortisation<br>of acquired<br>intangible<br>assets<br>\$m | ExCaps<br>taxation<br>assmt.<br>\$m | Due<br>diligence,<br>acquisition<br>and<br>integration<br>costs<br>\$m | Cash<br>Earnings<br>\$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                   |
| NAB Wealth 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 17 in Section 6 for further details regarding the NAB Wealth adjustment.



## 17. NAB Wealth Reconciling Items

| Half Year ended<br>31 March 2012  | Life Reclassification <sup>(a)</sup> |   |   |   | Other<br>\$m | NAB<br>Wealth adj.<br>\$m |
|---|--------------------------------------|---|---|---|--------------|---------------------------|
|   | Cash<br>IoRE <sup>(i)</sup><br>\$m   | Policy-<br>holder<br>tax <sup>(ii)</sup><br>\$m | Other NLII<br>reclass-<br>ification <sup>(iii)</sup><br>\$m | Non-life<br>reclas-<br>sification <sup>(b)</sup><br>\$m |              |                           |
| Net interest income   | 37                                   | -   | -   | (6)   | 5            | 36                        |
| Net life insurance income   | (75)                                 | (126)   | (298)   | -   | 1            | (498)                     |
| Other operating income  | -                                    | -   | 32  | (461)   | (3)          | (432)                     |
| NAB Wealth net operating income   | -                                    | -   | 427   | 333   | -            | 760                       |
| Net operating income  | (38)                                 | (126)   | 161   | (134)   | 3            | (134)                     |
| Operating expenses  | -                                    | -   | (184)   | 134   | (6)          | (56)                      |
| Operating profit pre-charge to provide for doubtful debts                 | (38)                                 | (126)   | (23)  | -   | (3)          | (190)                     |
| Charge to provide for doubtful debts                                      | 1                                    | -   | (7)   | -   | 6            | -                         |
| Operating profit before tax   | (37)                                 | (126)   | (30)  | -   | 3            | (190)                     |
| Income tax expense  | 7                                    | 126   | 30  | -   | (4)          | 159                       |
| <b>Operating profit before distributions and non-controlling interest</b> | (30)                                 | -   | -   | -   | (1)          | (31)                      |
| Net profit - non-controlling interest                                     | -                                    | -   | -   | -   | 1            | 1                         |
| IoRE (after tax)  | 30                                   | -   | -   | -   | -            | 30                        |
| Distributions   | -                                    | -   | -   | -   | -            | -                         |
| <b>Net profit attributable to owners of the Company</b>                   | -                                    | -   | -   | -   | -            | -                         |

| Half Year ended<br>30 September 2011                                      | Life Reclassification <sup>(a)</sup> |   |   |   | Other<br>\$m | NAB<br>Wealth adj.<br>\$m |
|---|--------------------------------------|---|---|---|--------------|---------------------------|
|   | Cash<br>IoRE <sup>(i)</sup><br>\$m   | Policy-<br>holder<br>tax <sup>(ii)</sup><br>\$m | Other NLII<br>reclass-<br>ification <sup>(iii)</sup><br>\$m | Non-life<br>reclas-<br>sification <sup>(b)</sup><br>\$m |              |                           |
| Net interest income   | 35                                   | -   | -   | (2)   | -            | 33                        |
| Net life insurance income   | (46)                                 | 318   | (173)   | -   | -            | 99                        |
| Other operating income  | -                                    | -   | 23  | (650)   | -            | (627)                     |
| NAB Wealth 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                                     | -                                    | -   | -   | -   | -            | -                         |
| IoRE (after tax)  | 1                                    | -   | -   | -   | -            | 1                         |
| Distributions   | -                                    | -   | -   | -   | -            | -                         |
| <b>Net profit attributable to owners of the Company</b>                   | -                                    | -   | -   | -   | -            | -                         |

| Half Year ended<br>31 March 2011  | Life Reclassification <sup>(a)</sup> |   |   |   | Other<br>\$m | NAB<br>Wealth adj.<br>\$m |
|---|--------------------------------------|---|---|---|--------------|---------------------------|
|   | Cash<br>loRE <sup>(i)</sup><br>\$m   | Policy-<br>holder<br>tax <sup>(ii)</sup><br>\$m | Other NLII<br>reclass-<br>ification <sup>(iii)</sup><br>\$m | Non-life<br>reclass-<br>ification <sup>(b)</sup><br>\$m |              |                           |
| Net interest income   | 32                                   | -   | -   | (7)   | -            | 25                        |
| Net life insurance income   | (70)                                 | (64)  | (240)   | -   | -            | (374)                     |
| Other operating income  | -                                    | -   | 21  | (540)   | -            | (519)                     |
| NAB Wealth 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 separately disclosed 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 NAB Wealth 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 NAB Wealth 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 NAB Wealth net operating income for management reporting purposes.

