2008 Full Year Results

Incorporating the requirements of Appendix 4E

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

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

National Australia Bank

nab Clydesdale Bank Yorkshire Bank bnz Great Western Bank nabCapital MLC

Results for announcement to the market

Report for the year ended 30 September 2008

					30 September 2008 $m
Revenue from ordinary activities [1]	up	4.7%	*	to	16,257
Profit after tax from ordinary activities attributable to members of the Company	down	0.9%	*	to	4,536
Net profit attributable to members of the Company	down	0.9%	*	to	4,536

** On previous corresponding period (twelve months ended 30 September 2007).*

[1] Reported as the sum of the following items from the Group's consolidated income statement: Net interest income, Premium and related revenue, Fee income and Other income. On a cash earnings basis revenue increased by 5.8%.

Dividends	**Amount per share**	**Franked amount per share**
Final Dividend	97 cents	100%
Interim dividend	97 cents	100%
Record date for determining entitlements to the final dividend	13 November 2008	

Highlights [2]

Group cash earnings	down	10.7%	Cash earnings from ongoing operations of $3,916 million for the September 2008 year decreased by $470 million or 10.7% on the September 2007 year. Underlying profit increased by $996 million or 13.9%. This reflects good revenue growth stemming from the Group's market leading position in business banking in Australia, successful repricing initiatives in all regions and strong performance in nabCapital's Markets business. A disciplined approach to cost management has been maintained however, cash earnings have been reduced by a higher bad and doubtful debts charge mainly relating to Asset Backed Securities Collateralised Debt Obligations in nabCapital.
Cash return on equity (ROE)	down to	14.3%	Cash ROE decreased by 280 basis points.
Diluted cash earnings per share	down to	237.3 cents	Diluted cash earnings per share decreased by 11.6%
Banking cost to income ratio	down	390 bps	The Group's banking cost to income ratio declined by 390 basis points for the full year to 46.9% and represents continued progress in improving business processes, reducing costs and increasing productivity and efficiency to develop a sustainable cost base.
Tier 1 capital ratio	up	68 bps	The Group's Tier 1 ratio increased to 7.35% during the year, which is above the target level. The increase reflected a number of factors including accreditation for credit risk under Basel II and related portfolio management to reduce RWAs. In addition the Group raised capital by underwriting the first half dividend reinvestment plan and raising hybrid capital, offset by additional CDO writedowns.
Full time equivalent employees	up	907	Full time equivalent employees increased to 39,729 and reflects continued investment in frontline staff to support business growth, and the acquisition of Great Western Bank in June 2008.

[2] All growth rates are calculated on an ongoing basis on the previous corresponding period.

A Glossary of Terms is included in Section 7.

A reference in this Appendix 4E to the 'Group' is a reference to the Company and its controlled entities. All currency amounts are expressed in Australian dollars unless otherwise stated. References in this document to the September 2008 year are references to the twelve months ended 30 September 2008. Other twelve month periods are referred to in a corresponding manner.

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Table of Contents

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Group Corporate Affairs
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National Australia Bank Limited
ABN 12 004 044 937

ASX Announcement

Tuesday, 21 October 2008

NAB reports solid underlying business performance

Revenue growth and cost control drives underlying profit

FY 08 compared with FY 07, ongoing operations

Revenue	▲ 5.8% to $15.4 billion
Expenses	▼ 2.0% to $7.3 billion
Underlying Profit Operating Income less Operating Expenses excluding charge for Bad and Doubtful Debts	▲13.9% to $8.1 billion
Net Profit Attributable to members of the Co.	▼ 0.9% to $4.5 billion

Cash earnings up prior to conduit costs

Cash earnings excluding conduit costs	▲ 7.7% to $4.7 billion
Cash earnings	▼10.7% to $3.9 billion

Strong Capital, Funding and Liquidity

Tier 1 Capital Ratio	7.35%
Total Capital Ratio	10.93%
Term funding raised	$28 billion (av. mat. 4 years)
Liquid Asset Portfolio	▲to $66 billion from $54 billion

Full Year Dividend Increased

2008 final dividend	▲ 2 cps to 97 cps, fully franked
2008 full year dividend	▲ 12 cps to 194 cps, fully franked

Group Performance Comments

National Australia Bank Group Chief Executive Officer, John Stewart said: "In an extremely difficult environment, each of the Group's businesses delivered strong underlying results. This reflects the continued strength of our franchises, effective cost disciplines, and pro-active credit management. On a pre-provisioning basis, the Group's underlying profit was $8.1 billion, up 13.9% on the prior year.

“Unfortunately, this strong result was marred by the provisions required against conduit assets in the nabCapital securitisation business, reflecting unprecedented conditions in global markets.

“While significant, the loss of approximately $1 billion incurred by nabCapital is considerably less than write-offs by many of our global peers. The strength of the Group's underlying profit growth allowed this loss to be absorbed and still deliver cash earnings of $3.9 billion, down 10.7% on the prior year.

“Our core banking franchises have performed well despite great volatility in financial markets.

“Our traditional branch banking and wealth management operations are all profitable, well capitalised and conservatively funded. Overall, and individually, our banking businesses have sound asset quality and are well provisioned. While this is the norm for the Australian banking industry, it is in stark contrast to the situation of many banks around the world,” he said.

“The continued revenue growth and tight cost control demonstrates the quality of the disciplined management of the underlying businesses.

“The Australian region continues to perform well with strong revenue growth and an outstanding cost to income ratio of 40.6% for the banking operation in the second half of the year. MLC has performed well given the deterioration in investment market conditions.

“The UK Region demonstrated resilience under exceptionally difficult market conditions where a number of banks have struggled to survive. It has out-performed local peers on many key measures, and on asset quality, by a large margin.

“Our New Zealand operation has recorded the seventh consecutive half year of flat costs and delivered solid revenue and earnings growth.

“nabCapital’s exceptional underlying profit growth was driven in large part by performance across the Global Markets business, which achieved record revenues.

“The NAB’s Tier 1 capital was strong at 7.35% and $28 billion of term funding was raised during the year, with a four year average maturity. Our liquidity is very strong with liquid assets of $66 billion, more than double the pre-market dislocation levels. These conservative capital, funding and liquidity settings are considered appropriate in light of the continuing uncertainty about global credit market conditions.

“I am confident NAB’s operations are well placed to weather this uncertain environment, with the appropriate focus on core businesses and the right financial settings to maintain strength and flexibility,” Mr Stewart said.

Asset Quality

The deteriorating economic conditions and volatility in financial markets, particularly in the second half of the financial year, has led to an expected softening in asset quality, albeit following a prolonged benign credit cycle.

The Group undertook a thorough review of its loan portfolio in the 4th quarter of September 2008 financial year. This extensive review focused on higher risk areas and was undertaken across all regional businesses by credit personnel with external auditor oversight, to provide additional verification of the adequacy of provision coverage. The review concluded that the portfolio is performing well and the Group is appropriately provisioned. The lending portfolio is well diversified, both geographically and by product. Total provisions now stand at $3,294 million.

Capital

As announced last week, NAB intends to further strengthen its capital position in response to the ongoing global economic uncertainty. The general strategy is to continue to seek to raise capital equivalent to the shortfall in the Dividend Reinvestment Plan for the next two dividend payments, and to continue to explore opportunities to utilise our Tier 1 hybrid capacity.

Regional Performance Summary

Good underlying profit performance by all business units

Underlying Profit is Operating Income less Operating Expenses, excluding charge for Bad and Doubtful Debts

	FY 2008 $m	FY 2007 $m	Growth
Australia (AUD)	5,310	4,451	**+19.3%**
United Kingdom (£)	518	463	**+11.9%**
New Zealand (NZD)	763	685	**+11.4%**
nabCapital (AUD)	1,309	960	**+36.4%**

Australia

The Australia Region delivered cash earnings growth (before IoRE) of 15.8% and underlying profit growth of 19.3% over the prior comparative period. Revenue growth of 10.1% was an excellent result achieved in a very challenging environment. The strong performance of cash earnings growth of 18.5% by the Australia Banking business reflects continued momentum in business lending and consumer deposit gathering. MLC cash earnings growth of 1.5% benefited from strong sales performance and excellent insurance results but was offset by negative investment earnings growth.

The regional expense base decreased marginally over the prior comparative period, which is a standout result achieved in a 3 to 4% inflationary environment and within a competitive labour market. The cost base in 2008 has been held relatively flat for the last three years and stands lower than 2006.

Bad and doubtful debt charges were up 55% reflecting the tightening in the credit environment and a slowdown in economic growth. The charge includes increases across the portfolio, with higher specific provisions generated across Business & Private Banking and in particular, the impairment of one large business client in the March 2008 half.

Significant work has been undertaken in the Australia Region to ensure risk associated with the lending book is actively managed and priced appropriately. Asset quality is in good shape with 90 days past due stabilising and is flat on the first half of 2008.

The Efficiency, Quality and Services program was central to the improvement in the banking cost to income ratio to 40.6% for the six months to September 2008 and has delivered over $300 million in benefits in the year to September 2008, bringing a cumulative total sustainable benefit in excess of $500 million since the program began in 2005. The region remains committed to operating expenses remaining within the Australian inflation rate to 2010.

NAB has committed to the first phase of its Next Generation Platform initiative that will replace the core banking systems over the next five years to underpin its strategy for sustainable out-performance.

NAB's strategic focus on specialised businesses concentrating on the needs of the customer, particularly in the core business banking area, demonstrated strong revenue and volume growth in areas such as health, 'agri' and education.

NAB aims to better manage the needs of high net worth customers through the creation of the Private & Institutional Wealth division and has launched a specialised, low cost, high service direct bank to customers in the growing direct segment through the Star Direct & Alliances business.

The first brand in NAB's Star Direct & Alliances division, UBank, is a new direct channel and was launched in 2008 offering term deposits. Over time, a range of additional savings, transaction and investment products will be added.

MLC continues to perform well in very difficult investment markets with underlying cash earnings of $408 million slightly ahead of the prior period. This result reflects the diversification of the MLC business model including a strong and growing insurance business, accompanied by the retail platform "MasterKey" which is supported by MLC's manager of manager's investment process.

MLC's advice networks continue to grow strongly as an outcome of the commitment to running a sustainable and transparent business model. A highlight of the MLC result is also expense control.

United Kingdom

The UK Region continues to deliver a strong trading performance relative to local peers in a very challenging market. Cash earnings in local currency increased 2.5% and underlying profits were up 11.9% over September 2007. This reflected higher income, flat expenses and a lower tax charge, partially offset by higher charges to provide for doubtful debts.

Against a backdrop of slowing credit growth and a weakening economy, the UK Region maintained momentum in quality lending and deposit gathering, particularly through its iFS relationship proposition. The rate of underlying contraction of interest margins continued to slow despite higher costs of funding.

Differentiated in the UK market by its adherence to the sound principles of a traditional banking model, firm cost control and ongoing business efficiency improvements, our banks have delivered six consecutive halves of flat costs. This, coupled with strong credit management, has helped set the business apart from peers.

In a difficult market, some key asset quality measures have softened since the March half, albeit these have risen off a very low base and again compare favourably to the peer group. In particular, the retail portfolio is performing well with the value of accounts 90 days past due in housing and unsecured lending remaining broadly stable. Specifically, the level of mortgages 90 days or more in arrears is less than half the United Kingdom industry average. The combined ratio of 90 days past due and gross impaired assets to gross loans and acceptances has increased mainly in the business segment, reflecting the challenging conditions.

The UK Region remains resolutely focused on the prudent development of its operations and is well positioned to capture business in the aftermath of current consolidation activity within the UK banking sector.

New Zealand

Solid revenue growth driven by a profitable market share focus, disciplined cost management and stable asset quality, have delivered cash earnings growth in local currency of 12.1% for the NZ Region over the September 2007 full year.

The performance of the NZ Region for September 2008 reflects the continuing success from three strategic themes of simplification, culture and new revenue streams. These strategic themes are continuing to provide the core foundations for the organisation to navigate through the current turbulent global economic conditions and deliver long term sustainable returns to the NAB Group and its shareholders.

Simplification efforts have continued to reduce the complexity in processes, systems, structures and products using the well engrained disciplines of continuous improvement (Kaizen) making life easier and better for customers and staff alike. This is the seventh consecutive half year period of relatively flat costs while also continuing to improve customer satisfaction and culture, and grow revenue.

nabCapital

Despite having the greatest exposure to global market conditions, which adversely affected cash earnings, nabCapital's core businesses continued to perform very well, delivering a 36% increase in underlying profit compared to the prior year.

This was driven by an exceptional performance across the Global Markets division which achieved record revenues. The Global Markets business was well positioned to benefit from the increased market volatility through sound risk management and a strong client focus. Performance was enhanced by increased cross-sell with the branch banking businesses.

The lending businesses benefited from growth in Corporate Finance and repricing initiatives in Institutional Banking, driven by our commitment to support key clients in the challenging market environment.

Cash earnings were negatively affected by the need for additional provisioning, particularly in respect of the portfolio of Asset Backed Securities (ABS) Collaterised Debt Obligations (CDOs) held within nabCapital's conduit structures (provision of A$1,011 million) and further risk mitigation efforts. The write-down in these assets is a direct result of the severe and escalating distress of the US housing market experienced throughout 2008.

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Section 2

Highlights

Group Performance

Strategic Highlights & Business Developments

The Group has maintained conservative capital and liquidity settings during the September 2008 year to provide financial strength in an uncertain operating environment.

The Group has remained focused on its strategic priorities in delivering a solid operating performance in all businesses other than the losses recognised on securitisation conduit assets. During the September 2008 year:

- The Group's **capital and balance sheet continued to be conservatively managed** in response to the significant levels of volatility within financial markets. The Group held an additional $12 billion of liquid assets over the prior year. At 30 September 2008 the liquidity position is over the regulatory requirements as a buffer against this market volatility.
- The Group has achieved Basel II advanced accreditation during the September 2008 half. Under Basel II the Group's Tier 1 capital ratio of 7.35% reflects the strong underlying balance sheet and a **disciplined approach to capital management**. The Group remains focused on retaining strength in this ratio.
- **The Group raised $28 billion of term wholesale funding** in difficult market conditions and has significantly grown its deposit base from September 2007.
- **Good revenue growth continued** particularly within business banking franchises, higher cross-sell activity and distribution of risk management products to clients as customers responded to volatile markets. Repricing initiatives have been undertaken wherever possible to properly reflect current funding costs.
- **Cost growth was maintained well within inflation** through a continued focus on efficiency and productivity across the Group, while maintaining a healthy level of investment within the businesses.
- The **acquisition of Great Western Bank** was completed in June 2008, and has performed in line with expectations.
- The Group has focused on the development of **new revenue opportunities** in the banking franchises with the creation of Private & Institutional Wealth and Star Direct & Alliances, including the operational launch of UBank on 1 October 2008, within the Australia Region. The UK Region's proven integrated Financial Solutions (iFS) model has been implemented by both the Australia and NZ Regions. Great Western Bank has commenced implementation of the Group's successful agribusiness and SME strategies.

Financial Highlights

The Group has generated cash earnings of $3,916 million for the September 2008 full year, a decrease of 10.7% over the September 2007 full year. The decrease was primarily attributable to a $1,011 million bad and doubtful debt charge in relation to $US1.1 billion of Asset-backed Securities Collateralised Debt Obligation (ABS CDOs) exposure within nabCapital. Underlying business performance remains sound with cash earnings up 7.7% to $4,724 million excluding the after tax impact of this bad and doubtful debt charge and associated risk mitigation strategy.

Revenue growth of 5.8% compared to the September 2007 full year (up 9.1% excluding foreign exchange) was achieved through relationship banking franchises and nabCapital. All regions have continued to realise cross-sell opportunities. This growth has been partly offset by an additional $369 million in funding costs incurred in wholesale debt markets.

While system lending growth has slowed in all markets, the Group has achieved satisfactory growth in lending volumes, with average lending volumes up 12.5% from September 2007 to $361 billion. Retail deposit growth has been solid in a competitive market, up 10.8%.

All regions have again demonstrated their capability in sustainable cost management, with expenses down 2.0% (up 1.5% excluding foreign exchange) from September 2007.

The Group has seen a significant increase in the charge to provide for bad and doubtful debts when compared to September 2007, primarily as a result of exposures to ABS CDOs assets in nabCapital and provisions on a few larger corporate customers. The underlying asset quality of the overall portfolio remains sound although there has been some increase in arrears levels and impaired assets, in line with expectations in the current economic climate.

Including the ABS CDOs, through nabCapital, the Group holds $17.1 billion of exposure to securitisation conduits, of which approximately $16 billion in assets are now consolidated at 30 September 2008. The Group has rigorously reviewed the quality of the underlying assets within these vehicles and is satisfied the provisions held reflect the credit quality of the assets at the present time. In addition, risk mitigation strategies have been executed to further enhance the risk protection on selected assets within the conduit portfolio.

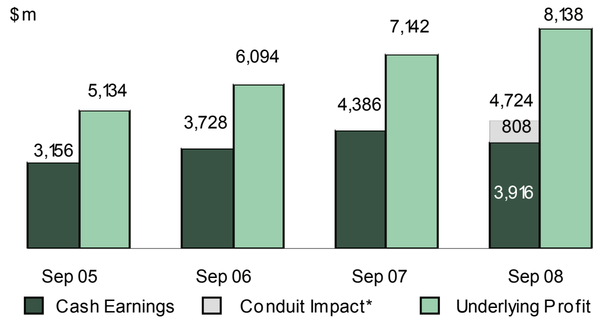
Shareholder Returns

The Group's return on equity has declined by 280 basis points to 14.3% for the year compared to the September 2007 year, reflecting lower earnings and the higher levels of capital held.

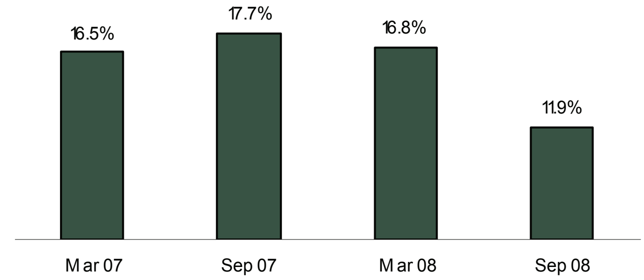
The final dividend for the year is 97 cents per share, up 2 cents on the September 2007 final dividend. This represents a dividend payout ratio of 81.4% for the year on a cash earnings basis. The dividend payment is 100% franked, and will be paid on 17 December 2008. Shares will be quoted ex-dividend on 7 November 2008.

Key Performance Measures [1]

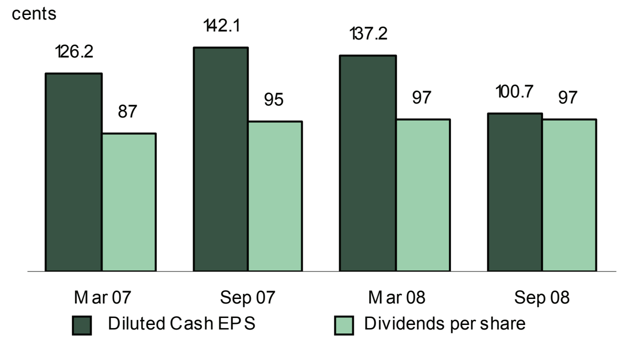
Cash Earnings and Underlying Profit - full year



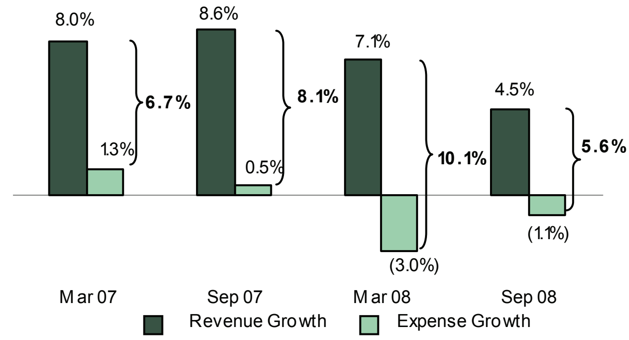
Cash Return on Equity (ROE) - half year



Diluted Cash EPS and Dividends per Share – half year



Half Yearly Revenue – Expense Differential[2] – half year



Group Performance Indicators [1]

	Year to Sep 08	Year to Sep 07	Half year to Sep 08	Half year to Mar 08
Key Indicators				
Cash earnings per share (cents) - basic	**238.4**	270.1	**101.1**	137.6
- diluted	**237.3**	268.5	**100.7**	137.2
Cash ROE	**14.3%**	**17.1%**	**11.9%**	**16.8%**
Profitability, performance and efficiency measures				
Dividends per share (cents)	**194**	182	**97**	97
Dividend payout ratio (basic)	**81.4%**	67.4%	**95.9%**	70.5%
Cash earnings on average assets	**0.64%**	0.84%	**0.54%**	0.75%
Cash earnings per average FTE ($'000)	**99**	113	**84**	114
Banking cost to income ratio	**46.9%**	50.8%	**46.7%**	47.0%
Net interest margin: - Australia Banking	**2.42%**	2.41%	**2.49%**	2.36%
- UK Region	**2.62%**	3.06%	**2.59%**	2.66%
- New Zealand Region	**2.42%**	2.45%	**2.35%**	2.49%
Capital	**Basel II**	**Basel I**	**Basel II**	**Pro forma Basel II**
Tier 1 ratio	**7.35%**	6.67%	**7.35%**	6.90%
Total capital ratio	**10.93%**	9.99%	**10.93%**	10.27%
Adjusted common equity (ACE) ratio	**5.28%**	4.90%	**5.28%**	4.88%
Risk weighted assets [4] ($bn)	**343.5**	355.3	**343.5**	336.4
Volumes ($bn)				
Gross loans and advances [3] [4]	**438.3**	391.0	**438.3**	414.0
Average interest earning assets	**506.5**	429.1	**518.1**	495.0
Total average assets	**608.8**	522.0	**618.9**	598.8
Asset quality				
Gross impaired assets to gross loans and acceptances	**0.49%**	0.28%	**0.49%**	0.36%
Total provisions to gross impaired assets	**153%**	211%	**153%**	192%
Specific provision to gross impaired assets	**30.0%**	28.1%	**30.0%**	35.8%
Other				
Funds under management and administration ($bn)	**97.1**	113.4	**97.1**	105.8
Annual inforce premiums (spot) ($m)	**859.3**	795.6	**859.3**	821.7
Full Time Equivalent Employees (no.)	**39,729**	38,822	**39,729**	39,421

(1) *All key performance measures and Group performance indicators are calculated on an ongoing basis unless otherwise stated. A Glossary of Terms is included in Section 7.*
(2) *Revenue and expense growth is calculated over the prior comparative half.*
(3) *Including acceptances and loans at fair value.*
(4) *Spot balance as at reporting date.*
* *ABS CDO provisions and costs associated with risk mitigation strategy.*

Group Results

	Year to			Half Year to		
	Sep 08 $m	Sep 07 $m	Sep 08 v Sep 07%	Sep 08 $m	Mar 08 $m	Sep 08 v Mar 08%
Net interest income	**11,142**	9,765	14.1	5,839	5,303	10.1
Other operating income	**3,015**	3,519	(14.3)	1,325	1,690	(21.6)
MLC net operating income	**1,257**	1,286	(2.3)	611	646	(5.4)
Net operating income	**15,414**	14,570	5.8	7,775	7,639	1.8
Operating expenses	**(7,276)**	(7,428)	2.0	(3,678)	(3,598)	(2.2)
Underlying profit	**8,138**	7,142	13.9	4,097	4,041	1.4
Charge to provide for bad and doubtful debts	**(2,489)**	(790)	large	(1,763)	(726)	large
Cash earnings before tax, IoRE and distributions	**5,649**	6,352	(11.1)	2,334	3,315	(29.6)
Income tax expense	**(1,408)**	(1,722)	18.2	(497)	(911)	45.4
Cash earnings before IoRE and distributions	**4,241**	4,630	(8.4)	1,837	2,404	(23.6)
Net profit – minority interest	**1**	-	-	2	(1)	large
IoRE	**(14)**	39	large	(5)	(9)	44.4
Distributions	**(312)**	(283)	(10.2)	(155)	(157)	1.3
Cash earnings[(1)] – ongoing operations	**3,916**	4,386	(10.7)	1,679	2,237	(24.9)
Disposed operations	**3**	8	(62.5)	1	2	(50.0)
Cash earnings[(1)]	**3,919**	4,394	(10.8)	1,680	2,239	(25.0)
Non-cash earnings items	**617**	184	large	169	448	(62.3)
Net profit attributable to members of the company	**4,536**	4,578	(0.9)	1,849	2,687	(31.2)

[(1)] *Cash earnings is a key financial performance measure used by the Group, the investment community and Australian peers. For a full reconciliation between the Group's cash earnings and statutory accounting profit refer to page 133. A Glossary of Terms is included in Section 7.*

Group Balance Sheet Key Items [(1)]

	As at				
	30 Sep 08 $m	31 Mar 08 $m	30 Sep 07 $m	Sep 08 v Sep 07%	Sep 08 v Mar 08%
Assets					
Cash and liquid assets	**18,209**	12,256	12,796	42.3	48.6
Due from other banks	**46,996**	39,163	25,144	86.9	20.0
Marketable debt securities	**39,463**	40,025	40,682	(3.0)	(1.4)
Loans and advances at fair value	**25,732**	22,126	19,564	31.5	16.3
Other assets at fair value	**4,868**	5,178	5,625	(13.5)	(6.0)
Other financial assets at fair value	**30,600**	27,304	25,189	21.5	12.1
Loans and advances including acceptances	**406,456**	386,575	366,525	10.9	5.1
Investments relating to life insurance business	**52,896**	57,346	62,630	(15.5)	(7.8)
Other assets	**62,179**	49,344	41,254	50.7	26.0
Total assets	**656,799**	612,013	574,220	14.4	7.3
Liabilities					
Due to other banks	**52,423**	50,557	42,566	23.2	3.7
Deposits at fair value	**14,485**	16,123	14,133	2.5	(10.2)
Other liabilities at fair value	**9,099**	7,385	7,717	17.9	23.2
Other financial liabilities at fair value	**23,584**	23,508	21,850	7.9	0.3
Deposits and other borrowings	**327,466**	286,223	263,742	24.2	14.4
Liability on acceptances	**16,075**	21,489	30,443	(47.2)	(25.2)
Bonds, notes and subordinated debt	**98,239**	92,402	80,983	21.3	6.3
Other liabilities	**106,166**	107,029	104,751	1.4	(0.8)
Total liabilities	**623,953**	581,208	544,335	14.6	7.4

[(1)] *Securitisation conduits are now consolidated. Comparatives have been adjusted to reflect this. Refer to Note 1 in the Financial Report in Section 5 for a full explanation.*

Regional Performance

Regional Results

	Year to			Half Year to		
	Sep 08 $m	Sep 07 $m	Sep 08 v Sep 07%	Sep 08 $m	Mar 08 $m	Sep 08 v Mar 08%
Australia Banking	**2,928**	2,471	18.5	**1,561**	1,367	14.2
MLC	**408**	402	1.5	**188**	220	(14.5)
Other (incl. Asia)	**(8)**	1	large	**(6)**	(2)	large
Australia Region	**3,328**	2,874	15.8	**1,743**	1,585	10.0
UK Region	**542**	592	(8.4)	**231**	311	(25.7)
New Zealand Region	**404**	379	6.6	**197**	207	(4.8)
nabCapital	**(44)**	715	large	**(417)**	373	large
Central Functions	**12**	70	(82.9)	**85**	(73)	large
IoRE	**(14)**	39	large	**(5)**	(9)	44.4
Distributions	**(312)**	(283)	(10.2)	**(155)**	(157)	1.3
Cash earnings – ongoing operations	**3,916**	4,386	(10.7)	**1,679**	2,237	(24.9)
Disposed operations	**3**	8	(62.5)	**1**	2	(50.0)
Cash earnings	**3,919**	4,394	(10.8)	**1,680**	2,239	(25.0)
Non-cash earnings items	**617**	184	large	**169**	448	(62.3)
Net profit attributable to members of the company	**4,536**	4,578	(0.9)	**1,849**	2,687	(31.2)

Regional Performance Indicators

	Year to			Half Year to		
	Sep 08	Sep 07	Sep 08 v Sep 07	Sep 08	Mar 08	Sep 08 v Mar 08
Australia Banking						
Cash earnings ($m)	**2,928**	2,471	18.5%	**1,561**	1,367	14.2%
Cash earnings on average assets	**1.11%**	1.07%	4 bps	**1.14%**	1.08%	6 bps
Net interest margin	**2.42%**	2.41%	1 bp	**2.49%**	2.36%	13 bps
Net operating income ($m)	**8,100**	7,215	12.3%	**4,206**	3,894	8.0%
Cost to income ratio	**41.6%**	46.0%	440 bps	**40.6%**	42.6%	200 bps
MLC						
Cash earnings (before IoRE) ($m)	**408**	402	1.5%	**188**	220	(14.5%)
Investment cost to average FUM	**50 bps**	54 bps	4 bps	**52 bps**	47 bps	(5 bps)
Insurance cost to average inforce premium	**21%**	24%	300 bps	**20%**	21%	100 bps
UK Region £ (pounds sterling)						
Cash earnings (£m)	**249**	243	2.5%	**110**	139	(20.9%)
Cash earnings on average assets	**0.69%**	0.82%	(13 bps)	**0.59%**	0.79%	(20 bps)
Net interest margin	**2.62%**	3.06%	(44 bps)	**2.59%**	2.66%	(7 bps)
Net operating income (£m)	**1,235**	1,182	4.5%	**623**	612	1.8%
Cost to income ratio	**57.9%**	60.1%	220 bps	**57.6%**	58.3%	70 bps
New Zealand Region (NZD)						
Cash earnings ($NZm)	**482**	430	12.1%	**243**	239	1.7%
Cash earnings on average assets	**1.05%**	1.05%	-	**1.02%**	1.08%	(6 bps)
Net interest margin	**2.42%**	2.45%	(3 bps)	**2.35%**	2.49%	(14 bps)
Net operating income ($NZm)	**1,454**	1,374	5.8%	**736**	718	2.5%
Cost to income ratio	**47.5%**	50.1%	260 bps	**47.3%**	47.8%	50 bps
nabCapital						
Cash earnings ($m)	**(44)**	715	large	**(417)**	373	large
Net operating income ($m)	**2,126**	1,750	21.5%	**984**	1,142	(13.8%)
Cost to income ratio	**38.4%**	45.1%	670 bps	**41.3%**	36.0%	(530 bps)

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Section 3

Review of Group Strategy, Operations and Results

Group Strategy and Operating Environment

John Stewart

Group Strategy

The Group's corporate purpose is to deliver sustainable, satisfactory returns to shareholders. Five pillars underpin this objective:

- *Above system revenue growth potential in chosen segments.* The Group has superior relationship-based capabilities and franchises that allow it to compete successfully in economically attractive segments in its key geographies (eg, Business Banking including Agri in Australia and New Zealand, iFS in the retail banking franchises, MLC).
- *Sustainable cost base with further operational efficiencies to be achieved*. The Group's disciplined cost management, coupled with its significant investment program, has laid the foundations for future growth. This, together with the development of operational excellence disciplines and off-shoring capabilities, and moves to further exploit cross-Group scale, should allow further operational efficiencies to be achieved.
- *Capability and value-driven investment in new business areas*. The Group has strong organic growth prospects. It also expects to supplement that growth by selectively building or acquiring businesses that exploit relationship-based capabilities within the regional businesses, and provide synergies to the Group's existing portfolio.
- *Group-wide focus on ROE and disciplined capital management*. Treasury, risk and business management processes have been considerably strengthened off an already high base. A more effective capital management framework and a robust balance sheet funding model have also been implemented. Incentive schemes are aligned to the Group's twin targets of cash earnings growth and ROE. Focus continues on the disciplined management of ROE in the Group's business, customer and product portfolios.
- *Management bench strength*. To execute this agenda, the Group continues to invest in people to attract and retain a disproportionate share of talent. It will also continue to embed the 'regional accountability model' to empower teams with the accountability for attractive and sustainable bottom-line business performance.

The Group has made good progress against each element of this agenda in this half.

Strategic pillars	Initiatives and accomplishments
Above system revenue growth potential in chosen segments	Reinforcement of relationship businesses has continued to drive revenue growth, particularly within Business & Private Banking (BPA) in the Australia Region. Net operating income is up 15.6% in BPA and nabCapital's Markets and Lending businesses continue to perform well in a volatile environment.
Sustainable cost base with further operational efficiencies to be achieved	All Regions have maintained their focus on effective cost management, and cost growth continues to remain below inflation, with operating expenses down 2.0% on September 2007 year, and up 2.2% on the March 2008 half. This has been achieved through effective use of "Lean", "Six Sigma" and "Kaizen" principles, along with successful outsourcing and off-shoring programmes.
Capability and value-driven investment in new business areas	Rollout of the proven iFS model in relationship based banking has continued, with the model now operational in Australia and New Zealand. Private & Institutional Wealth has been created to deliver more integrated product and service solutions to the private wealth and institutional markets. Star Direct & Alliances launched UBank on 1 October 2008. UBank offers a banking experience dedicated to customers wanting a do-it-yourself, simple-to-use online and telephone banking service. The Group's acquisition of Great Western Bancorporation was completed on 3 June 2008. Great Western Bank is now in a position to leverage the strength of the agribusiness relationship model in the United States.
Group-wide focus on ROE and disciplined capital management	Implementation of an improved balance sheet management framework to drive an appropriate mix of funding sources across a diverse range of debt markets. This has positioned the Group well for the conditions experienced over the year in global funding markets. The Group completed its Basel II accreditation during the half and has now revised its Tier 1 target to operate above 7% reflecting the impacts of the revised framework and the global trend to target higher capital ratios in the current market. The Group's Tier 1 capital position of 7.35% is consistent with that higher target, and opportunities to enhance the strength of the Group's capital position continue to be investigated. The Group has continued with its progressive review of product and relationship data to minimise capital deployed against low ROE activities.
Management bench strength	To foster and enhance management and leadership skill sets with the organisation the development of 'The Academy' initiative has continued. The Academy is a strategic initiative representing a significant investment in developing resources aimed at transforming the culture by building sustainable capability across the organisation. The Group has continued to invest in the development of its senior executive pipeline. As announced on 31 July 2008 and 4 September 2008 respectively, Cameron Clyne will succeed John Stewart as Group CEO on 1 January 2009 and Bruce Munro will succeed Michael Hamar as Group CRO in January 2009. Succession planning for these key roles has been successfully implemented. The Group's growth agenda will continue to create opportunities for career development.

Outlook/Operating Environment

The global financial market environments within which the Group's business units operate has clearly become riskier and less certain. Global economic conditions have deteriorated sharply and are expected to worsen further. The appropriate response to such challenging business conditions is to adopt conservative risk settings, conduct rigorous stress tests and make realistic assessments of key business drivers, such as credit growth, funding costs and lending margins.

The disruption in global financial markets has been of such magnitude that public sector intervention has been increasingly required in many large economies. Initially this involved central banks injecting growing amounts and gradually widening types of liquidity into the markets to alleviate some of the dislocation caused by changing risk attitudes. More recently, Government funds have been allocated to support depositors and, in some cases, the continued operation of firms in the banking and insurance industries. Deposit guarantees have been introduced or enhanced in many economies, bank recapitalisation schemes and official guarantees on new eligible bank debt have been announced in the US, UK and Eurozone. The outcome of this period of quite exceptional stress and volatility in financial markets has been a profound change in the landscape of the finance industry with the failure of long-established institutions, rapid growth in others and severe disruption in key channels of finance.

Economic conditions appear likely to continue softening well into 2009. The combination of the much higher prices for oil and other commodities seen in recent years with the higher cost and reduced supply of credit represents a sizeable adverse shock to the global economy. The reduction of household sector wealth flowing from sharply lower equity prices and widespread falls in house prices weighs further on economic prospects.

The impact of these adverse influences is becoming increasingly apparent across the key OECD regions with industrial output falling, trade growth slipping sharply and deepening of recessions across North America, Japan and Western Europe. Economic growth is still being sustained at a solid pace in such key emerging market economies as China, India and Brazil and they are now the key drivers of global economic expansion.

Nevertheless, the hope that large parts of the world could "de-couple" from economic weakness in the US has not been realised and so the pace of growth in the big emerging economies should slow considerably through the next two years. Although global GDP is still expanding, industrial output seems to be already falling and pricing behaviour across a wide variety of markets appears consistent with anticipation of a global recession.

Few regions in the global economy can expect to emerge unscathed from such a period of economic weakness. Fortunately, the relative resilience of the Chinese and Indian economies should help support income and output in their commodity suppliers and that should cushion the impact of the global downturn on the Australian and New Zealand economies. Nevertheless, global commodity prices are already falling and their elevated starting levels shows the potential for them to fall sharply and still be high by historical standards.

The maintenance of business sentiment evident in the most recent Australian business surveys contrasts strongly with the deepening gloom evident in most other OECD economies. Nevertheless, the business surveys have been trending down and there is likely to be a further slowing in both Australasian economies. There has already been a marked softening in domestic demand in Australia, particularly outside the commodity-supplying farming and mining sectors. A combination of substantial reductions in interest rates, recent and prospective tax cuts, the recent package of Government fiscal measures and currency depreciation should limit the adverse impact of the downturn in the global economy.

The UK economy is, in all likelihood, moving into recession with particularly severe conditions in the housing market and in the construction and retail industries. Consumer spending will remain under pressure as the unemployment rate climbs higher, household wealth erodes and the squeeze on real incomes continues. As in Australasia, lower interest rates, public sector demand and a weaker exchange rate will support activity in the face of numerous adverse shocks to output and demand, but the UK economy should still experience a prolonged and sizeable downturn.

The downturn in the economic cycle will, as usual, have important implications for such key business variables as credit growth and asset quality. There had already been a pronounced slowing in system credit growth across Australia, New Zealand and the UK through the first half of the year. The significant downturns in housing markets in the UK and New Zealand along with the signs of a softening in market conditions in Australia have lowered mortgage growth. Business lending growth, which had proved exceptionally strong through recent years, has also softened.

The combination of recessions in New Zealand and the UK alongside the projected slowing in growth in Australia will inevitably affect asset quality. System loan impairment ratios in both Australia and New Zealand have been exceptionally low in recent years and, judging by a variety of measures, system asset quality in the UK has been good also. However the combination of eroding collateral values and pressure on incomes and cash flows as economies slow will drive system bad debt ratios up from their historically low levels.

It remains far from clear just how severe the downturn in economic activity across the OECD will be. Much depends on the extent to which the recent measures taken by big OECD countries resolve the problems in their financial markets and banking industries. Sharply lower commodity prices, growing amounts of idle productive capacity and rising unemployment suggest that inflationary pressures are going to ease sharply. That should allow interest rates to be cut and remain low. Fiscal deficits should also widen significantly around the world, further supporting economic activity. At best, however, global growth might average around 2% next year, an exceptionally low outcome by historical standards. Virtually all that growth will come from countries like China and India with large parts of the world economy already facing recession.

Review of Group Operations and Results

Mark Joiner

Group Results

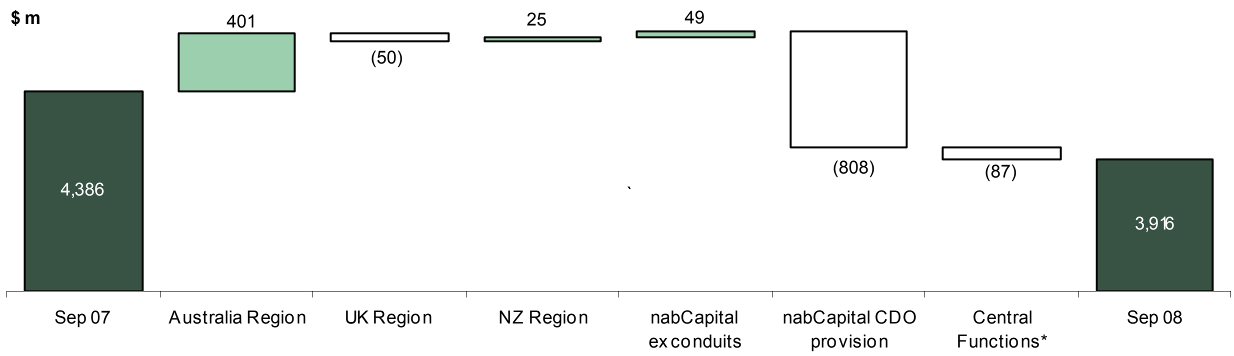
In a challenging operating environment the Group's cash earnings decreased by 10.7% (8.8% excluding the impact of foreign exchange) over the September 2007 year. This includes a bad and doubtful debt charge of $1,011 million ($708 million post tax) in relation to US$1.1 billion of ABS CDOs and $100 million in post tax costs of risk mitigation trades entered into to reduce the Group's risk of further loss on conduit exposures.

Solid underlying profit growth of 13.9% compared to the September 2007 year is the result of continued focus on growth in business and corporate lending while prudently utilising capital, strong revenue growth in nabCapital Markets division, careful margin management, and the achievement of further operational efficiencies. Net operating income increased by 5.8% (up 9.1% excluding foreign exchange) over the September 2007 result. Operating expenses decreased by 2% (up 1.5% excluding foreign exchange) compared to the September 2007 year. This has had a positive impact on the banking cost to income ratio, which is 46.9% for the year to September 2008, 390 basis points lower than in the September 2007 year.

Excluding the conduit charge of $1,011 million, the charge to provide for bad and doubtful debts has increased from the September 2007 year as a result of increased specific provisions for a small number of corporate customers and deterioration of economic conditions across each of the main operating regions.