## 18. Divisional Performance Summary Excluding Foreign Currency Movements

| Half year ended<br>31 March 2012 at 31 March 2011 FX rate                   | Business<br>Banking<br>\$m | Personal<br>Banking<br>\$m | Wholesale<br>Banking<br>\$m | NAB<br>Wealth<br>\$m | NZ<br>Banking<br>\$m | UK<br>Banking<br>\$m | GWB<br>\$m | Specialised<br>Group<br>Assets<br>\$m | Corporate<br>Functions<br>& Other <sup>(1)</sup><br>\$m | Distributions<br>& Eliminations<br>\$m | Group<br>Cash<br>Earnings<br>\$m |
|---|----------------------------|----------------------------|-----------------------------|----------------------|----------------------|----------------------|------------|---------------------------------------|---|--|----------------------------------|
| Net interest income   | 2,530                      | 1,445                      | 798                         | 163                  | 540                  | 718                  | 137        | 56                                    | 369   | -                                      | 6,756                            |
| Other operating income  | 517                        | 286                        | 438                         | 18                   | 177                  | 228                  | 37         | 23                                    | (31)  | (48)                                   | 1,645                            |
| NAB Wealth net operating income   | -                          | -                          | -                           | 760                  | -                    | -                    | -          | -                                     | -   | -                                      | 760                              |
| Net operating income  | 3,047                      | 1,731                      | 1,236                       | 941                  | 717                  | 946                  | 174        | 79                                    | 338   | (48)                                   | 9,161                            |
| Operating expenses  | (875)                      | (902)                      | (470)                       | (571)                | (285)                | (556)                | (87)       | (19)                                  | (268)   | 48                                     | (3,985)                          |
| Underlying profit   | 2,172                      | 829                        | 766                         | 370                  | 432                  | 390                  | 87         | 60                                    | 70  | -                                      | 5,176                            |
| (Charge to provide for)/benefit for bad and doubtful debts                  | (372)                      | (169)                      | (50)                        | (5)                  | (25)                 | (451)                | (14)       | (75)                                  | -   | -                                      | (1,161)                          |
| Cash earnings before tax, IoRE, distribution and non-controlling interest   | 1,800                      | 660                        | 716                         | 365                  | 407                  | (61)                 | 73         | (15)                                  | 70  | -                                      | 4,015                            |
| Income tax (expense)/benefit  | (536)                      | (196)                      | (191)                       | (104)                | (114)                | 21                   | (23)       | -                                     | 24  | -                                      | (1,119)                          |
| <b>Cash earnings before IoRE, distribution and non-controlling interest</b> | 1,264                      | 464                        | 525                         | 261                  | 293                  | (40)                 | 50         | (15)                                  | 94  | -                                      | 2,896                            |
| Net profit - non-controlling interest                                       | -                          | -                          | -                           | (1)                  | -                    | -                    | -          | -                                     | -   | -                                      | (1)                              |
| IoRE  | -                          | -                          | -                           | 30                   | -                    | -                    | -          | -                                     | -   | -                                      | 30                               |
| Distributions   | -                          | -                          | -                           | -                    | -                    | -                    | -          | -                                     | -   | (107)                                  | (107)                            |
| <b>Cash earnings/(deficit)</b>  | 1,264                      | 464                        | 525                         | 290                  | 293                  | (40)                 | 50         | (15)                                  | 94  | (107)                                  | 2,818                            |