	Year to			Half Year to		
	Sep 08 $m	**Sep 07 $m**	**Sep 08 v Sep 07%**	**Sep 08 $m**	**Mar 08 $m**	**Sep 08 v Mar 08%**
Net interest income	**11,142**	9,765	14.1	5,839	5,303	10.1
Other operating income	**3,015**	3,519	(14.3)	1,325	1,690	(21.6)
MLC net operating income	**1,257**	1,286	(2.3)	611	646	(5.4)
Net operating income	**15,414**	14,570	5.8	7,775	7,639	1.8
Operating expenses	**(7,276)**	(7,428)	2.0	(3,678)	(3,598)	(2.2)
Underlying profit	**8,138**	7,142	13.9	4,097	4,041	1.4
Charge to provide for bad and doubtful debts	**(2,489)**	(790)	large	(1,763)	(726)	large
Cash earnings before tax, IoRE and distributions	**5,649**	6,352	(11.1)	2,334	3,315	(29.6)
Income tax expense	**(1,408)**	(1,722)	18.2	(497)	(911)	45.4
Cash earnings before IoRE and distributions	**4,241**	4,630	(8.4)	1,837	2,404	(23.6)
Net profit – minority interest	**1**	-	large	2	(1)	large
IoRE	**(14)**	39	large	(5)	(9)	44.4
Distributions	**(312)**	(283)	(10.2)	(155)	(157)	1.3
Cash earnings – ongoing operations	**3,916**	4,386	(10.7)	1,679	2,237	(24.9)
Disposed operations	**3**	8	(62.5)	**1**	2	(50.0)
Cash earnings	**3,919**	4,394	(10.8)	**1,680**	2,239	(25.0)
Non-cash earnings items (after tax):						
Distributions	**312**	283	10.2	**155**	157	(1.3)
Treasury shares	**375**	(123)	large	**145**	230	(37.0)
Fair value and hedge ineffectiveness	**(89)**	154	large	**(144)**	55	large
IoRE discount rate variation	**25**	(44)	large	**20**	5	large
GWB integration costs	**(7)**	-	large	**(7)**	-	-
Gain on Visa Initial Public Offering	**225**	-	large	**-**	225	large
Charge to provide for bad and doubtful debts – economic cycle adjustment	**(150)**	-	large	**-**	(150)	large
Provision for new business initiatives	**(74)**	-	-	**-**	(74)	-
Revaluation gains / (losses) on exchangeable capital units	**-**	(86)	large	**-**	-	-
Net profit attributable to members of the company	**4,536**	4,578	(0.9)	**1,849**	2,687	(31.2)

Cash earnings – ongoing operations



* *Central Functions includes distributions*

Group Results

Financial Analysis

September 2008 v September 2007

Net interest income increased by $1,377 million or 14.1%. This includes an increase of $436 million from larger interest-spread differentials between international and Australian interest rates. As the Group economically hedges exposure to this risk, there is a corresponding adverse impact within other operating income attributable to increased hedge costs.

The underlying increase of $941 million or 9.6% reflects lending and deposit volume growth and good margin management, particularly in Australia Banking. nabCapital made a strong contribution from origination and Markets activity. Volume growth is offset by a decline in the Group net interest margin due to competitive pressures on deposit margins, increased funding costs through increased credit spreads and increased basis risk through the market disruption. Increased borrowing costs due to higher pricing within global funding markets contributed $369 million of this decrease however repricing initiatives partially mitigated this impact.

Other operating income decreased by $504 million or 14.3%. Excluding the impact of fair value movements on derivatives hedging short term funding of $436 million offset within net interest income, other operating income was down $68 million or 1.9%. Volume and repricing related increases in account transaction and lending fees in Australia and an exceptional performance from nabCapital's Markets division was offset by increased impairment of assets and the costs of conduit risk mitigation activities.

MLC net operating income decreased by $29 million or 2.3%, as MLC were impacted by the downturn in the global investment market. MLC has continued to drive down costs, improve efficiency and differentiate itself with a transparent business model.

Operating expenses decreased by $152 million or 2.0%. On a constant currency basis, expenses were up 1.5%. This very strong cost outcome was underpinned by ingrained cost disciplines and a continued focus on productivity and efficiency initiatives across the Group. This outcome was delivered whilst maintaining a prudent level of investment in the long term success and development of the Group.

The Group's banking **cost to income ratio** declined by 390 basis points to 46.9%, reflecting continued progress in improving business processes, reducing cost, and increasing productivity and efficiency.

Charge to provide for bad and doubtful debts increased by $1,699 million. This increase was driven by provisions for ABS CDOs exposure, increased specific provision for a small number of corporate customers and deterioration in economic conditions in all regions (most notably the UK).

September 2008 v March 2008

Net interest income increased by $536 million or 10.1% driven by the continued momentum from business banking and deposit portfolios across all regions. This was offset by higher costs of funding and liquidity holdings.

Other operating income decreased by $365 million or 21.6%. Increases from lending and account fees as a result of volume growth and repricing have been offset by a lower napCapital result, following an exceptional performance in the March 2008 half.

MLC net operating income decreased by $35 million or 5.4%, reflecting the impact on income of the recent market downturn on funds under management.

Operating expenses increased by $80 million or 2.2%. Benefits realised through the success of the Group's transformation and efficiency initiatives have been offset by continued strategic investment and increases in frontline staff.

The Group's banking **cost to income ratio** declined by 30 basis points against the March 2008 half to 46.7%.

Charge to provide for bad and doubtful debts increased by $1,037 million as a result of provisions attributable to ABS CDOs as well as increased specific provisions following deterioration in economic conditions.

Impact of foreign exchange rates movements

Cash earnings decreased by $388 million or 8.8% on the September 2007 year and decreased by $530 million or 23.7% on the March 2008 half, excluding the impact of foreign exchange rate movements of $82 million and $28 million on the respective periods.

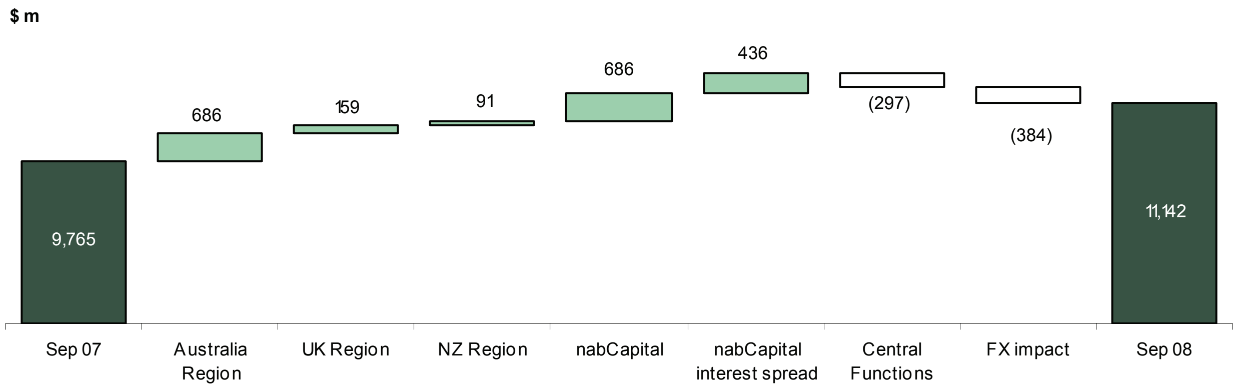
Favourable/ (unfavourable) September 2008	Year since Sep 07 $m	Sep 08 v Sep 07 Ex FX%	Half year since Mar 08 $m	Sep 08 v Mar 08 Ex FX%
Net interest income	**(384)**	18.0	**(87)**	11.7
Other operating income	**(97)**	(11.6)	**(46)**	(18.9)
MLC net operating income	**-**	(2.3)	**-**	(5.4)
Net operating income	**(481)**	9.1	**(133)**	3.5
Operating expenses	**264**	(1.5)	**70**	(4.2)
Charge to provide for bad and doubtful debts	**69**	large	**19**	large
Income tax expense	**45**	15.6	**14**	43.9
Other	**21**	large	**2**	-
Cash earnings	**(82)**	(8.8)	**(28)**	(23.7)

Net Interest Income

	Year to			Half Year to		
	Sep 08	Sep 07	Sep 08 v Sep 07	Sep 08	Mar 08	Sep 08 v Mar 08
Net interest income ($m)	**11,142**	9,765	14.1%	**5,839**	5,303	10.1%
Average interest earning assets ($bn)	**506.5**	429.1	18.0%	**518.1**	495.0	4.7%
Net interest margin (%)	**2.20**	2.28	(8 bps)	**2.25**	2.14	11 bps

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

Net interest income – contribution to net increase [(1)]



(1) *At constant exchange rates.*

September 2008 v September 2007

Net interest income increased by $1,377 million or 14.1% ($1,761 million or 18.0% excluding foreign exchange) due to higher levels of income in nabCapital, continued strength in lending and deposit volume growth, and well managed deposit margins in the banking businesses. This was partly offset by adverse deposit mix as customers move to lower margin deposit products.

Included in the net interest income of nabCapital is an increase of $436 million from increased interest-spread differentials between international and Australian interest rates. This was fully offset by the fair value movements of the derivatives hedging short term funding in other operating income.

The remaining contribution from nabCapital of $686 million (excluding foreign exchange) is due to improved Markets activity and solid contributions from Institutional Banking and Corporate Finance.

Net interest income from Great Western Bank of $47 million is included in the September 2008 results.

As a result of challenging market conditions and the widening of credit spreads, the Group experienced an increase in the cost of funding of $369 million. The Group is holding additional liquidity relative to levels held in July last year as a conservative response to the market disruption which has reduced interest income by $125 million.

Average interest earning assets increased by 18.0% through solid lending growth in all regions driven by continued strength in business lending, the consolidation of conduit assets and an increase in liquidity assets to support the Group's liquidity position.

The Group's *net interest margin* declined by 8 basis points due to competitive pressures on lending and deposit products, higher borrowing costs and the costs of elevated liquidity holdings. These factors were partly mitigated by repricing initiatives across the Group.

September 2008 v March 2008

Net interest income increased by $536 million on the March 2008 half or 10.1% ($623 million or 11.7% excluding foreign exchange) as a result of higher levels of income in nabCapital, continued strength in lending and deposit volume growth and good margin management, particularly in Australia Banking.

The Group's *net interest margin* increased by 11 basis points due to the flow on effect of repricing initiatives offsetting higher funding costs incurred in the first half, partly offset by competitive pressure on lending and deposit margins, a shift in deposit mix, increased borrowing costs and conduit consolidation.

Average Interest Earning Assets

	Year to			Half Year to		
	Sep 08 $m	**Sep 07 $m**	**Sep 08 v Sep 07%**	**Sep 08 $m**	**Mar 08 $m**	**Sep 08 v Mar 08%**
Due from other banks	**33,441**	25,556	30.9	**35,065**	31,817	10.2
Marketable debt securities	**51,482**	27,355	88.2	**50,615**	52,349	(3.3)
Loans and advances – housing	**191,655**	179,091	7.0	**194,563**	188,747	3.1
Loans and advances – non-housing	**169,891**	142,410	19.3	**175,726**	164,056	7.1
Acceptances	**51,864**	46,420	11.7	**52,764**	50,964	3.5
Other interest earning assets	**8,175**	8,243	(0.8)	**9,333**	7,017	33.0
Total average interest earning assets	**506,508**	429,075	18.0	**518,066**	494,950	4.7

September 2008 v September 2007

Average interest earning assets increased by $77.4 billion or 18.0% on the September 2007 full year. This reflects sound lending growth through continued focus on key customer segments and an increase in liquidity holdings on the September 2007 full year. The Group has taken a conservative approach to managing liquidity in volatile global financial markets. Non-housing lending outpaced mortgage lending during the period.

Non-housing lending (business and personal lending) increased by $27.5 billion or 19.3% reflecting:

- An increase of $7.9 billion or 16.4% in the Australia Region as it maintained its strong position in business lending through the successful execution of its distribution initiatives, such as the industry specialisation strategies.
- An increase of $7.1 billion or 20.0% in the UK Region (34.5% excluding the impact of foreign exchange), which reflects the maturing of the iFS strategy and growth in the customer base. This growth includes the transfer to iFS of approximately $3.4 billion of certain mid-market corporate businesses previously serviced by nabCapital in order to use the iFS network to further leverage these relationships. Excluding the transfer and the impact of foreign exchange, non-housing lending increased by $7.4 billion or 23.6%.
- An increase of $8.3 billion or 19.5% in nabCapital, reflecting robust origination activity in lending businesses in the early part of the year including the impact of the transfer to the UK Region above.

Housing lending increased by $12.6 billion or 7.0%. This reflects:

- An increase of $10.8 billion or 8.0% in the Australia Region as the region maintained growth by targeting key customer segments, offering innovative products including a Defence Force Home Owner Assistance Scheme and the NAB Clear Banking home loan.
- An increase of $0.3 billion or 1.2% (13.5% excluding the impact of foreign exchange) in the UK Region as it continues to grow through a managed lending approach.
- An increase in the New Zealand Region of $0.8 billion or 4.0% (9.4% excluding the impact of foreign exchange) as the region continues to focus on profitable volume growth in a slowing economy.

Marketable debt securities increased by $24.1 billion or 88.2%, primarily reflecting nabCapital holding additional levels of assets to support Group liquidity. The growth was achieved by acquiring a mix of certificates of deposit, promissory notes and bank bills. In addition, the consolidation of securitisation conduits resulted in an increase of $10.8 billion from $3.3 billion on the September 2007 full year.

Due from other banks increased by $7.9 billion or 30.9%, mainly reflecting the Group holding additional levels of liquidity through this period of market disruption, mainly repurchase agreements and placements.

Acceptances increased by $5.4 billion or 11.7% on September 2007 full year. Acceptances remain a favoured product by business customers.

September 2008 v March 2008

Average interest earning assets increased by $23.1 billion or 4.7% on the March 2008 half and includes an increase of $2.0 billion in additional liquidity holdings.

Non-housing lending increased by $11.7 billion or 7.1% on March 2008. This reflects the continued success of the iFS network and strategy in the UK Region, Australia Banking's strong position in business lending, as well as continued sound growth in the New Zealand Region.

Housing lending increased by $5.8 billion or 3.1%, primarily in Australia. This represents a slowing in growth as economic conditions have become more difficult in key markets. Growth has been achieved in most products, particularly fixed rate products, with a focus on proprietary distribution and improved momentum in the broker channel.

Due from other banks increased by $3.2 billion or 10.2% on March 2008 half year, primarily reflecting increased liquidity holdings.

Average Interest Bearing Liabilities

	Year to			Half Year to		
	Sep 08 $m	**Sep 07 $m**	**Sep 08 v Sep 07%**	**Sep 08 $m**	**Mar 08 $m**	**Sep 08 v Mar 08%**
Term deposits and certificates of deposit	**147,473**	102,833	43.4	**160,973**	133,973	20.2
On-demand and savings (short-term) deposits	**114,022**	110,149	3.5	**112,896**	115,148	(2.0)
Due to other banks and official institutions	**49,214**	39,586	24.3	**45,495**	52,933	(14.1)
Short-term borrowings	**35,791**	30,398	17.7	**36,707**	34,875	5.3
Long-term borrowings	**93,871**	72,373	29.7	**98,996**	88,746	11.5
Liability on acceptances	**22,761**	34,410	(33.9)	**19,004**	26,518	(28.3)
Other interest-bearing liabilities	**1,846**	1,255	47.1	**2,096**	1,596	31.3
Total average interest bearing liabilities	**464,978**	391,004	18.9	**476,167**	453,789	4.9

September 2008 v September 2007

Average interest bearing liabilities increased by $74.0 billion or 18.9% on the September 2007 full year. This was primarily due to increased short term liabilities to fund liquidity holdings and long term borrowings to fund business growth.

Retail deposits are included within term deposits and certificates of deposits and on-demand and savings (short-term) deposits. Retail deposits have increased by $16.4 billion or 10.8% on the September 2007 full year. The increase is primarily within term deposit products in the Australian and UK Regions. Excluding the impact of foreign exchange, retail deposits have increased by 14.6%.

Term deposits and certificates of deposits have increased by $44.6 billion or 43.4%, reflecting:

- An increase of $32.7 billion or 75.6% in nabCapital resulting from a significant increase in certificates of deposit to fund the Group's increased holding of liquid assets in response to the financial market disruption. There are corresponding increases in both marketable debt securities and due from other banks and official institutions.
- An increase of $9.1 billion or 23.7% in the Australia Region as the higher interest rate environment favours longer term deposit products, particularly term deposits, which earn higher rates of return.

Long-term borrowings have increased by $21.5 billion or 29.7%, reflecting an increase of $14.2 billion or 23.0% in the Australia Region and an increase of $6.1 billion in the UK Region, due to the continued issuance of debt under the Group's global medium term note program to fund asset growth, strengthen the balance sheet structure and lengthen the term of the Group's funding.

Due to other banks and official institutions increased by $9.6 billion or 24.3%, reflecting:

- An increase of $11.3 billion or 34.8% in nabCapital mainly due to growth in placements with other banks, reflecting growth in liquid assets (marketable debt securities and due from other banks) and the requirement to fund this asset growth.

Liability on acceptances decreased by $11.6 billion or 33.9% from September 2007 full year, reflecting a change in funding from acceptances to longer term funding within the Australia Region.

September 2008 v March 2008

Average interest bearing liabilities increased by $22.4 billion or 4.9% on the March 2008 half. This growth was driven by increases in term deposits and certificates of deposits and long term borrowings, partly offset by declines in due to other banks and liability on acceptances.

Term deposits and certificates of deposits have increased by $27.0 billion or 20.2% predominantly in Australia, as a consequence of the Group prudently holding increased levels of liquid assets and also to support lending growth. The increase also reflects growth in term deposit products, reflecting higher interest rates being offered on products and customer preferences shifting away from investing in equity markets towards term deposits.

Long-term borrowings have increased by $10.3 billion or 11.5% since the March 2008 half. This increase is the result of the continued issuance of debt to fund asset growth and a strengthening of the balance sheet throughout the September 2008 half.

Due to other banks and official institutions has declined by $7.4 billion or 14.1%, reflecting a change in funding from overnight bank deposits to certificates of deposits.

Liability on acceptances decreased by $7.5 billion or 28.3% from the March 2008 half, reflecting a change in funding from acceptances to longer term funding within the Australia Region.

Net Interest Margin

	Year to			Half Year to		
	Sep 08 %	**Sep 07 %**	**Sep 08 v Sep 07**	**Sep 08 %**	**Mar 08 %**	**Sep 08 v Mar 08**
Australia Banking	**2.42**	2.41	1 bp	**2.49**	2.36	13 bps
UK Region	**2.62**	3.06	(44 bps)	**2.59**	2.66	(7bps)
NZ Region	**2.42**	2.45	(3 bps)	**2.35**	2.49	(14 bps)
Group net interest margin – ongoing	**2.20**	2.28	(8 bps)	**2.25**	2.14	11 bps

September 2008 v September 2007

The Group's *net interest margin* declined by 8 basis points on the September 2007 full year. The net interest margin has been affected by disruption in financial markets resulting in increased borrowing costs ($369 million) and an increase in holdings of liquid assets. These have largely been offset by the interest gross up within nabCapital attributable to larger interest spread differentials between international and Australian interest rates. An adverse product mix has also been a factor as a result of the increase in institutional lending which has lower margins than retail portfolios. In addition, competitive pressures across the regions continue to have an impact on deposit margins. Good margin management supported by ongoing repricing initiatives, particularly in the Australia Region have partly mitigated these negative factors.

Key net interest margin movements on the September 2007 year are:

- A 1 basis point increase in Australia Banking due to a mix of repricing, treasury management and a focus on deposit initiatives assisted to offset the increase in funding costs.
- A 44 basis point decline in the UK Region. An adverse impact of the transfer of lower margin mid-corporate lending from nabCapital (8 basis points) and the impact of market conditions (14 basis points) have contributed to the decrease. Significant tightening in the inter-bank funding market has resulted in increased competition for deposits and higher costs of funding. Underlying margin contraction continued to slow as the effects of a planned change in product mix continues to diminish.
- A 3 basis point decline in the NZ Region due to deterioration in funding markets driving higher funding costs and increased competition and therefore lower margins in deposits products. In addition, the competitive market continues to impact lending margins. This was partially offset by higher earnings on allocated capital.

September 2008 v March 2008

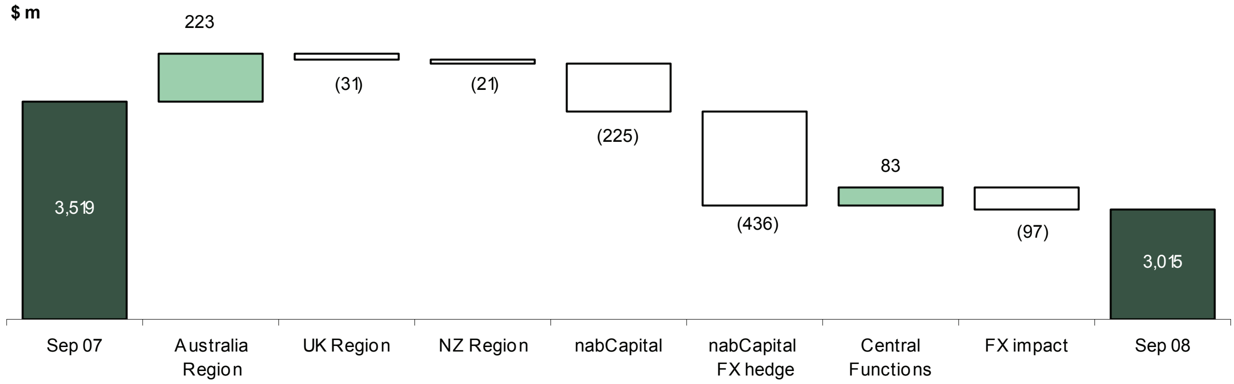
The Group's net interest margin increased by 11 basis points on the March 2008 half. Key net interest margin movements have been:

- A 13 basis point increase in Australia Banking included repricing activity to offset increased funding costs incurred in the first half not recovered in that period, and reflected the volatility of the environment. Active treasury management of the interest rate profile of the balance sheet provided a benefit that assisted the full year margin recovery. Continued focus on deposit initiatives assisted the growth in deposits to offset unfavourable funding conditions.
- A decline of 7 basis points in the UK Region, reflecting the impact of higher funding costs, funding mix, the transfer of mid-corporate lending from nabCapital, and the planned portfolio shift to lower margin business and secured lending.
- A decrease of 14 basis points in the NZ Region due to a decrease in lending margins and an increase in lower margin deposit products.

Other Operating Income

	Year to			Half Year to		
	Sep 08 $m	Sep 07 $m	Sep 08 v Sep 07%	Sep 08 $m	Mar 08 $m	Sep 08 v Mar 08%
Fees and commissions	**3,132**	2,845	10.1	**1,549**	1,583	(2.1)
Trading income	**(148)**	373	large	**(212)**	64	large
Other	**31**	301	(89.7)	**(12)**	43	large
Other operating income	**3,015**	3,519	(14.3)	**1,325**	1,690	(21.6)

Other Operating Income – Contribution to Net Decrease [1]



(1) *At constant exchange rates.*

September 2008 v September 2007

Other operating income decreased by $504 million or 14.3% (decreased by $407 million or 11.6% excluding foreign exchange) on the September 2007 year.

Fees and commissions were up by $287 million or 10.1% predominantly in Australia Banking due to:

- Volume growth and repricing initiatives that better align price to the current risk settings.
- An increase in account, lending and card fee income due to greater sales activity and product initiatives, combined with increased merchant services income.

Trading income decreased by $85 million or 22.8% excluding the impact of the negative spread on derivatives used to hedge foreign denominated short term funding (offset in net interest income). The decrease is primarily attributable to nabCapital through the hedge costs of securitisation conduit risk mitigation trades and credit adjustment on derivatives. The decreases are partially offset by:

- Strong sales performance in the Markets division. This was driven by increased deal flow from clients seeking risk management products in light of the credit environment and market volatility and the success of the cross sell strategy to all client segments.
- Trading gains delivered through favourable positioning in volatile markets particularly during the first half.

Other income decreased by $270 million or 89.7% due to:

- The sale of the portfolio of operating leases in the UK during December 2007 as a strategic divestment of a non-core activity, resulting in a $48 million reduction in lease rental income.
- Increased impairment charges and adverse fair value movements of $112 million for a limited number of investments held in the nabCapital portfolio.

September 2008 v March 2008

Other operating income decreased by $365 million or 21.6% ($319 million or 18.9% excluding foreign exchange) on the March 2008 half.

Fees and commissions were down by $34 million or 2.1% reflecting a reduction in Treasury income in the current half within Australia Banking. This was partially offset by:

- Volume growth and repricing initiatives that better align price to the current risk settings in Australia Banking.
- Increase in customer fees from the operations of Great Western Bank.

Excluding the $78 million impact of fair value movements on derivatives hedging short term funding offset in net interest income, *trading income* decreased by $198 million. The decrease is primarily attributable to nabCapital as:

- Trading income softened following an exceptional first half as a result of market volatility.
- Reversal of mark to market gains achieved in the first half in respect of portfolio management hedging strategies.
- Hedge costs of securitisation conduit risk mitigation trades.

Other income decreased by $55 million due to:

- Increased impairment charges of $66 million for a limited number of investments held in nabCapital.

MLC Net Operating Income

	Year to			Half Year to		
	Sep 08 $m	Sep 07 $m	Sep 08 v Sep 07%	Sep 08 $m	Mar 08 $m	Sep 08 v Mar 08%
Investments net operating income	811	874	(7.2)	385	426	(9.6)
Insurance net operating income	446	412	8.3	226	220	2.7
MLC net operating income	1,257	1,286	(2.3)	611	646	(5.4)

September 2008 v September 2007

Investments net operating income decreased by $63 million or 7.2%. The significant market downturn experienced over the last year has had a negative impact on investment earnings and the overall value of funds under management. Net fund flows have remained positive, reflecting the strength of the MLC business model.

In a competitive market, Insurance net operating income increased by $34 million or 8.3% through continued growth across Group Insurance and Protected Loans.

September 2008 v March 2008

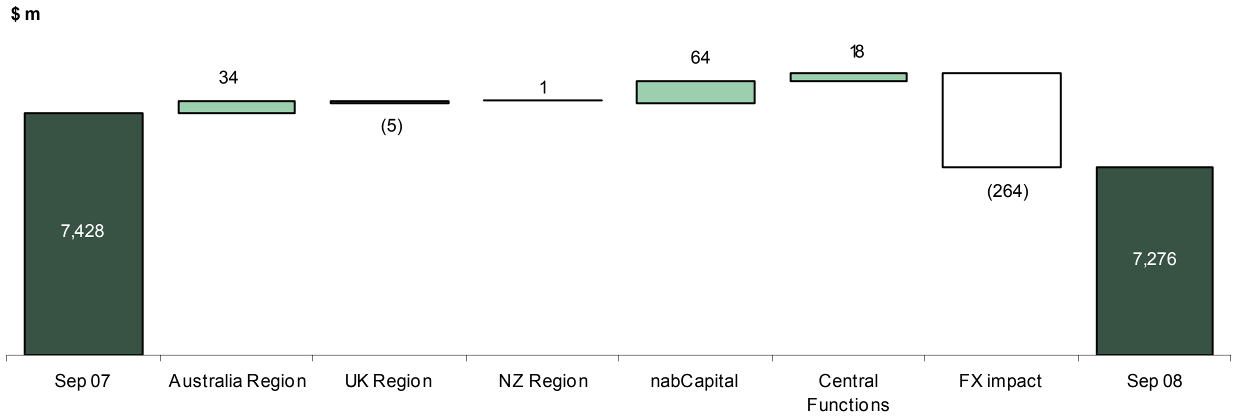
Investments net operating income decreased by $41 million or 9.6% due to weak investment markets which has had a negative impact on investment earnings and the overall value of funds under management.

Insurance net operating income was up 2.7% compared to the March 2008 half.

Operating Expenses

	Year to			Half Year to		
	Sep 08 $m	Sep 07 $m	Sep 08 v Sep 07%	Sep 08 $m	Mar 08 $m	Sep 08 v Mar 08%
Personnel expenses	3,835	3,973	3.5	1,905	1,930	1.3
Occupancy related expenses	572	578	1.0	301	271	(11.1)
General expenses	2,188	2,148	(1.9)	1,128	1,060	(6.4)
MLC operating expenses	681	729	6.6	344	337	(2.1)
Total operating expenses	7,276	7,428	2.0	3,678	3,598	(2.2)

Operating Expenses – Contribution to Net Decrease [1]



(1) *At constant exchange rates.*

September 2008 v September 2007

Operating expenses decreased by $152 million or 2.0% (increased $112 million or 1.5% excluding foreign exchange or 1.1% excluding foreign exchange and Great Western Bank) on the September 2007 year. The ongoing success of the Group's transformation and efficiency initiatives have delivered this outstanding outcome to maintain expense growth at below inflationary levels.

The Group's banking *cost to income ratio* decreased by 390 basis points to 46.9%.

Personnel expenses decreased by $138 million or 3.5%.

- Salaries and wages increased by $69 million through the Group's strategic and organic revenue growth initiatives that have seen both an increase in FTEs and a change in skill mix. Costs incurred by Great Western Bank from June 2008 have also been included.
- Performance based remuneration has decreased by $102 million due to lower bonus provisions. This is attributable to the financial performance of the Group during the year.

Occupancy related expenses are flat on the September 2007 year.

General expenses have increased by $40 million or 1.9%.

- Software costs are higher by $49 million due to amortisation of capitalised project costs resulting from investment spend, mainly in the UK and Australia Regions.
- Other outside service expenses increased by $53 million through project investment related spend and incremental investment in a range of activities that will provide benefits in subsequent periods.
- Equipment expenses are $51 million lower, mainly due to the disposal of a portfolio of operating lease assets as part of a strategic decision in the UK to dispose of non-core assets.

MLC operating expenses have decreased by $48 million or 6.6% with the exceptional outcome delivered by efficiencies achieved through the customer experience and effectiveness program (CEE).

September 2008 v March 2008

Operating expenses increased by $80 million or 2.2% (increased $150 million or 4.2% excluding foreign exchange) on the March 2008 half.

The Group's banking cost to income ratio decreased by 30 basis points to 46.7%.

Personnel expenses decreased by $25 million or 1.3% driven by a $85 million decrease in performance based remuneration, partly offset by $31 million higher remuneration resulting from changes in FTE skills mix and increases of $20 million in other personnel costs driven mainly by restructuring costs.

Occupancy related expenses increased by $30 million or 11.1% due to new sites and inflationary increases.

General expenses increased by $68 million or 6.4%.

- Outsourced Services increased by $17 million mainly as a result of strategic off-shoring activities and increased investment spend.
- Professional fees increased by $10 million due to increased legal costs and project and investment initiatives.

MLC operating expenses have increased by $7 million or 2.1% due to investment in additional NAB financial planners and financial year end expense seasonality.

Taxation

	Year to			Half Year to		
	Sep 08 $m	Sep 07 $m	Sep 08 v Sep 07%	Sep 08 $m	Mar 08 $m	Sep 08 v Mar 08%
Income tax expense	1,408	1,722	18.2	497	911	45.4

September 2008 v September 2007

Income tax expense is $314 million or 18.2% lower than the September 2007 year due to lower cash earnings before tax and a number of non-recurring tax benefits booked in the second half of 2008. The Group recognised a $37 million deferred tax asset in respect of previously unrecognised US tax loss as a consequence of the Great Western Bank acquisition. In addition, tax benefits were generated by the release of provisions from the prior year ($46 million), following the lodgement of the Group's 2007 tax returns, and the use of capital losses on certain gains from managed funds.

The effective income tax rate for the September 2008 year of 24.9% has decreased from 27.1% for the September 2007 year as a result of these non-recurring tax benefits.

For details of the Group's contingent tax liabilities, refer to Note 15 of the Financial Report.

September 2008 v March 2008

Income tax expense was $414 million or 45.4% lower than the March 2008 half year, due to lower cash earnings before tax and the recognition of one-off tax benefits. As a result the effective income tax rate has decreased from 27.5% for the March 2008 half year to 21.3% for the September 2008 half year.

Non-Cash Earnings Items – Treasury Shares

For statutory reporting purposes, the Group is required to eliminate the impact upon net profit of the Group's life insurance businesses holding investments in National Australia Bank Limited shares within its Investments relating to life insurance businesses. In the September 2008 year, the $498 million (after tax) movement in this adjustment compared to the September 2007 year is mainly attributable to the movement in unrealised losses on treasury share investments held within life insurance businesses. This movement is consistent with the decline in equity markets through the period.

Summary Balance Sheet

	As at				
	30 Sep 08 $m	31 Mar 08 $m[1]	30 Sep 07 $m[1]	Sep 08 v Sep 07%	Sep 08 v Mar 08%
Assets					
Cash and liquid assets	18,209	12,256	12,796	42.3	48.6
Due from other banks	46,996	39,163	25,144	86.9	20.0
Trading securities	20,767	22,450	21,272	(2.4)	(7.5)
Investments - available for sale	1,542	1,128	1,345	14.6	36.7
Investments - held to maturity	17,154	16,447	18,065	(5.0)	4.3
Investments relating to life insurance business	52,896	57,346	62,630	(15.5)	(7.8)
Loans and advances at fair value	25,732	22,126	19,564	31.5	16.3
Other assets at fair value	4,868	5,178	5,625	(13.5)	(6.0)
Other financial assets at fair value	30,600	27,304	25,189	21.5	12.1
Loans and advances including acceptances	406,456	386,575	366,525	10.9	5.1
Goodwill and other intangible assets	6,335	5,410	5,368	18.0	17.1
Other assets	55,844	43,934	35,886	55.6	27.1
Total assets	656,799	612,013	574,220	14.4	7.3
Liabilities					
Due to other banks	52,423	50,557	42,566	23.2	3.7
Deposits at fair value	14,485	16,123	14,133	2.5	(10.2)
Other liabilities at fair value	9,099	7,385	7,717	17.9	23.2
Other financial liabilities at fair value	23,584	23,508	21,850	7.9	0.3
Deposits and other borrowings	327,466	286,223	263,742	24.2	14.4
Liability on acceptances	16,075	21,489	30,443	(47.2)	(25.2)
Life policy liabilities	46,150	49,580	53,097	(13.1)	(6.9)
Bonds, notes and subordinated debt	98,239	92,402	80,983	21.3	6.3
Other liabilities	60,016	57,449	51,654	16.2	4.5
Total liabilities	623,953	581,208	544,335	14.6	7.4
Net assets	32,846	30,805	29,885	9.9	6.6
Equity					
Equity (parent entity interest)	32,790	30,778	29,571	10.9	6.5
Minority interest in controlled entities	56	27	314	(82.2)	large
Total equity	32,846	30,805	29,885	9.9	6.6

(1) *Comparatives have been restated to include consolidation of securitisation conduits.*

Total assets at 30 September 2008 increased by $82.6 billion from 30 September 2007 and $44.8 billion from 31 March 2008. Excluding the impact of exchange rate movements, total assets grew by 14.6% from September 2007 and by 6.1% from March 2008. The increase in total assets from September 2007 was driven by growth in loans and advances (including acceptances and loans at fair value) across all regions, particularly in business and to a lesser extent housing lending. Short term asset holdings have increased from September 2007, as a consequence of the Group's prudent higher liquidity holdings through the period of market disruption during 2008.

Total liabilities at 30 September 2008 increased by $79.6 billion from 30 September 2007 and by $42.7 billion from 31 March 2008. Excluding the impact of exchange rate movements, total liabilities grew by 14.9% from September 2007 and by 6.4% from March 2008. The increase in liabilities has been driven by the growth in deposits and other borrowings (including deposits accounted for at fair value) and bonds, notes and subordinated debt. This growth reflects strong deposit growth and increased funding required to meet lending growth and fund higher liquidity holdings.

Total equity of $32.8 billion at 30 September 2008 has increased by $2.9 billion from 30 September 2007 and by $2.0 billion from 31 March 2008. The growth from September 2007 is predominately through the dividend reinvestment plan and issue of BNZ Income Securities.

Lending

	As at 30 Sep 08 $m	As at 31 Mar 08 $m	As at 30 Sep 07 $m	Sep 08 v Sep 07%	Sep 08 v Mar 08%
Housing					
Australia Region	**151,615**	146,286	141,086	7.5	3.6
UK Region	**26,711**	25,177	25,109	6.4	6.1
New Zealand Region	**20,365**	20,647	19,582	4.0	(1.4)
nabCapital	**779**	985	32	large	(20.9)
Central Functions	**279**	-	-	large	large
Total housing	**199,749**	193,095	185,809	7.5	3.4
Non-housing					
Australia Region	**63,420**	58,262	54,898	15.5	8.9
UK Region	**47,993**	44,542	37,338	28.5	7.7
New Zealand Region	**19,321**	16,941	15,734	22.8	14.0
nabCapital	**51,336**	50,100	47,878	7.2	2.5
Central Functions	**3,103**	8	5	large	large
Total non-housing	**185,173**	169,853	155,853	18.8	9.0
Acceptances	**53,381**	51,100	49,322	8.2	4.5
Gross loans and advances including acceptances[1]	**438,303**	414,048	390,984	12.1	5.9
Represented by:					
Loans at fair value	**25,732**	22,126	19,564	31.5	16.3
Loans at amortised cost	**359,190**	340,822	322,098	11.5	5.4
Acceptances	**53,381**	51,100	49,322	8.2	4.5
Gross loans and advances including acceptances	**438,303**	414,048	390,984	12.1	5.9

[1] *Including loans at fair value.*

Lending growth has been solid in competitive and challenging markets with system growth in most economies slowing through the year in response to financial market disruption.

Non-housing lending:

- In the Australia Region, non-housing lending volumes increased by 15.5% from September 2007 and by 8.9% from March 2008. This was primarily due to the continued strength of relationship banking within the Business Bank.
- In the UK Region, non-housing lending grew by 28.5% (32.1% excluding foreign exchange impacts) from September 2007 and 7.7% from March 2008 (4.0% excluding foreign exchange impacts). UK growth continues to reflect the maturing of the iFS strategy and a growing customer base. This growth includes the transfer to iFS of approximately $3.2 billion of certain mid-market corporate businesses previously serviced by nabCapital in order to use the iFS network to further leverage these relationships. Excluding the transfer and the impact of foreign exchange, non-housing lending increased by 23.2% from September 2007 and by 6.9% from March 2008.
- nabCapital lending increased by 7.2% over September 2007 and by 2.5% over March 2008. The continued growth in nabCapital's business from September 2007 reflects strong origination activity within Corporate Finance and Institutional Banking while the second half reflects a more cautious approach.

Housing lending:

- In the Australia Region housing lending volumes increased by 7.5% over September 2007 and by 3.6% over March 2008. The increase reflects sound growth in both variable and fixed rate products.
- In the UK Region housing lending grew by 8.3% over September 2007 and by 2.4% over March 2008 (excluding exchange rate movements), reflecting targeted volume growth of secured lending at the expense of unsecured.
- In the NZ Region volumes increased by 6.3% from September 2007 and increased by 1.8% against March 2008 (excluding exchange rate movements) as the region continues to focus on the customer and profitable growth.

Acceptances increased by 8.2% on September 2007 and by 4.5% on March 2008 and remain a favoured product by business customers.

Fair value of assets and liabilities

The Group recognises a number of classes of assets and liabilities at 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 arm's length transaction. Where the classification of a financial asset or liability requires it to be stated at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Group has immediate access. An adjustment for credit risk is also incorporated into the fair value as appropriate.

Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued. Where no such active market exists for the particular asset or liability, the Group uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and valuation techniques based on market conditions and risks existing at balance date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs The majority of the Group's fair value inputs are observable from the market, with less than 0.1% being internally derived from Group-specific inputs as at 30 September 2008.

Marketable Debt Securities

Marketable debt securities (comprising trading securities, available for sale investments and held to maturity investments) of $39.5 billion at September 2008 declined by $1.2 billion from September 2007 and by $0.6 billion from $40.0 billion at March 2008 as a result of increased levels of liquidity being moved into Interbank placements.

Included within marketable debt securities are the Group's securitisation conduits which have been consolidated as a consequence of a change to the Group's accounting policy in relation to consolidation is described in more detail in Section 5.

The consolidation of securitisation conduits gave rise to the recognition of $14.0 billion of held to maturity assets at September 2008 ($13.0 billion at September 2007 and $14.2 billion at March 2008 with comparatives restated to reflect this).

Investments Relating to Life Insurance Business and Life Policy Liabilities

Investments relating to life insurance business of $52.9 billion at September 2008 decreased by $9.7 billion or 15.5% September 2007 and by $4.5 billion or 7.8% at March 2008. The decrease is attributable to weak global and domestic equity and property markets.

This decline was partly offset by a corresponding decrease in life policy liabilities which have decreased as the movement in investment assets primarily reflects returns made on policyholder contributions to the investment linked businesses and movement in net funds under management. As a result, Life policy liabilities have decreased by $6.9 billion or 13.1% from September 2007 and by $3.4 billion or 6.9% from March 2008.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets have increased by $1.0 billion or 18.0% on September 2007. Goodwill has increased $0.8 billion due to the recognition of goodwill on the acquisition of Great Western Bancorporation during the September 2008 half year. Other intangible assets have increased as a result of the Group's continued investment in software to support its strategic objectives. The Group's principal software development initiatives since September 2007 include:

- Australia Region commenced work on the Next Generation Banking IT Platform (NGP) initiative which involves the replacement of the core banking systems. This initiative along with continued focus on efficiency, productivity and cross sell programs will enable a consistent platform for enhanced efficiency and incorporate self service capabilities and superior customer service.
- Inclusion into the UK Banking Industry Faster Payments scheme. This scheme along with the mobilisation of the Business Lending Program to implement end-to-end business lending and the new Business Internet Channel in the UK will deliver faster payments and enhanced efficiencies for our customers.
- nabCapital's Strategic Investment Program (SIP) which is focused on delivering key technology initiatives, mainly in the Markets business, to improve product capability, simplicity, flexibility and cost effectiveness.