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

**Half year ended  
31 March 2012 at 30 September 2011 FX rate**

|   | <b>Business<br/>Banking<br/>\$m</b> | <b>Personal<br/>Banking<br/>\$m</b> | <b>Wholesale<br/>Banking<br/>\$m</b> | <b>NAB<br/>Wealth<br/>\$m</b> | <b>NZ<br/>Banking<br/>\$m</b> | <b>UK<br/>Banking<br/>\$m</b> | <b>Specialised<br/>Group<br/>Assets<br/>\$m</b> | <b>GWB<br/>\$m</b> | <b>Corporate<br/>Functions<br/>&amp; Other <sup>(1)</sup><br/>\$m</b> | <b>Distributions<br/>&amp; Eliminations<br/>\$m</b> | <b>Group<br/>Cash<br/>Earnings<br/>\$m</b> |
|---|-------------------------------------|-------------------------------------|--------------------------------------|-------------------------------|-------------------------------|-------------------------------|---|--------------------|---|---|--|
| Net interest income   | 2,530                               | 1,445                               | 784                                  | 163                           | 549                           | 690                           | 54  | 129                | 364   | -   | 6,708                                      |
| Other operating income  | 517                                 | 286                                 | 436                                  | 18                            | 180                           | 219                           | 38  | 35                 | (33)  | (47)  | 1,649                                      |
| NAB Wealth net operating income   | -                                   | -                                   | -                                    | 760                           | -                             | -                             | -   | -                  | -   | -   | 760  |
| Net operating income  | 3,047                               | 1,731                               | 1,220                                | 941                           | 729                           | 909                           | 92  | 164                | 331   | (47)  | 9,117                                      |
| Operating expenses  | (875)                               | (902)                               | (465)                                | (571)                         | (289)                         | (534)                         | (18)  | (82)               | (265)   | 47  | (3,954)                                    |
| Underlying profit   | 2,172                               | 829                                 | 755                                  | 370                           | 440                           | 375                           | 74  | 82                 | 66  | -   | 5,163                                      |
| (Charge to provide for)/benefit for bad and doubtful debts                  | (372)                               | (169)                               | (47)                                 | (5)                           | (26)                          | (433)                         | (72)  | (13)               | -   | -   | (1,137)                                    |
| Cash earnings before tax, IoRE, distribution and non-controlling interest   | 1,800                               | 660                                 | 708                                  | 365                           | 414                           | (58)                          | 2   | 69                 | 66  | -   | 4,026                                      |
| Income tax (expense)/benefit  | (536)                               | (196)                               | (189)                                | (104)                         | (116)                         | 20                            | (1)   | (22)               | 24  | -   | (1,120)                                    |
| <b>Cash earnings before IoRE, distribution and non-controlling interest</b> |                                     |                                     |                                      |                               |                               |                               |   |                    |   |   |  |
| <b>interest</b>   | 1,264                               | 464                                 | 519                                  | 261                           | 298                           | (38)                          | 1   | 47                 | 90  | -   | 2,906                                      |
| Net profit - non-controlling interest                                       | -                                   | -                                   | -                                    | (1)                           | -                             | -                             | -   | -                  | -   | -   | (1)  |
| IoRE  | -                                   | -                                   | -                                    | 30                            | -                             | -                             | -   | -                  | -   | -   | 30   |
| Distributions   | -                                   | -                                   | -                                    | -                             | -                             | -                             | -   | -                  | -   | (104)   | (104)                                      |
| <b>Cash earnings/(deficit)</b>  | 1,264                               | 464                                 | 519                                  | 290                           | 298                           | (38)                          | 1   | 47                 | 90  | (104)   | 2,831                                      |

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

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| Term   | Description   |
|--|---|
| ABCP   | Asset-backed commercial paper.  |
| ABS  | Asset-backed securities.  |
| 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, NAB Wealth and Great Western Bank.</li> <li>- Global Capital Markets and Treasury, Specialised Finance, Financial Institutions business within Wholesale Banking.</li> <li>- Asian operations and Group Funding within Corporate Functions and Other.</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 IFRS 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: <ul style="list-style-type: none"> <li>Net profit attributable to owners of the Company</li> <li>Adjusted for: <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>Litigation expense</li> <li>Hedging costs on SCDO assets</li> <li>Goodwill impairment</li> <li>Software impairment</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> </ul> </li> </ul> |
| Cash earnings on risk-weighted assets            | Calculated as cash earnings (annualised) divided by average risk-weighted assets. Average risk-weighted assets are calculated as the average of the current and previous two quarters' risk-weighted assets.  |
| Cash earnings per share - basic                  | Calculated as cash earnings (annualised) divided by the weighted average number of shares adjusted to include treasury shares.  |
| Cash earnings per share - diluted                | Cash earnings (annualised), 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.  |
| 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."  |
| 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.   |
| GRCL calculation methodology                        | The general reserve for credit losses (GRCL) is an estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio and on non-defaulted assets. The GRCL is calculated as a collective provision for doubtful debts, excluding securitisation and provisions on default no-loss assets. The difference between the GRCL and accounting collective provisions is covered with an additional top-up, created through a transfer from retained earnings to reflect losses expected as a result of future events that are not recognised in the Group's collective provision for accounting purposes. |
| GSJBW   | Goldman Sachs JBWere.  |
| GWB   | Great Western Bank.  |
| Impaired Assets                                     | Consist of:<br>- 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;<br>- non retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest; and<br>- impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.<br>Unsecured portfolio managed facilities are also classified as impaired assets when they become 180 days past due (if not written off).              |
| Insurance   | Includes the provision of personal and Group insurance by NAB Wealth.  |
| Investments   | Includes funds managed in the provision of investment and superannuation solutions by NAB Wealth.  |
| 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:<br>- investment earnings on surplus assets which are held in the Statutory Funds to meet capital adequacy requirements under the Life Insurance Act 1995 (Cth).<br>- interest on deferred acquisition costs (net of reinsurance) included in insurance policy liabilities resulting from the unwind of discounting.<br>- less the borrowing costs of any capital funding initiatives.   |
| 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, calculated on a cash earnings basis.  |
| 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 Ordinary 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 mortgages                | 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.   |
| 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, NAB Wealth, 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.   |
| Senior tranche ABS CDO            | CDO of ABS where a conduit has invested in the most senior note.   |
| Special Purpose Entity (SPE)      | An entity created to accomplish a narrow well-defined objective (e.g. 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.   |
| 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. |
| VARC                              | Value of Acquisition Recovery Components. It is 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.   |
| Weighted Average Number of Shares | Calculated in accordance with the requirements of AASB 133 'Earnings per Share.'   |

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