The movement in capitalised software is as follows:

	Year to		Half Year to	
	Sep 08 $m	**Sep 07 $m**	**Sep 08 $m**	**Mar 08 $m**
Balance at beginning of period	**867**	697	**909**	867
Additions	**347**	416	**170**	177
Disposals and write-offs	**-**	(5)	**-**	-
Amortisation	**(236)**	(211)	**(118)**	(118)
Impairment losses recognised	**(4)**	(4)	**(4)**	-
Foreign currency translation adjustments	**(11)**	(26)	**6**	(17)
Capitalised application software	**963**	867	**963**	909

Deposits and Other Borrowings

	As at				
	30 Sep 08 $m	**31 Mar 08 $m**	**30 Sep 07 $m**	**Sep 08 v Sep 07%**	**Sep 08 v Mar 08%**
Australia Region [1]	**129,719**	120,290	118,554	9.4	7.8
UK Region	**43,679**	40,460	36,968	18.2	8.0
NZ Region [1]	**26,310**	27,172	23,680	11.1	(3.2)
nabCapital [1]	**138,183**	114,424	98,673	40.0	20.8
Central Functions	**4,060**	-	-	large	large
Deposits and other borrowings [2]	**341,951**	302,346	277,875	23.1	13.1
Represented by:					
Deposits at fair value	**14,485**	16,123	14,133	2.5	(10.2)
Deposits and other borrowings	**327,466**	286,223	263,742	24.2	14.4
Deposits and other borrowings	**341,951**	302,346	277,875	23.1	13.1

(1) *During the March 2008 half the classification of certain deposits and other borrowings was reviewed with adjustments to September 2007 comparatives made to reflect the ongoing business structure.*

(2) *Including deposits and other borrowings at fair value.*

Total deposits and other borrowings increased by $64.1 billion or 23.1% to $342 billion at September 2008 from September 2007 and by $39.6 billion or 13.1% from March 2008.

- In the Australia Region, Deposits and Other Borrowings increased by 9.4% over September 2007 and by 7.8% over March 2008. This was primarily due to growth in term deposits.
- In the UK Region, Deposits and Other Borrowings grew by 18.2% (20.2% excluding foreign exchange impacts) against September 2007 and 8.0% against March 2008 (4.2% excluding foreign exchange impacts). UK growth continues to reflect the maturing of the iFS strategy and a growing customer base.
- In the NZ Region, Deposits and Other Borrowings increased by 11.1% (13.6% excluding foreign exchange impacts) against September 2007 and decreased by 3.2% against March 2008 (nil, excluding foreign exchange impacts). NZ growth continues to reflect an increase in Term Deposits through 'flight to quality'.
- nabCapital Deposits and Other Borrowings increased by 40.0% over September 2007 and by 20.8% over March 2008. The continued growth in nabCapital's portfolio primarily reflects growth in certificates of deposit held for Group liquidity purposes.

Bonds, notes and subordinated debt

Bonds, notes and subordinated debt increased by $17.3 billion or 21.3% to $98.2 billion at September 2008, and by $5.8 billion or 6.3% from $92.4 billion at March 2008. The continued increase has funded asset growth and strengthened the structure of the balance sheet.

Further detail and discussion on the Group's funding mix and management of its funding base, are included within the Capital and Funding discussion on pages 27-31.

Asset Quality

The deteriorating economic conditions and volatility in financial markets, particularly in the second half of the financial year, has led to an expected softening in asset quality, following a prolonged benign credit cycle.

Notwithstanding this difficult trading environment, Australian Banking's asset quality has remained broadly in line with March 2008 and the bad and doubtful debt charge remains relatively flat for the period.

In the UK, while key asset quality measures have shown deterioration since the March half, the Bank performed well with the value of accounts 90 days past due in housing and unsecured lending remaining broadly stable. The level of mortgages 90 days or more in arrears is less than half the UK industry average.

The recession in New Zealand and a significant slowing in credit growth have led to some asset quality indicators weakening albeit off a strong base. Whilst 90 days past due loans have improved in the second half, gross impaired assets have increased in line with difficult credit conditions.

Asset quality deterioration in the nabCapital portfolio principally reflects stress being experienced by a small number of previously identified corporate exposures, which are highly leveraged or experiencing short term funding stress. Despite the difficult trading conditions, nabCapital continues to have a largely investment grade portfolio.

Total provisions now stand at $3,294 million.

Comprehensive Portfolio Review

The Group undertook a thorough review of its loan portfolio in the 4th quarter of September 2008 financial year. Higher risk segments were examined across all regional businesses by credit personnel with external auditor oversight, to provide verification of the adequacy of provision levels. The review concluded that the portfolio is performing well and the Group is appropriately provisioned, although this does not mean that additional provisions may not be required should markets deteriorate further.

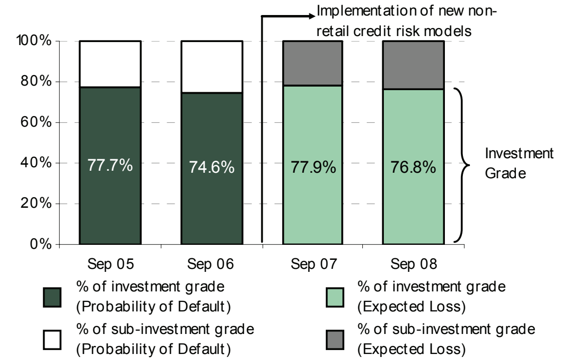
The position of the lending portfolio is within the Group's risk tolerance and is well diversified, geographically, by industry and by product.

Trends in the ratings of non-retail exposures

Customer risk distribution remains stable and in line with the Group's risk tolerance.

Based upon the Expected Loss methodology[(1)], the volume of non-retail investment grade equivalent (AAA to BBB-) exposures for the Group as at September 2008 reduced slightly to 76.8%, compared to 77.9% at September 2007.

Non-Retail Lending Customer Risk Distribution (Group)



(1) *Expected Loss is the product of Probability of Default x Exposure at Default x Loss Given Default.*

Bad and Doubtful Debt Charge

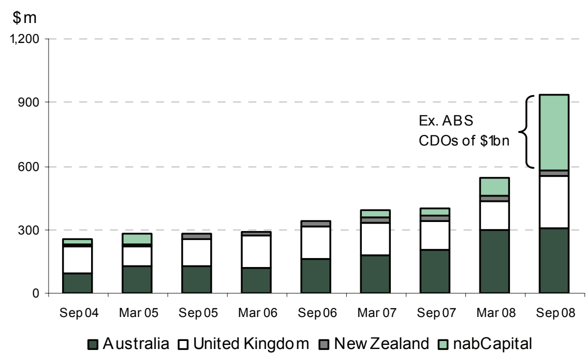
Inclusive of ABS CDOs, the bad and doubtful debt charge for the year to September 2008 is $2,489 million, representing an increase of $1,699 million.

The charge for bad and doubtful debts (excluding ABS CDOs) increased by $388 million to $933 million in the half year to September 2008, and by $688 million to $1,478 million during the financial year. The increase in the second half charge was primarily due to:

- a number of customer downgrades and a small number of large corporate impairments requiring specific provisions in nabCapital.
- the deteriorating business environment in the UK Region.

Australia Banking has performed well with the bad and doubtful debts charge broadly flat half-on-half in deteriorating economic conditions. NZ Region has seen a slight increase in the second half bad and doubtful debts charge in line with difficult credit conditions.

Total Bad and Doubtful Debt Charge –ex ABS CDOs



With increasing charge levels, the ratio of bad and doubtful debt charges (excluding ABS CDOs) to gross loans and acceptances has increased by 14 basis points to 0.34% for the year to September 2008.

Specific Provisions

Specific provision balances have increased a further $118 million in the second half and by $338 million when compared to September 2007.

The reduction in specific provision coverage ratio is a consequence of a number of highly provisioned loans being written off in the second half.

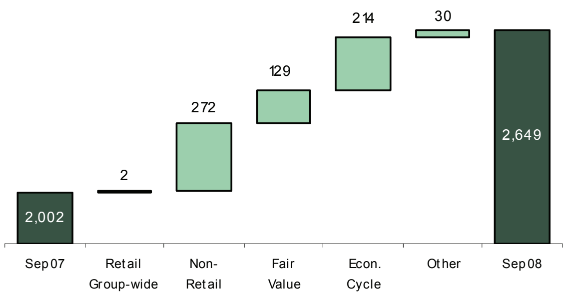
Specific Provisions to Gross Impaired Assets

As at							
Mar 05 %	Sep 05 %	Mar 06 %	Sep 06 %	Mar 07 %	Sep 07 %	Mar 08 %	Sep 08 %
34.9	34.9	29.9	20.4	25.4	28.1	35.8	**30.0**

Collective Provisions

Inclusive of the central reserve (described below), total collective provisions balances (including the credit risk adjustment on assets at fair value) increased by $647 million during the year to September 2008 and increased by $340 million from March 2008. The additional collective provisions represents an increase of approximately 32% when compared to the year end September 2007, and reflects prudence in the current environment.

Collective Provision Attribution Analysis



Retail
A slight increase of $2 million during the year to September 2008 reflects the sound performance of the retail portfolio and the relative skew against unsecured retail lending.

Non-Retail and Fair Value loans
Underlying increase is due to sound volume growth across all regional business units, and the effect of difficult trading conditions that has led to a number of corporate and business customers being re-rated.

Economic Cycle Adjustment
In March 2008, the Group applied an economic cycle adjustment to bad and doubtful debts of $214 million (before tax) against the uncertain global economic environment. This management overlay was a prudent measure in the face of softening economic conditions and ongoing volatility in financial markets.

Other Movements
Reflects the acquisition of Great Western Bank during the year.

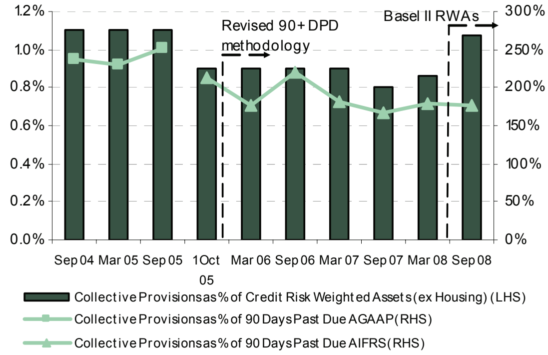
The operations of Great Western Bank have been largely unaffected by the problems faced by major United States financial institutions. Its business is centred in small to medium size enterprise and agri banking in the Mid West.

Provisioning Coverage

The Group's total provisions increased to $3,294 million, a $985 million increase when compared to September 2007 and $459 million increase from March 2008.

Following Basel II accreditation, the Group's collective provision to credit risk weighted assets (excl. housing) ratio has strengthened to 1.07% as at September 2008.

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



From 1 July 2008, a General Reserve for Credit Losses is no longer required following accreditation from APRA under the Basel II Advanced Internal Ratings Based approach for credit risk. As a result, the post-tax reserve balance of $116 million at March 2008 was transferred to Retained Earnings.

In accordance with APRA guidelines, a further $303 million has been set aside from Tier 1 capital representing 50% difference between eligible provisions under AIFRS and expected loss under Basel II.

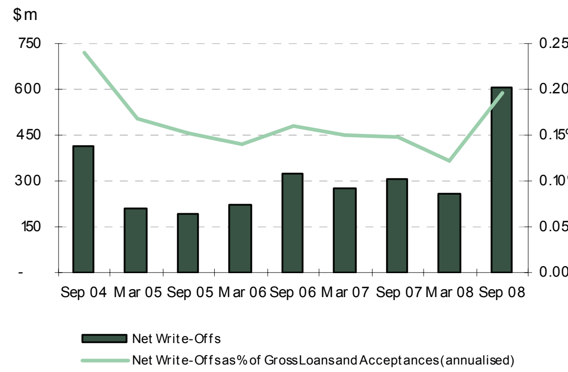
Net Write-Offs

The proportion of net write-offs to gross loans and acceptances increased by 5 basis points to 0.20% for the year to September 2008 and by 8 basis points, since March 2008. The increase is mainly due to a small number of larger loans being written off in the second half.

The total provisions to net write-offs ratio reduced during the year from 396% as at September 2007 to 383% as at September 2008.

Net write-offs exclude ABS CDOs of $1,068 million.

Group Half Yearly Net Write-Offs – ex ABS CDOs



Inclusive of ABS CDOs, the proportion of net write-offs to gross loans and acceptances would have increased 29 basis points to 0.44% for the year to September 2008.

Non-Impaired Assets 90+ days past due

The proportion of Group non-impaired 90+ days past due loans (90+ DPD) to gross loans and acceptances increased by 3 basis points to 0.34% compared to

September 2007, but remains relatively stable when compared to the first half.

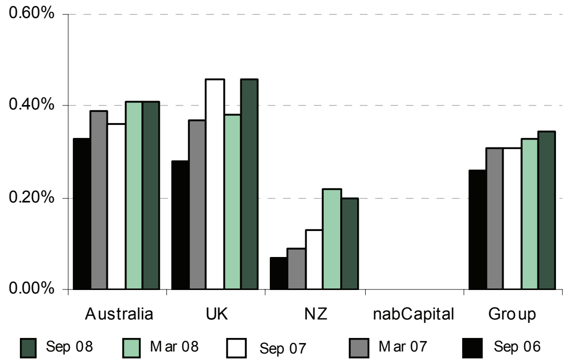
Over 60% of the Group's total 90+ DPD loans are secured by residential mortgages which historically have had very low loss rates.

Australia Banking had a strong performance in a softening economy with the proportion of 90+ DPD to gross loans broadly stable half-on-half.

The proportion of 90+ DPD to gross loans and acceptances in the UK Region has remained broadly flat at 0.46% in the last 12 months. The increase in the second half reflects the difficult business environment but compares favourably with UK peer banks. The level of mortgages 90 days or more in arrears is less than half the UK industry average.

In the New Zealand Region, the proportion of 90+ DPD to gross loans and acceptances has decreased in the second half despite the continuing slowing of economic conditions.

90+ DPD as % of Gross Loans and Acceptances



Impaired Assets

The ratio of gross impaired assets to gross loans and acceptances for the Group has increased by 21 basis points to 0.49% when compared to September 2007 (0.36% at March 2008). Impaired assets across the Group have increased by $1,055 million from September 2007 and by $675 million from March 2008. This excludes ABS CDOs of $325 million.

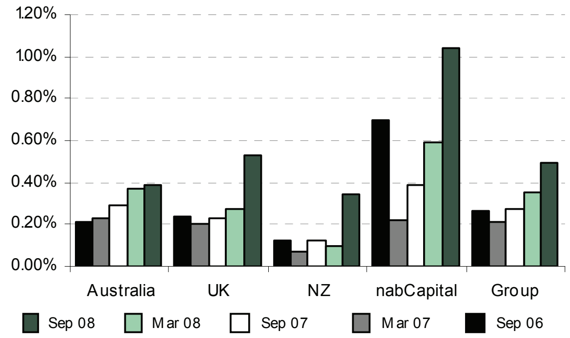
The impaired asset ratio for Australia Banking has remained broadly stable half-on-half, despite higher interest rates and energy prices.

Gross impaired assets as a proportion of gross loans and acceptances in the UK Region has increased mainly in the second half by 26 basis points to 0.53%, although relative to its local peer banks, the UK Region has performed well.

Gross impaired assets in the NZ Region has increased in the second half by NZ$118 million, resulting in the ratio of impaired assets to gross loans and acceptances increasing to 0.34%. The region has experienced a challenging operating environment as the NZ economy moved into recession.

nabCapital has also faced a challenging environment, particularly as global economic conditions deteriorated and volatility in financial markets continued. These conditions resulted in a small number of corporate customers, predominately in Australia and the UK, becoming impaired. This occurred principally in the second half of the year. The ratio of impaired assets (ex. ABS CDOs) to gross loans and acceptances increased in the second half by 0.45 basis points to 1.04%.

Gross Impaired Assets as % of Gross Loans and Acceptances – ex ABS CDOs



Retail - 90+ Delinquencies (90+ Days Past Due and Impaired) and net write-offs

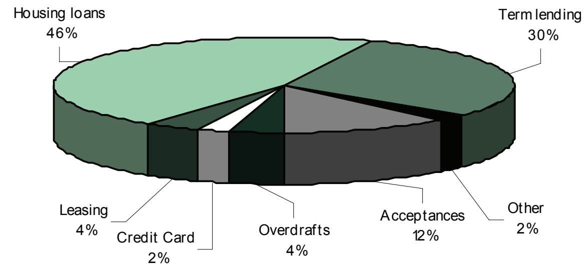
There has been an increase in the Group's 90+ days past due retail delinquency rate of 10 basis points to 0.81% from September 2007, and by 3 basis points since March 2008, primarily due to rising mortgage delinquencies in Australia and New Zealand. During the year, the Group invested in additional collections personnel and enhanced collections processes to proactively manage retail portfolio delinquencies.

The gross 12-month rolling write-off rate has improved, falling by 2 basis points from September 2007 to 0.28% at September 2008. This improvement follows a strategic decision by the Group to tilt the retail portfolio away from unsecured personal lending and credit cards in favour of secured housing lending, and invest in improved collections techniques.

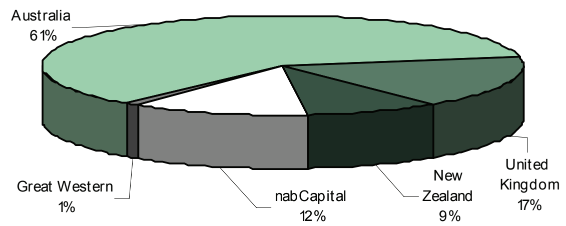
The write-off rate for mortgages remains at negligible levels.

Portfolio Composition

Group Gross Loans and Acceptances by Product



Group Gross Loans and Acceptances by Region



The Group maintains a well diversified lending portfolio by both product and geography and continues to proactively manage all loan portfolios to identify any emerging areas of concern.

Cash Earnings per Share

	Year to			Half Year to		
	Sep 08 cents	**Sep 07 cents**	**Sep 08 v Sep 07%**	**Sep 08 cents**	**Mar 08 cents**	**Sep 08 v Mar 08%**
Basic	**238.4**	270.1	(11.7)	**101.1**	137.6	(26.5)
Diluted	**237.3**	268.5	(11.6)	**100.7**	137.2	(26.6)

September 2008 v September 2007

Basic cash earnings per share decreased by 31.7 cents or 11.7% and diluted cash earnings per share decreased by 31.2 cents or 11.6% on the September 2007 year. This reflects the decrease in cash earnings.

September 2008 v March 2008

Basic cash earnings per share decreased by 36.5 cents or 26.5% and diluted cash earnings per share decreased by 36.5 cents or 26.6% on the March 2008 half.

Capital Management and Funding

Balance Sheet Management Overview

The sub-prime impact has flowed into the broader economy and has presented a range of management challenges. The strength of the Group balance sheet in respect of capital, funding and liquidity has seen the Group well placed to manage through the difficult market conditions. The Group enjoys the benefit of a sound regulatory environment in each of the geographies in which it operates.

Capital Management

The Group's capital management strategy focuses on three elements: 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 our target credit rating and ensuring debt and equity investors' expectations are met. In the current environment, this means staying strong on capital, targeting a Tier 1 ratio above 7%. Consistent with this intention, the Group will continue to seek opportunities for capital issuance in a measured manner in the coming half.

In forming its capital strategy, the Group also considers the impact of capital pro-cyclicality. Under Basel II, capital ratios are expected to be more pro-cyclical, declining when economic conditions deteriorate, and rising when conditions improve. It is the Group's intention to ensure sufficient capital is available to mitigate any emerging pro-cyclicality.

To be efficient on capital, the Group's strategy is to target an optimal mix of equity and other capital instruments. This includes raising Residual Tier 1 capital and subordinated debt.

Initiatives to embed Basel II into the business continue, including pursuing portfolio management opportunities across the Group. This will further support the objective of an efficient capital position.

Finally, the Group's objective of maintaining flexibility in executing capital initiatives is to ensure the Group is well positioned in the current environment and is able to support the growth agenda.

Capital ratios

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

Basel II	**Target Ratio(1) %**	**As at 30 Sep 08 %**	**As at 31 Mar 08 pro forma %**	**Sep 08 v Mar 08**
ACE ratio (2)	above 5.00%	**5.28**	4.88	40 bps
Tier 1 ratio	above 7.00%	**7.35**	6.90	45 bps
Total capital ratio		**10.93**	10.27	66 bps

Basel I	**Target Ratio(1) %**	**As at 31 Mar 08 %**	**As at 30 Sep 07 %**	**Mar 08 v Sep 07**
ACE ratio (2)	4.25 – 5.00	4.61	4.90	(29 bps)
Tier 1 ratio	6.00 – 6.75	6.51	6.67	(16 bps)
Total capital ratio		9.71	9.99	(28 bps)

(1) *The target range is revised from 6.00%-6.75% to above 7.00% for Tier 1 and from 4.25%-5.00% to above 5.00% for ACE to reflect the implications of Basel II advanced accreditation and the current market conditions.*

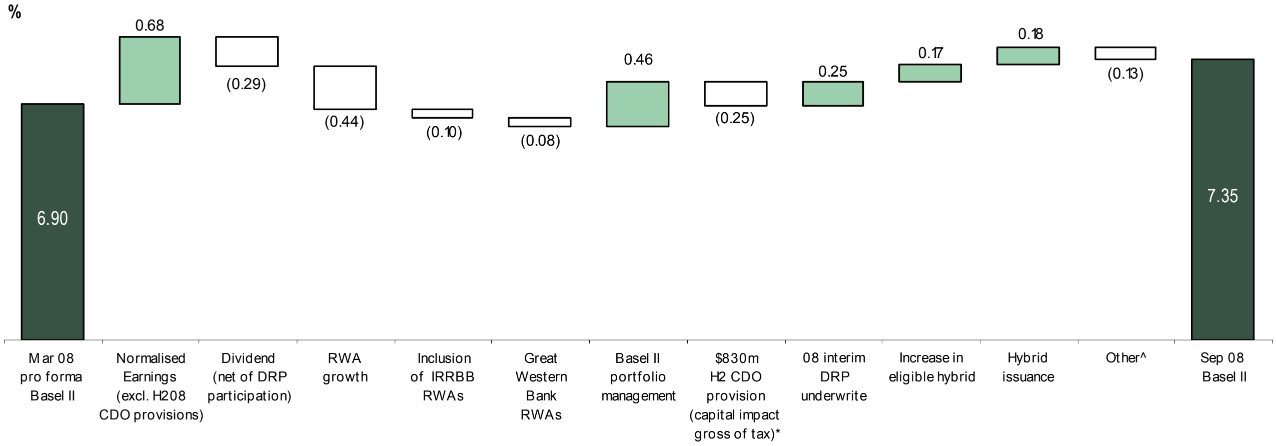
(2) *Refer to Note 5 in Section 6 for definition.*

Basel II	As at 30 Sep 08 $m	31 Mar 08 pro forma $m	Sep 08 v Mar 08%
Risk-weighted assets – credit risk	310,131	307,606	0.8
Risk-weighted assets – market risk	5,088	4,712	8.0
Risk-weighted assets – operational risk	23,649	24,080	1.8
Risk-weighted assets – interest rate risk in the banking book*	4,643	-	large
Total risk-weighted assets	343,511	336,398	2.1

Risk-weighted assets for interest rate risk in the banking book are required by APRA to be included in the 30 September 2008 position.

Basel I	As at 31 Mar 08 $m	30 Sep 07 $m	Mar 08 v Sep 07%
Risk-weighted assets – credit risk	379,706	351,410	8.1
Risk-weighted assets – market risk	4,712	3,856	22.2
Total risk-weighted assets	384,418	355,266	8.2

Movement in Tier 1 Ratio



Notes:

* *This includes the post-tax impact on earnings (-18 basis points) and capital deduction for associated deferred tax assets (DTA) (-7 basis points).*

^ *Other relates primarily to changes in deductions including the foreign currency translation reserve (+7 basis points), other DTA net of deferred tax liabilities deductions (-11 basis points), change in Wealth Management related deductions (-9 basis points).*

Basel II Accreditation

The Group operates in multiple regulatory jurisdictions. In the September 2008 half, the Group received Basel II advanced accreditation for Credit Risk , adding to its advanced accreditation for Operational Risk commencing the 1st January 2008, for its Australian, New Zealand and nabCapital operations. The Group also received accreditation for Interest Rate Risk in the Banking Book (IRRBB) in 2008 for all banking operations excluding Great Western Bank. To achieve advanced status, the Group had to demonstrate that it has the expertise and appropriate internal tools to identify risk, to manage it, and to estimate our capital requirements. The Group has had advanced accreditation for Traded Market Risk since 2006.

The Group's subsidiary in the United Kingdom, Clydesdale Bank PLC, regulated by the Financial Services Authority (FSA), commenced standardised operational and credit risk accreditation on 1 January 2008 in accordance with the FSA's requirements. Clydesdale Bank PLC will move to advanced accreditation for operational and credit risk at a timing agreed with APRA and the FSA.

The Group's regulatory capital and Risk Weighted Assets (RWAs) are calculated in accordance with defined Basel II methodologies, with the exception of its subsidiary Great Western Bank, in the USA, which is treated as Basel I. Great Western Bank is regulated by the South Dakota Division of Banking, the Federal Deposit Insurance Corporation and the Federal Reserve Bank.

In the calculation of Basel II RWAs, APRA has taken a different approach to many international regulators and requires RWAs for IRRBB to be included under Pillar I. This is applied to the 30 September 2008 position.

The following table sets out the type of models and accreditation employed across the Group as at 30 September 2008.

	Credit Risk	Operational Risk	Non-Traded Market Risk	Traded Market Risk
Australia Region	IRB	AMA	IRRBB	n/a
NZ Region	IRB	AMA	IRRBB	n/a
nabCapital	IRB	AMA	IRRBB	Standardised & IMA
UK Region	Standardised	Standardised	IRRBB	n/a
Great Western Bank	Basel I	n/a	n/a	n/a

Notes

IRB refers to internal ratings-based approach to credit risk

AMA refers to advanced measurement approach to operational risk

IMA refers to internal model approach to traded market risk

Under Pillar 3 of the Basel II Accord, financial institutions are required to make extensive qualitative and quantitative disclosures with respect to capital adequacy and risk management. The Group will provide this information in a separate Risk and Capital Report which is to be released in November 2008, in accordance with the APS 330, which defines the APRA Pillar 3 requirements.

Under its approval to Basel II, APRA has introduced a transitional capital floor requiring capital held under Basel II to be at least 90% of the capital required under Basel I. As at 30 September 2008, the transitional floor does not impact the Group's capital position.

Impact of Basel II on 31 March 2008 position

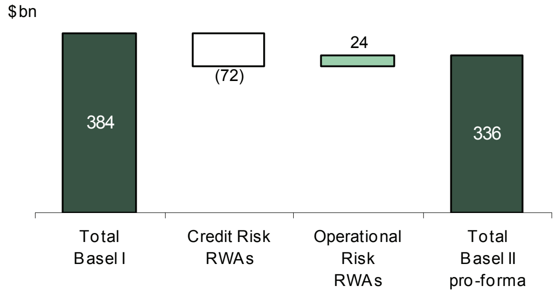
The Group had not received accreditation for advanced credit risk at 31 March 2008. Pro-forma calculations for 31 March 2008 are included to provide an indication of the capital movements under Basel II over the half.

The capital position has benefited from the Basel II advanced accreditation, with the Tier 1 ratio increasing from 6.51% Basel I to 6.90% pro-forma Basel II as at 31 March 2008. The impact of the RWA methodology for interest rate risk in the banking book is not included in the 31 March 2008 pro-forma Basel II as implementation of this methodology occurred in July 2008. IRRBB RWAs are included in the 30 September 2008 position.

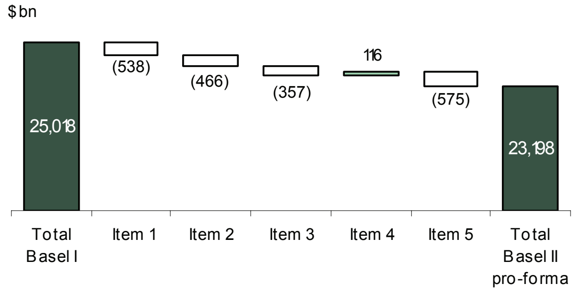
The key changes in the Group's Tier 1 capital position from transitioning from Basel I to pro-forma Basel II at 31 March 2008 include:

- Reduction in credit risk RWAs, partially offset by the inclusion of operational risk RWAs *(Chart 1 below)*
- Deduction for 50% of the non-consolidated equity investment exposures (primarily Wealth Management), which was previously deducted 100% from Total Capital *(item 1 in Chart 2 below)*
- Deduction for 50% of the shortfall between eligible provision (net of tax) and expected loss *(item 2 in Chart 2 below)*
- Deduction for 50% of various securitisation tranches and first loss *(item 3 in Chart 2 below)*
- General Reserve for Credit Losses no longer being deducted from Tier 1 *(item 4 in Chart 2 below)*
- Exclusion of Residual Tier 1 capital in excess of APRA Limits *(item 5 in Chart 2 below)*. This arose at 31 March 2008 due to additional Basel II capital deductions, resulting in lower Residual Tier 1 capacity. However, the ineligible amount was reduced to zero in the September half due to the increase in Fundamental Tier 1 capital.

Movement in RWAs (Basel I to Basel II, March 2008)



Movement in Tier 1 Capital (Basel I to Basel II, March 2008)



Note: items are described above.

Revised target ranges

The Group has revised its target ranges from 6.00% - 6.75% to above 7.00% for Tier 1 and from 4.25% - 5.00% to above 5.00% for ACE. This reflects the transition to Basel II and the global trend to target higher capital ratios in the current market. This is also consistent with the Group's target credit ratings.

Capital Movements during the Period

The Group's ACE and Tier 1 ratios, calculated under Basel II, are consistent with the revised targets at 30 September 2008.

The key movements in the capital ratios in the September half were:

- Increase in core capital (earnings less dividend net of DRP participation), offset by RWA growth;
- Tier 1 hybrid capital issuance;
- Basel II portfolio management initiatives, offsetting RWA growth. The Group is focusing on Basel II portfolio management to achieve optimised business outcomes;
- Capital was reduced by the additional conduit provision, the inclusion of IRRBB RWAs and approximately $3.8 billion RWAs in Great Western Bank as the Group completed its acquisition in this half, and movements in other deductions.

As announced previously, the Group raised an $830 million specific provision for its ABS CDOs portfolio in the September half, in addition to the $181 million charge taken in the March 2008 half. This negatively impacted the Group's capital base on a gross-of-tax basis, but was partially offset by a reduction in the deduction required for securitisation tranches.

Tier 1 Hybrid Capital Initiatives

On 22 September 2008, the Group completed the conversion of $600 million Residual Tier 1 Convertible Notes which were issued as a private placement in December 2007. At the holder's option, the Convertible Notes were converted into ordinary shares based on the share price of $23.5759, after applying a 0.20% discount to the volume weighted average share price. The conversion has supported the Group's Fundamental Tier 1 capital and increased Residual Tier 1 hybrid capacity.

On 22 September 2008, the Group issued $600 million Tier 1 hybrid capital, as a private placement in two tranches, to utilise innovative and non-innovative hybrid Tier 1 capacity and support the Group's capital base.

- The first instrument comprises $300 million of Innovative Residual Tier 1 Convertible Notes. The Convertible Notes are perpetual capital instruments and pay 2.00% over the 30-Day Bank Bill Swap Rate (BBSW). From 24 December 2008, subject to APRA approval, the notes are redeemable at the Group's option. The notes are convertible at the holder's option into a variable number of National Australia Bank ordinary shares from 24 July 2009.
- The second instrument comprises $300 million of Non-Innovative Residual Tier 1 Stapled Securities. The Stapled Securities are perpetual capital instruments and pay 2.00% over the 30-Day BBSW. From 24 December 2008, subject to APRA approval, the securities are redeemable at the Group's option. In the event that securities are not redeemed, they will convert into a variable number of National Australia Bank ordinary shares on 24 September 2009, subject to the satisfaction of conversion conditions.

As at 30 September 2008, the Group has approximately $380 million Residual Tier 1 capacity, principally in the non-innovative category. As part of its general capital management activities, the Group will continue to explore opportunities to utilise Tier 1 hybrid capacity.

Dividend Reinvestment Plan (DRP) Initiatives

In July 2008, the Group underwrote the shortfall of the 2008 interim DRP participation to 100%. This generated approximately $850 million Tier 1 capital and is included in the Group's 30 September 2008 capital position (25 basis points).

For the 2008 final dividend, the Group will offer a discount on the DRP (with no participation limit) and therefore the final dividend accrual is reduced by an amount equal to 41% of the final dividend to reflect assumed DRP participation. This assumption is consistent with the 2008 interim dividend experience.

The Group intends to further strengthen its capital position having regard to ongoing global economic uncertainty. Consistent with this objective, the Group raised capital equal to the DRP shortfall on the Group's first half dividend payment. The Group intends to continue this general strategy for the next two dividend payments.

Lower Tier 2 Capital Initiatives

In the September half, the Group redeemed US$300 million Lower Tier 2 subordinated notes on the call date.

The impact of the redemption is offset by approximately A$1.6 billion new Lower Tier 2 issuance in this half. The issuance includes £350 million and €500 million 15-year non-call 10 year subordinated notes. The issuance has supported the Group's Total Capital position.

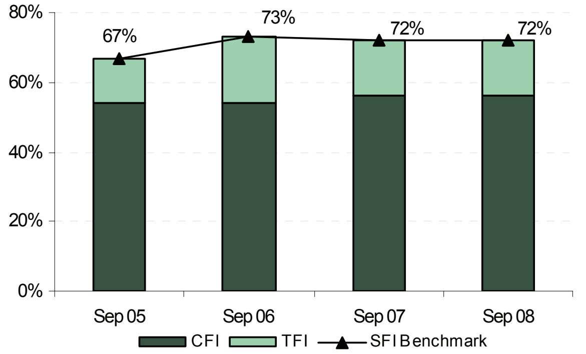
Funding

The adverse conditions in financial markets that commenced in July 2007 are continuing. The impact on banks is an increase in wholesale funding costs and a general tightening in the liquidity available from markets. With the capital markets only providing funding for businesses with the strongest credit ratings, many clients returned to banks for their funding needs. Throughout this period the Group focused on maintaining balance sheet strength.

The Group employs a set of internal measures to gauge the strength of its balance sheet funding. Amongst these measures is the Stable Funding Index (SFI) which comprises a Term Funding Index (TFI) plus Customer Funding Index (CFI). TFI is defined as Term Wholesale Funding with a remaining maturity greater than 12 months divided by Core Assets. CFI is a measure of customer deposits divided by Core Assets. The securitisation of balance sheet assets impacts these funding indices by reducing Core Assets. Prior to 2007, the Group SFI was strengthened to 73% (above the benchmark 70%) taking advantage of plentiful liquidity and favourable pricing.

At September 2008 the SFI was unchanged from September 2007, at 72%. The SFI is supported by the strengthened liquidity position of the Group, discussed later. Despite the difficult market conditions, National Australia Bank Ltd's AA/Aa1/AA rating (S&P/Moody's/Fitch) and strong reputation allowed it good access to term wholesale funding during this period of reduced market liquidity.

Group Funding Indices (CFI, TFI and SFI)



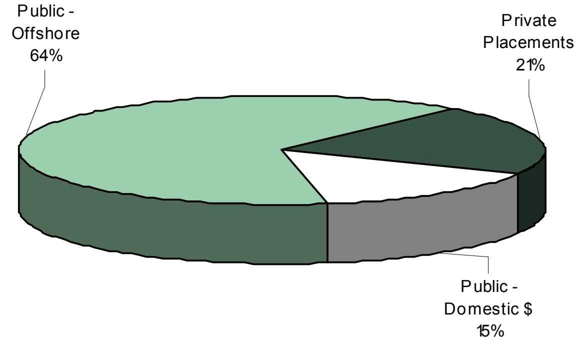
Term Wholesale Funding. Considerable work has been undertaken in previous years to develop the Group's term funding platform. The benefits of this were realised during the period of market dislocation with NAB Ltd sourcing funding through benchmark size transactions in the key markets of USA, Europe, Japan and Australia. The mix of term wholesale funding raised during financial year 2008 is displayed below. In total the Group raised $28 billion of term wholesale funding during the year. Securitisation markets were not used as a funding source and there is no current expectation of this changing in the near future. The weighted average maturity of term wholesale funds raised in 2008 was approximately 5.14 years based on contractual maturity and 3.94 when modelled to call date. This is higher than in previous years as the Group issued longer dated debt to minimise re-financing risk during the next few years and capitalise on demand for longer maturities. The average cost of senior term funds raised during 2008 was approximately 80 basis points over BBSW, compared to 13 basis points in the September 2007 financial year.

National Australia Bank Ltd has provided some term funding to Clydesdale Bank PLC and Bank of New Zealand Ltd during the year. There is sufficient capacity to continue funding subsidiaries going forward if required.

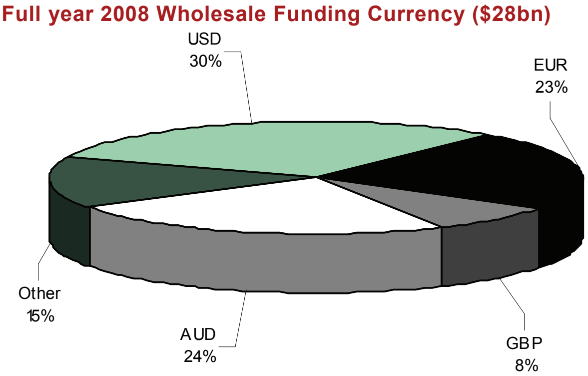
Short-term Wholesale Funding. Short-term wholesale funding markets have remained open with some periods of illiquidity in offshore markets. Australian short-term wholesale markets have been more reliable compared to international markets as a source of funding for domestic operations. The Group's focus has been on increasing the duration of the short-term book, which has included raising $28 billion of six to twelve month funding to augment term wholesale funding.

Liquid Asset Portfolio. The Group is required to maintain liquid asset portfolios under regulatory requirements in various countries in which it operates. In addition to these regulatory requirements the Group holds short term securities to support its liquidity position. Total liquid assets as at 30 September 2008 were $66 billion, an increase of $12 billion on the September 2007 year. As a source of contingent liquidity to further support the Group's liquid asset holdings, an internal securitisation pool has been developed. These securities qualify as eligible collateral for repurchase agreements with the Reserve Bank of Australia. The pool size is $13 billion (having recently been increased by $3 billion in October), with plans to increase to $20 billion in the first half of 2009. This will increase the Group's available collateral that may be pledged with the RBA for cash. In addition, a retained RMBS pool of A$5 billion is being developed in New Zealand, which is expected to qualify as eligible collateral for repurchase agreements with the Reserve Bank of New Zealand.

Full year 2008 Wholesale Funding by Deal Type ($28bn)



Full year 2008 Wholesale Funding Currency ($28bn)



The Group's current long term debt ratings are: NAB Ltd AA/Aa1/AA (S&P/Moody's/Fitch); BNZ Ltd AA/Aa2/AA; Clydesdale Bank PLC AA-/Aa3/AA-; and National Wealth Management Holdings Ltd AA- (S&P). In July 2008 S&P placed National Australia Bank Ltd and its subsidiaries on negative outlook. Moody's placed National Australia Bank Ltd on negative outlook in August 2008.

Current market conditions have resulted in increased costs for funding and liquidity management. Broadly, these increased costs are a function of three factors: the increased spread between the RBA cash rate and Bill funding rates; costs of holding additional liquid assets; and increased spreads on long term funding. To maintain a prudently funded balance sheet the Group has successfully continued to access the term market despite higher costs. These costs are continually monitored and managed through normal processes consistent with maintaining an acceptable net interest margin.

Full Time Equivalent Employees

	As at				
	30 Sep 08	31 Mar 08	30 Sep 07	Sep 08 v Sep 07%	Sep 08 v Mar 08%
Australia Banking	**18,440**	18,930	18,621	(1.0)	(2.6)
MLC	**3,869**	3,870	3,820	1.3	-
Other (incl. Asia)	**258**	192	159	62.3	34.4
Australia Region	**22,567**	22,992	22,600	(0.1)	(1.8)
UK Region	**8,758**	8,966	8,850	(1.0)	(2.3)
NZ Region	**4,293**	4,349	4,444	(3.4)	(1.3)
nabCapital	**2,600**	2,416	2,239	16.1	7.6
Central Functions excluding Great Western Bank	**695**	698	689	0.9	(0.4)
Great Western Bank	**816**	-	-	large	large
Total full time equivalent employees (FTEs)	**39,729**	39,421	38,822	2.3	0.8
Average half year FTEs	**39,783**	39,090	39,093	1.8	1.8

FTEs have risen by 907 from September 2007.

Decreases in the Australia, UK and NZ regions have been achieved through efficiency gains in support functions, being offset by increases in revenue generating roles.

The movement in nabCapital is as a result of increasing staffing in technology to deliver strategic projects, and increases in the Markets business to facilitate revenue generation.

In addition FTEs now include employees of Great Western Bank.

Other Matters

Non-operating Holding Company

The Group has been examining the possibility of adopting a non-operating holding company (NOHC) structure to support its operations in the longer term. The process is complex, with many regulatory, tax, legal, accounting and other issues to address. While a number of issues have now been resolved, the decision whether to proceed has been put on hold pending the release of APRA's regulatory capital framework.

Corporate Responsibility

The Group continued to deliver on its climate change strategy. During the 2008 year:

- Opportunities to reduce energy use as part of the Group's commitment to be carbon neutral by September 2010 were realised.
- Employees and customers were provided opportunities to learn more about how they can understand and reduce their carbon footprint. This included delivering business forums for institutional and agribusiness clients to explore the risks, opportunities and the way ahead in regards to both climate change and the impending Carbon Pollution Reduction Scheme.
- NAB topped the Global 500 Carbon Disclosure Leadership Index ranking with a score of 98% in the non-carbon intensive companies category for reporting and disclosure of carbon emissions.

Schools First, the Group's new education program, was launched in Australia. This is Australia's largest education awards program, aimed at improving learning outcomes for students through community-school partnerships.

Community investment increased by $7.6 million to $33.5 million, representing 0.53% of prior year cash earnings before tax and continues to move towards the Group's target of investing 1% of prior year cash earnings before tax in community activities.

Section 4

Review of Regional Operations

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Business Structure

National Australia Bank

NAB Group*
Chairman: Michael Chaney
Group CEO: John Stewart
CEO Designate: Cameron Clyne

Deputy Group CEO: Michael Ullmer

Central Functions*
Group CFO: Mark Joiner
Group EGM: Peter Thodey
Group CRO: Michael Hamar
Group CRO Designate: Bruce Munro

Australia
Executive Director & CEO: Ahmed Fahour

Business & Private
- Business Banking
- Private Banking
- Corporate Banking
- Specialised Businesses
- Working Capital Services
- Asset Finance
- Custodian Services

Retail Banking
- Retail Financial Services
- Direct Sales & Services
- Mortgages
- Consumer Banking Solutions
- NAB Broker

MLC
- Financial Advice
- Investments
- Superannuation
- Insurance

Asia

United Kingdom
CEO: Lynne Peacock

Clydesdale Bank
Yorkshire Bank

iFS (Business & Private)
- Business Banking
- Private Banking
- Corporate Banking
- Asset Finance
- Agri Banking

Retail Banking
- Retail Financial Services
- Direct Sales & Services
- Mortgages
- Consumer Banking Solutions

Wealth Management
- Financial Planning
- Investments
- Insurance

New Zealand*
CEO: Andrew Thorburn

BNZ Partners
- Business Banking
- Private Banking
- Specialised Finance
- Asset/Debtor Finance
- Agri-Business (Agri-Banking and Specialised Finance)

BNZ
- Credit Cards
- Consumer Banking
- Deposits & Transactions
- Mortgages
- Wealth Management

nabCapital
CEO: John Hooper

Global Markets

Institutional Banking

Corporate Finance

Structure & Investments

New Business & Development
Group EGM: George Frazis

The Americas (incl. Great Western Bank)

Great Western Bank

nabInvest

ServCo

Development & Strategy

* *Reflects organisational changes effective 1 October 2008 as announced on 31 July 2008 and 4 September 2008. Cameron Clyne will succeed John Stewart as Group CEO on 1 January 2009. Bruce Munro will succeed Michael Hamar as Group CRO in January 2009.*

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

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

Corporate Centre focuses on:
- Value creation and target setting;
- Performance monitoring and capital management;
- Human Capital; and
- Mergers and acquisitions (including development and integration of Great Western Bank).

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

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

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

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

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

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

Content is prepared using external market data and internal management information useful for investors. The implications for the following analyses include:
- all performance data and analysis is based upon cash earnings from ongoing operations.
- our MLC business reflects 100% shareholder attributable cash earnings results. Our financial report (Section 5) reflects both policyholder and shareholder interests. Refer to Section 6 for a reconciliation between cash earnings and statutory profit after tax.

Divisional Performance Summary

	Australia Region			UK	NZ		Central Functions[1]			Elimina-	Cash Earnings	Disposed	Group Cash
Year ended	Banking	MLC	Other	Region	Region	nabCapital	CC&GF	NB&D	GWB	tions	- Ongoing	Operations[2]	Earnings
30 September 2008	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Net interest income	6,188	-	41	1,910	908	2,152	(102)	(2)	47	-	11,142	(11)	11,131
Other operating income	1,912	-	9	773	311	(26)	89	10	16	(79)	3,015	45	3,060
MLC net operating income	-	1,257	-	-	-	-	-	-	-	-	1,257	-	1,257
Net operating income	8,100	1,257	50	2,683	1,219	2,126	(13)	8	63	(79)	15,414	34	15,448
Operating expenses	(3,366)	(681)	(61)	(1,557)	(579)	(817)	(198)	(66)	(30)	79	(7,276)	(30)	(7,306)
Underlying profit	4,734	576	(11)	1,126	640	1,309	(211)	(58)	33	-	8,138	4	8,142
Charge to provide for doubtful debts	(603)	-	(2)	(381)	(56)	(1,446)	-	-	(1)	-	(2,489)	-	(2,489)
Cash earnings before tax	4,131	576	(13)	745	584	(137)	(211)	(58)	32	-	5,649	4	5,653
Income tax expense	(1,203)	(168)	5	(203)	(180)	91	216	45	(11)	-	(1,408)	(1)	(1,409)
Cash earnings before distributions and IoRE	2,928	408	(8)	542	404	(46)	5	(13)	21	-	4,241	3	4,244
Net profit - minority interest	-	-	-	-	-	2	-	(1)	-	-	1	-	1
IoRE	-	(14)	-	-	-	-	-	-	-	-	(14)	-	(14)
Distributions										(312)	(312)	-	(312)
Cash earnings	2,928	394	(8)	542	404	(44)	5	(14)	21	(312)	3,916	3	3,919

(1) *Central Functions includes Group Funding, Corporate Centre, New Business and Development (NB&D) and Great Western Bank (GWB).*

(2) *Represents the Group's Commercial Fleet business, which was disposed on 5 March 2008.*

Divisional Performance Summary

Year ended 30 September 2007	Australia Region Banking $m	Australia Region MLC $m	Australia Region Other $m	UK Region $m	NZ Region $m	nabCapital $m	Central Functions[1] CC&GF $m	Central Functions[1] NB&D $m	Central Functions[1] GWB $m	Eliminations $m	Cash Earnings - Ongoing $m	Disposed Operations[2] $m	Group Cash Earnings $m
Net interest income	5,520	-	27	1,982	864	1,134	234	4	-	-	9,765	(21)	9,744
Other operating income	1,695	-	3	898	348	616	68	2	-	(111)	3,519	98	3,617
MLC net operating income	-	1,286	-	-	-	-	-	-	-	-	1,286	-	1,286
Net operating income	7,215	1,286	30	2,880	1,212	1,750	302	6	-	(111)	14,570	77	14,647
Operating expenses	(3,321)	(729)	(28)	(1,751)	(608)	(790)	(281)	(31)	-	111	(7,428)	(66)	(7,494)
Underlying profit	3,894	557	2	1,129	604	960	21	(25)	-	-	7,142	11	7,153
Charge to provide for doubtful debts	(389)	-	-	(290)	(46)	(69)	4	-	-	-	(790)	-	(790)
Cash earnings before tax	3,505	557	2	839	558	891	25	(25)	-	-	6,352	11	6,363
Income tax expense	(1,034)	(155)	(1)	(247)	(179)	(176)	62	8	-	-	(1,722)	(3)	(1,725)
Cash earnings before distributions and IoRE	2,471	402	1	592	379	715	87	(17)	-	-	4,630	8	4,638
IoRE	-	39	-	-	-	-	-	-	-	-	39	-	39
Distributions										(283)	(283)	-	(283)
Cash earnings	2,471	441	1	592	379	715	87	(17)	-	(283)	4,386	8	4,394

(1) *Central Functions includes Group Funding, Corporate Centre, New Business and Development (NB&D) and Great Western Bank (GWB).*

(2) *Represents the Group's Commercial Fleet business, which was disposed on 5 March 2008.*

Divisional Performance Summary

Half year ended 30 September 2008	Australia Region Banking $m	Australia Region MLC $m	Australia Region Other $m	UK Region $m	NZ Region $m	nabCapital $m	Central Functions[1] CC&GF $m	Central Functions[1] NB&D $m	Central Functions[1] GWB $m	Eliminations $m	Cash Earnings - Ongoing $m	Disposed Operations[2] $m	Group Cash Earnings $m
Net interest income	3,271	-	22	940	442	1,204	(84)	(3)	47	-	5,839	(1)	5,838
Other operating income	935	-	10	373	156	(220)	74	5	16	(24)	1,325	-	1,325
MLC net operating income	-	611	-	-	-	-	-	-	-	-	611	-	611
Net operating income	4,206	611	32	1,313	598	984	(10)	2	63	(24)	7,775	(1)	7,774
Operating expenses	(1,707)	(344)	(39)	(756)	(282)	(406)	(102)	(36)	(30)	24	(3,678)	3	(3,675)
Underlying profit	2,499	267	(7)	557	316	578	(112)	(34)	33	-	4,097	2	4,099
Charge to provide for doubtful debts	(302)	-	(3)	(246)	(30)	(1,181)	-	-	(1)	-	(1,763)	-	(1,763)
Cash earnings before tax	2,197	267	(10)	311	286	(603)	(112)	(34)	32	-	2,334	2	2,336
Income tax expense	(636)	(79)	4	(80)	(89)	184	171	39	(11)	-	(497)	(1)	(498)
Cash earnings before distributions and IoRE	1,561	188	(6)	231	197	(419)	59	5	21	-	1,837	1	1,838
Net profit - minority interest	-	-	-	-	-	2	-	-	-	-	2	-	2
IoRE	-	(5)	-	-	-	-	-	-	-	-	(5)	-	(5)
Distributions										(155)	(155)	-	(155)
Cash earnings	1,561	183	(6)	231	197	(417)	59	5	21	(155)	1,679	1	1,680

(1) Central Functions includes Group Funding, Corporate Centre, New Business and Development (NB&D) and Great Western Bank (GWB).

(2) Represents the Group's Commercial Fleet business, which was disposed on 5 March 2008.

Divisional Performance Summary

Half year ended 31 March 2008	Australia Region Banking $m	Australia Region MLC $m	Australia Region Other $m	UK Region $m	NZ Region $m	nabCapital $m	Central Functions[1] CC&GF $m	Central Functions[1] NB&D $m	Central Functions[1] GWB $m	Eliminations $m	Cash Earnings - Ongoing $m	Disposed Operations[2] $m	Group Cash Earnings $m
Net interest income	2,917	-	19	970	466	948	(18)	1	-	-	5,303	(10)	5,293
Other operating income	977	-	(1)	400	155	194	15	5	-	(55)	1,690	45	1,735
MLC net operating income	-	646	-	-	-	-	-	-	-	-	646	-	646
Net operating income	3,894	646	18	1,370	621	1,142	(3)	6	-	(55)	7,639	35	7,674
Operating expenses	(1,659)	(337)	(22)	(801)	(297)	(411)	(96)	(30)	-	55	(3,598)	(33)	(3,631)
Underlying profit	2,235	309	(4)	569	324	731	(99)	(24)	-	-	4,041	2	4,043
Charge to provide for doubtful debts	(301)	-	1	(135)	(26)	(265)	-	-	-	-	(726)	-	(726)
Cash earnings before tax	1,934	309	(3)	434	298	466	(99)	(24)	-	-	3,315	2	3,317
Income tax expense	(567)	(89)	1	(123)	(91)	(93)	45	6	-	-	(911)	-	(911)
Cash earnings before distributions and IoRE	1,367	220	(2)	311	207	373	(54)	(18)	-	-	2,404	2	2,406
Net profit - minority interest	-	-	-	-	-	-	-	(1)	-	-	(1)	-	(1)
IoRE	-	(9)	-	-	-	-	-	-	-	-	(9)	-	(9)
Distributions										(157)	(157)		(157)
Cash earnings	1,367	211	(2)	311	207	373	(54)	(19)	-	(157)	2,237	2	2,239

(1) *Central Functions includes Group Funding, Corporate Centre, New Business and Development (NB&D) and Great Western Bank (GWB).*

(2) *Represents the Group's Commercial Fleet business, which was disposed on 5 March 2008.*

Australia Region

Ahmed Fahour

The Australia Region consists of Australia Banking (incorporating Retail Banking and Business & Private Banking) and Wealth Management businesses in Australia (“MLC”) as well as Business and Retail banking operations in Asia.

Strategic Highlights & Business Developments

The Australia Region performance in 2008 is testament to the quality and strength of the underlying core business following the ‘turnaround’ of the past three years. The Region has been focussed on:

Managing capital, funding and asset quality in the current environment to ensure capital strength and efficiency across the business. The balance sheet is well positioned to weather the current market challenges and strategic repricing of both the lending and deposit books has assisted in offsetting higher funding costs. NAB is actively managing delinquent and impaired asset portfolios to keep asset quality at acceptable levels in a deteriorating credit environment. Pricing and lending practices are regularly reviewed to ensure risk is correctly priced when writing new business.

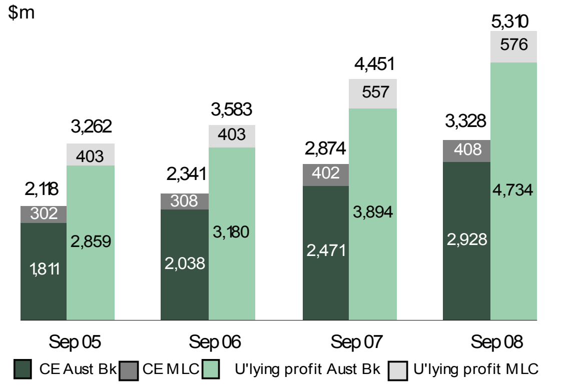
Progressing the Efficiency, Quality and Service (EQS) programs and investing in Next Generation Banking IT platforms. The EQS program has delivered sustainable efficiency improvements which have created capacity, enabled business expansion and maintained cost growth at below inflationary expectations, whilst making it easier for customers to do business with NAB. The EQS program has delivered over $300 million in benefits in 2008, with the cumulative total benefit in excess of $500 million since the program began in 2005. During 2008 NAB committed to the first phase of its Next Generation Banking IT Platform that will replace the core banking systems over the next five years and underpin its strategy for sustainable out-performance and transformation of the banking business.

Enhancing the customer focus of the business. NAB organises its business around customers not products, and has progressed this model further introducing new business banking specialist divisions in Health, Education and Government. Relationship management, products and processes are all designed to suit the needs of the segment. The results from specialisation continue to be strong.

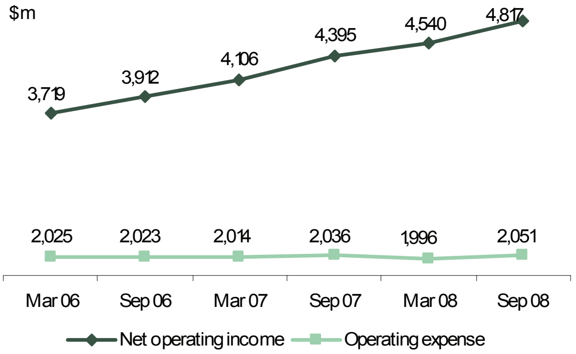
The Private & Institutional Wealth (PIW) division was also launched this year to bring together a range of capabilities to better manage the needs of high net worth customers.

In Retail Banking, the strategy of embedding local banking closer to customers was enhanced with the launch of ‘Smart Everyday Banking’ which provided greater choice. UBank was also launched in 2008 – a new direct channel initially offering term deposits and over time, will add a range of additional savings, transaction and investment products for customers who prefer on-line self service.

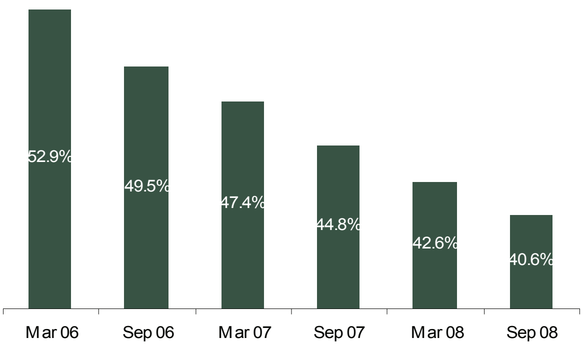
Australia Region[1] Cash Earnings before IoRE and Underlying Profit[2]



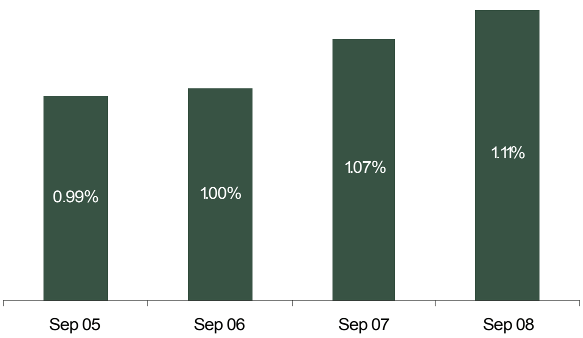
Australia Region Revenue and Expense Trends



Australia Banking Cost to Income ratio



Australia Banking Cash Earnings on Average Assets



(1) *Australia Region Cash Earnings total includes Other (incl. Asia)*

(2) *Australia Region Underlying Profit excludes Other (incl. Asia)*

Creating a great company for our people and communities via broad ranging investments in capability and community programs. A key milestone this year was the launch of 'The Academy' for building capability in areas of customer, advice, employees and operations.

NAB's community programs continued to be focussed on delivering financial services "access" to the disadvantaged (our microfinance scheme), the education agenda, and the recently announced indigenous program including a partnership with the Traditional Credit Union. NAB is also a major contributor to local community sports and arts, including the much loved NAB AFL Auskick program.

Operating Environment

The banking environment, both in Australia and around the world, has changed significantly during the past 12 months with a number of external factors changing the Australian market landscape.

These factors include disruption in the US financial system impacting global capital markets, rising wholesale credit costs, falling consumer and business confidence, slowing demand and GDP, and volatility in equity and other markets.

While this changing and largely 'unpredictable' environment presents challenges, it also presents significant opportunities for large, stable and secure banks through a 'flight to quality' trend, particularly in lending and deposit products.

Customer, Employee and Community

The Australia Region aims to create a culture that strongly motivates and engages its customers, its people and its community.

In 2008, NAB continued to build on, and invest in, the momentum from its turnaround and actively work on culture as a fundamental business priority. NAB has made significant further progress in this area. This includes the focus on leadership capability, a diverse and inclusive workforce and a work environment that encourages people to 'bring themselves' to work and connect with our customers and community.

An important development in 2008 was the introduction of The Academy as a component of building individual and organisational capability required to achieve career and business aspirations. The Academy will come to life throughout 2008/09 delivering physical sites and online learning experiences for all of NAB's people, and through senior leader sponsorship of enterprise capability uplift and curricula.

NAB also continues to improve its processes to make it easier for its people to do their jobs and deliver a great customer experience.

More than 2,700 employees across the Australia Region have been trained in continuous improvement techniques to date, and since EQS was first introduced at the end of 2005, the cost-to-income ratio across the Australian banking business has improved from 54.7% to 40.6%.

NAB has created a strong brand linked to its purpose of fulfilling the aspirations of its customers. NAB will continue to connect its people to this aspiration.

The results of this work continue to see improvements in the satisfaction of customers and communities as well as employees. NAB clearly holds the number one position compared to the major banks for satisfaction with business customers. Recent interest rate movements have proven challenging for consumer perceptions of banks generally but NAB has maintained a very transparent position on the issues of funding costs and the need to operate in a sustainable manner.

NAB continued to progress its Corporate and Community Responsibility strategy extending to incorporate new initiatives focused around micro-finance, education, and indigenous engagement. The individual programs that sit within these key areas deliver tangible outcomes to the community, and draw upon its organisational capabilities and expertise, the network of professional relationships, and the generosity of staff.

During the year MLC Community Foundation announced a three year partnership with Lifeline, which will allow Lifeline to continue to expand their range of programs promoting mental health and wellbeing.

NAB maintained its focus on attaining carbon neutrality by 2010 with establishment of the Climate Change Leadership Group and the three step approach: reduced energy and travel emissions; use renewable energy; and utilise carbon offsets. Awareness was raised through the estimated 2,000 people (including suppliers) attending NABs first Environmental Expo educating on personal climate impact reduction.

While commemorating its 150th year, NAB has also continued to play a significant role in sponsoring and supporting local charity and community groups. NAB's philosophy to foster meaningful partnerships in the community and its commitment to education was highlighted in the recent announcement of an annual $5 million boost to education through the Schools First program. NAB also continued the implementation of "Better Buddies anti-bullying" framework in conjunction with the Alannah and Madeline Foundation as well as a number of other significant and long standing sponsorships such as NAB AFL Auskick and Australian Ballet. NAB employees are encouraged to contribute to the community through Volunteer Awards and employee charity schemes.

In 2008 NAB was recognised for its commitment to delivering superior products and services by being awarded the best new product for "Gold Banking", and best "Socially Responsible banking" products at Money Magazine's 2008 awards for the "Micro Enterprise" and "Micro Stepup" Loans. Business & Private Banking won "Best Business Bank of the Year" in ABF magazine, whilst Retail Bank won "Best Equity Line of Credit" award by Mortgage magazine, "Best Online Website" by PC authority labs and "Most innovative Website Customer Experience Tool" by Global Reviews.

MLC awards ranged from "Life Insurance Company of the Year 2008" to "Dealer Group of the Year 2008".

Australia Region

	Year to			Half Year to		
	Sep 08 $m	**Sep 07 $m**	**Sep 08 v Sep 07%**	**Sep 08 $m**	**Mar 08 $m**	**Sep 08 v Mar 08%**
Banking revenue	**8,100**	7,215	12.3	**4,206**	3,894	8.0
MLC net revenue	**1,257**	1,286	(2.3)	**611**	646	(5.4)
Net operating income	**9,357**	8,501	10.1	**4,817**	4,540	6.1
Operating expenses	**(4,047)**	(4,050)	0.1	**(2,051)**	(1,996)	(2.8)
Underlying profit	**5,310**	4,451	19.3	**2,766**	2,544	8.7
Charge to provide for bad and doubtful debts	**(603)**	(389)	(55.0)	**(302)**	(301)	(0.3)
Other (incl. Asia)	**(8)**	1	large	**(6)**	(2)	large
Cash earnings before tax and IoRE	**4,699**	4,063	15.7	**2,458**	2,241	9.7
Income tax expense	**(1,371)**	(1,189)	(15.3)	**(715)**	(656)	(9.0)
Cash earnings before IoRE	**3,328**	2,874	15.8	**1,743**	1,585	10.0
IoRE	**(14)**	39	large	**(5)**	(9)	44.4
Cash earnings	**3,314**	2,913	13.8	**1,738**	1,576	10.3
Represented by:						
Australia Banking	**2,928**	2,471	18.5	**1,561**	1,367	14.2
Business & Private Banking	**2,028**	1,708	18.7	**1,080**	948	13.9
Retail Banking	**900**	763	18.0	**481**	419	14.8
MLC	**408**	402	1.5	**188**	220	(14.5)
Investments	**213**	239	(10.9)	**88**	125	(29.6)
Insurance	**195**	163	19.6	**100**	95	5.3
Other (incl. Asia)	**(8)**	1	large	**(6)**	(2)	large
Cash earnings before IoRE	**3,328**	2,874	15.8	**1,743**	1,585	10.0
Performance Measures						
Cash earnings before IoRE per average FTE ($'000s)	**146**	127		**152**	140	
FTEs (spot)	**22,567**	22,600		**22,567**	22,992	

Australia Region
Financial Highlights

September 2008 v September 2007

The Australia Region delivered cash earnings growth (before IoRE) of 15.8% and underlying profit growth of 19.3% over the prior comparative period.

Revenue growth of 10.1% was an excellent result achieved in a very challenging environment. The strong performance of the Australia Banking business was due to continued momentum in business lending and deposit growth resulting from targeted campaigns. In MLC, Insurance net income grew strongly whilst the Investment business was negatively impacted by lower fees as the decline in investment markets reduced FUM.

The Regional expense base was flat on the prior comparative period, which is a standout result achieved in an inflationary environment with a competitive labour market.

Bad and doubtful debt charges were up 55.0% reflecting the tightening in the credit environment and a slowdown in economic growth. The charge includes increases across the portfolio, with higher specific provisions generated across Business & Private Banking and in particular, the impairment of one large business client in the March 2008 half.

Significant work continues to be done in the Australia Region to ensure risk associated with the lending book is actively managed and priced accordingly.

September 2008 v March 2008

The Australia Region delivered cash earnings growth (before IoRE) of 10.0% and underlying profit growth of 8.7% over the March 2008 half.

Revenue growth of 6.1% was driven by business lending volumes, re-pricing in light of increased funding costs, and continued growth in deposit earnings. These factors contributed to strong management of banking margins.

Underlying expense growth remained below inflationary expectations due to further embedding of the EQS program.

Other Items

Investment Spend

Investment cash spend during the September half amounted to $203 million bringing the annual spend to $371 million. Added to significant investment in prior years, this has resulted in cumulative investment spend of $1.5 billion over the past four years. Spend in the investment portfolio is across three broad categories:

Efficiency and sustainable revenue.
Cash spend during the September half was $116 million representing 57% of the portfolio. This reflects the continued focus on efficiency programmes, productivity initiatives and cross sell projects aimed at improving the customer experience, revenue generation and achieving process efficiencies.

Infrastructure
Cash spend during the September half was $57 million representing 28% of the portfolio. Activity has focussed on initiatives such as:

- Refurbishing the ATM Network. Retail Bank has now upgraded all 1,583 ATMs (and the underlying infrastructure).
- Further improvements in NAB's direct and online channels which have received awards for useability and innovation and continue to grow with more customers utilising these networks to access banking products and services.
- Development of self service offerings such as online statements (with up to seven years of history available online) and the innovative SMS mobile banking service, enabling customers to receive account information and undertake transactions on their mobile phones.

During the year NAB announced its intention to commence work on the Next Generation Platform (NGP) initiative involving the replacement of the core banking systems to underpin the Region's strategy. Oracle has been selected as the partner for the first phase of this strategy, which involves the delivery of the platform for UBank.

Compliance.

Cash spend during the September half was $30 million representing 15% of the portfolio. Activity included initiatives such as ensuring compliance with the Anti Money Laundering and Counter Terrorist Financing requirements, enhancing measurement and management of credit risk through Basel II and other operational risk readiness projects.

Cross Sell

The Regional cross-sell agenda continues to progress within chosen segments. These include Insurance, Investments and Superannuation sales through Bank channels, banking products and services through MLC Financial advisers, and generation of nabCapital revenue through Business & Private Banking customers.

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Australia Banking (nab)

Business & Private Banking

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

Business & Private Banking is pursuing a strategy of continuing to build a market differentiated and high performing relationship based business focused on 'making genuine contact' with customers. The extensive geographic footprint and experienced sales force combine to maintain and extend the leadership position in business banking lending and deposits.

Business & Private Banking has continued to perform extremely well despite the challenging market conditions with underlying profit growth of 24.4% and cash earnings growth of 18.7% for the year. Strong revenue growth was achieved through developing closer existing and new client relationships, ensuring appropriate risk pricing and assisting customers with a range of both lending and non-lending products, including transaction banking, treasury and wealth products. Expense growth was below inflation through targeted EQS initiatives, whilst bad and doubtful debt charges increased due to the deteriorating credit environment.

Business & Private Banking has maintained its leading business lending market share with solid lending growth and margins in all segments despite deteriorating business confidence and uncertainty in financial markets.

The deposit environment has become increasingly competitive as a result of market conditions and the increased cost of wholesale funding. This has continued to pressure margins. Despite this, close engagement of front line bankers and marketing activity has enabled volume growth, particularly in the latter part of the year, providing good momentum into 2009.

Asset quality and risk management, including appropriate pricing for risk, are key areas of focus in the current market environment. Highly skilled and experienced staff members have been deployed to work exclusively with the front line to ensure the monitoring and management of risk is appropriately undertaken.

The implementation of the iFS (Integrated Financial Solutions) model in April 2008 has provided greater autonomy to bankers in managing local business outcomes and customer relationships. iFS reinforces the commitment to customers and longer term success through focus on customer engagement and putting decision making closer to the customer.

Specialist product and third party sales forces continue to work closely with front line bankers to further extend the breadth of service. Industry specialisation has strengthened the depth of customer relationships and enables the provision of valuable advice to customers.

Business & Private Banking's customer focus is evidenced by its number one ranking amongst the major banks in business banking customer satisfaction as reported by East & Partners and supports its long term vision of building lasting customer relationships.

Initiatives aimed at enhancing the customer experience include investment in the nabConnect on-line business platform, and the continuous improvement programme. Business & Private Banking is also continuing to make significant investment in its people to further develop risk management and corporate financial skills focused on empowering frontline bankers with the relevant specialist skills to identify and deliver against customer needs.

Retail Banking

Retail Banking is pursuing a differentiated customer experience focused strategy, connecting with customers through a range of high quality channels, with a strong emphasis on local communities, simplified processes and choices. Retail Banking has maintained its commitment to the development of its people and their capabilities, and has continued investing in its distribution channels with innovative new customer-friendly store formats and first-to-market technologies.

Retail Banking delivered strong cash earnings growth of 18.0% for the year, driven by revenue growth and near flat expenses. Deposit earnings contributed to the annual revenue growth of 7.4% despite increasing competition due to tight wholesale funding markets. While Retail Banking continued investing in the business, expense growth was only 0.2% for the year which was achieved through focused EQS programs.

Deteriorating market conditions during the year resulted in the increased charge to bad and doubtful debts which rose by 14.4%.

Growth in deposit volumes benefited from the launch of Smart everyday transaction accounts and market leading online and innovative banking services. NAB continues to be the second largest bank in the retail deposits market with a share of 13.9%.

Mortgages performed as expected given the slowing housing sector and increased funding costs. Revenue growth was maintained by targeting key customer segments and innovative new services including a Defence Force Home Owner Assistance Scheme and the NAB Clear Banking home loan.

NAB Broker strengthened its market position with the roll out of the "Change the Game" strategy, revamping commission arrangements with brokers to ensure origination activity provides long term benefits to both the broker and NAB.

Branch network investment remained a key priority in 2008, opening 17 new branches and trialling new store format such as nab Shop. A further 62 stores were refurbished maintaining the investment in the network of 769 retail stores across Australia. Along with the refurbished ATM network this provides customers with a whole new range of ways to access products and services.

Australia Banking

	Year to Sep 08 $m	Year to Sep 07 $m	Sep 08 v Sep 07%	Half Year to Sep 08 $m	Half Year to Mar 08 $m	Sep 08 v Mar 08%
Net interest income	**6,188**	5,520	12.1	**3,271**	2,917	12.1
Other operating income	**1,912**	1,695	12.8	**935**	977	(4.3)
Net operating income	**8,100**	7,215	12.3	**4,206**	3,894	8.0
Operating expenses	**(3,366)**	(3,321)	(1.4)	**(1,707)**	(1,659)	(2.9)
Underlying profit	**4,734**	3,894	21.6	**2,499**	2,235	11.8
Charge to provide for bad and doubtful debts	**(603)**	(389)	(55.0)	**(302)**	(301)	(0.3)
Cash earnings before tax	**4,131**	3,505	17.9	**2,197**	1,934	13.6
Income tax expense	**(1,203)**	(1,034)	(16.3)	**(636)**	(567)	(12.2)
Cash earnings	**2,928**	2,471	18.5	**1,561**	1,367	14.2
Average Volumes ($bn)						
Gross loans and acceptances	**252.9**	228.8	10.5	**259.3**	246.4	5.2
Interest earning assets	**255.4**	229.0	11.5	**263.0**	247.7	6.2
Total assets	**262.8**	230.7	13.9	**272.0**	253.5	7.3
Retail deposits	**107.3**	95.6	12.2	**109.7**	104.9	4.6
Performance Measures						
Cash earnings on average assets	**1.11%**	1.07%	4 bps	**1.14%**	1.08%	6 bps
Net interest margin	**2.42%**	2.41%	1 bps	**2.49%**	2.36%	13 bps
Cost to income ratio	**41.6%**	46.0%	440 bps	**40.6%**	42.6%	200 bps
Cash earnings per average FTE ($'000s)	**156**	133		**166**	146	
FTEs (spot)	**18,440**	18,621		**18,440**	18,930	

Distribution	As at Sep 08	As at Mar 08	As at Sep 07
Number of retail stores	**769**	781	786
Number of ATMs	**1,583**	1,599	1,604
Number of internet banking customers	**1.451m**	1.370m	1.296m
Number of business banking centres	**176**	180	181

Market Share (%)	As at Aug 08	As at Mar 08	As at Sep 07
Business lending	**18.9**	18.6	18.8
Housing lending	**13.2**	13.2	13.3
Other personal lending	**14.5**	14.4	14.6
Retail deposits	**13.9**	14.4	14.5

Source: *RBA Financial System / NAB including nabCapital data as at August 2008*

Business & Private Banking	Year to Sep 08 $m	Year to Sep 07 $m	Sep 08 v Sep 07%	Half Year to Sep 08 $m	Half Year to Mar 08 $m	Sep 08 v Mar 08%
Net operating income	**4,966**	4,296	15.6	**2,595**	2,371	9.4
Operating expenses	**(1,761)**	(1,720)	(2.4)	**(896)**	(865)	(3.6)
Underlying profit	**3,205**	2,576	24.4	**1,699**	1,506	12.8
Charge to provide for bad and doubtful debts	**(333)**	(153)	large	**(168)**	(165)	(1.8)
Cash earnings before tax	**2,872**	2,423	18.5	**1,531**	1,341	14.2
Income tax expense	**(844)**	(715)	(18.0)	**(451)**	(393)	(14.8)
Cash earnings	**2,028**	1,708	18.7	**1,080**	948	13.9
Retail Banking						
Net operating income	**3,134**	2,919	7.4	**1,611**	1,523	5.8
Operating expenses	**(1,605)**	(1,601)	(0.2)	**(811)**	(794)	(2.1)
Underlying profit	**1,529**	1,318	16.0	**800**	729	9.7
Charge to provide for bad and doubtful debts	**(270)**	(236)	(14.4)	**(134)**	(136)	1.5
Cash earnings before tax	**1,259**	1,082	16.4	**666**	593	12.3
Income tax expense	**(359)**	(319)	(12.5)	**(185)**	(174)	(6.3)
Cash earnings	**900**	763	18.0	**481**	419	14.8

Australia Banking
Financial Analysis

September 2008 v September 2007

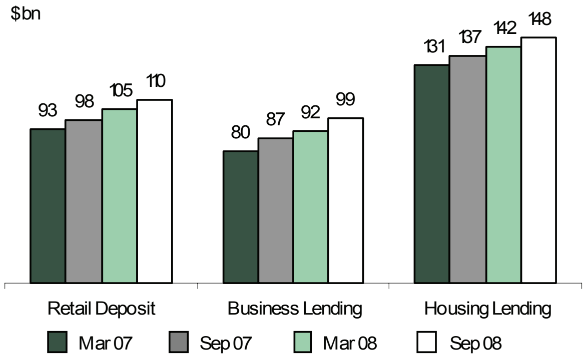
Cash earnings increased $457 million or 18.5% for the year to September 2008, and **return on average assets** improved 4 basis points.

Net interest income increased $668 million or 12.1% for the year. Volume growth and product margin management have mitigated the impact of financial market instability on funding costs and changes to portfolio mix in the deposit book. Continued momentum was seen in business lending volumes and deposit volumes responded well to strategic campaigns and repricing in the September half.

Average interest earning assets grew $26.4 billion or 11.5%, driven by above system business lending growth, whilst market share for housing remained constant.

Average retail deposits increased $11.7 billion or 12.2% despite the impact of aggressive pricing by competitors to gain market share. NAB strategically repriced to ensure an appropriate balance between deposit volumes and earnings.

Australia Banking Average Volumes



The flat **net interest margin** for the full year demonstrates the active management of margins in the current environment. A mix of repricing, treasury management and a focus on deposit initiatives assisted to offset the full year gross funding cost increase of $212 million. NAB also benefited from the favourable outcome of changes to the capital allocation methodology during the year.

Other operating income increased $217 million or 12.8%. Account, lending and card fee income increased due to greater sales activity and product initiatives. Continued transaction growth in business banking increased merchant service income. Treasury income increased due primarily to swap fee income on term funding deals.

Operating expenses increased $45 million or 1.4%, driven by higher personnel costs primarily due to the full year impact of remuneration and EBA reviews. The increase in personnel expenses is offset in part by a reduction in non-personnel expenses year on year, testament to the efficiency gains achieved through the EQS agenda and overall effective cost management.

The charge to provide for bad and doubtful debts increased $214m or 55.0% as current economic conditions increased the volume of impaired assets in the portfolio. The majority of this charge is attributable to higher specific provisions generated across Business & Private Banking.

September 2008 v March 2008

Cash earnings increased $194 million or 14.2% and **return on average assets** improved 6 basis points.

Net interest income increased $354 million or 12.1% driven predominantly by business lending, improved housing volumes and deposit volumes. Asset repricing through the September half in response to rising funding costs improved net interest income relative to the March half. Deposit volumes responded well to targeted campaigns.

Average interest earning assets grew $15.3 billion or 6.2% primarily due to business lending growth. Housing volumes maintained market share during the September half.

Average retail deposits grew $4.8 billion or 4.6% underpinned by the continued use of online accounts and growth in term deposits.

Net interest margin for the September half included repricing activity to offset increased funding costs incurred in the first half that were not recovered in that period, and reflected the volatility of the market. Active treasury management of the interest rate profile of the balance sheet provided a $22m benefit in the half that assisted the full year margin recovery. Continuing to focus on deposit initiatives assisted the growth in deposits to offset unfavourable funding conditions.

Other operating income decreased $42 million or 4.3%. Increased account, lending and card fee income was offset by lower Treasury income.

Operating expenses increased $48 million or 2.9%, due to higher personnel costs including the seasonal increase in salary costs. Offsetting the increase in personnel expenses were the decline in non-personnel expenses, driven by effective cost management through the EQS efficiency program.

The charge to provide for bad and doubtful debts was flat for the September half, due to the continued focus on sound risk management practices and asset quality.

Other Items

Asset Quality

	As at		
	Sep 08	Mar 08	Sep 07
Gross impaired assets ($m)	**1,036**	937	697
Gross impaired assets to gross loans and acceptances	**0.39%**	0.37%	0.29%
90+ DPD assets ($m)	**1,079**	1,026	876
90+ DPD to gross loans and acceptances	**0.41%**	0.41%	0.36%
Gross impaired assets and 90+ DPD to gross loan and acceptances	**0.79%**	0.78%	0.65%
Total provision to gross loans and acceptances	**0.45%**	0.50%	0.45%
Net write-offs to gross loans and acceptances	**0.18%**	0.11%	0.11%
Bad and doubtful debts charge to credit risk weighted assets[1]	**0.44%**	0.29%	0.20%

(1) Basel II Credit Risk Weighted Assets have been used for September 2008

The Australian credit environment continued to tighten during the six months to September 2008 as the cumulative effects of a tight monetary policy and reduced macroeconomic activity affected both the stock of assets held within the lending portfolio and the quality of new lending flows. Despite these difficulties the underlying asset quality of the Australia Region's lending portfolio remains robust.

The implementation of enhanced management strategies restrained the increase in 90 DPD and gross impaired assets (as a % of GLA's) to only 1bps over the half despite the difficult operating conditions. This was underpinned by improved resource management within collections and recovery teams.

Relative to the September 2007 half the level of impaired assets to gross loans and acceptances has increased 10bps largely as a result of the deterioration in the environment on Victorian business lending. Risk issues previously communicated around the New South Wales mortgages portfolio have stabilised.

The level of write-offs increased during the second half due to the write-off of a small number of large impaired loans and the impact of the credit environment. This increase was in line with expectations.

Bad and doubtful debts continues to be tightly managed, with the charge remaining flat in the September 2008 half reflecting the focus on credit risks in the early stages of delinquency. The lending portfolio remains well provided for, with a level of provisioning coverage appropriate for the strength in the underlying portfolio.

Proactive initiatives have been taken to address the current deteriorating environment. Additional resources have been put in place with a priority of tightly managing asset quality by identifying potential problem loans before they move into delinquent or impaired status.

Funding and Liquidity

Funding and liquidity costs have continued to increase steadily in the September 2008 half, continuing the trend since July 2007. The main drivers of this increase can be attributed to the cash/bills spread and the cost of term funding issued to support the Region's balance sheet.

Cash/bills spread is the difference between the cash rate and 90 day bank bill rate. Many of the Region's assets are priced off the cash rate, but are funded by the bill rate. As the spread between cash and bank bills increases, the cost of funding also rises. The Region actively manages this cost by using the 90 day overnight index swap contract. The average spread for the year to September 2008 was 42 basis points higher than September 2007, whilst September half was 34 basis points above the March half. This represents a cost of $121 million for the full year.

Since September 2007, $26 billion of term funding has been issued to support the NAB's Australian balance sheet growth (including nabCapital). The cost of these facilities is apportioned to the Australian Region and has grown significantly as market prices reflect the increased cost of credit and liquidity.

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MLC

MLC continues to perform well in very difficult investment markets with cash earnings before IoRE of $408 million slightly ahead of the prior period. This result reflects the diversification of the MLC business model including a strong and growing insurance business, accompanied by its “MasterKey” platform which is supported by MLC's manager of manager’s investment process. MLC's advice networks continue to grow strongly as an outcome of its commitment to running a sustainable and transparent business model. A highlight of its result is the outstanding expense control, a result of embedded efficiency programmes now in their third year.

During the September 2008 year MLC has:

Maintained leading market share in the personal insurance market without compromising focus on writing high quality and sustainable new business. Premiums in-force grew in a competitive market underpinned by an increase in sales via the bank distribution channel. Insurance sales are showing strong momentum going into 2009.

The quality of MLC’s insurance products continues to be recognised, most recently being named **Insurance Company of the Year** at the 5th Annual Australia and New Zealand Insurance Industry Awards. This is the third time in five years that MLC has received this prestigious award.

Continued to yield outstanding results from MLC’s customer experience and effectiveness program (CEE). Investment cost to average FUM has reduced from 54bps to 50bps and MLC’s insurance cost to average annual inforce premium has improved from 24% to 21% over the period. This efficiency program has significantly improved MLC’s expense position over the last three years and has supported continued reinvestment in the business.

Continued to enhance the customer experience with significant reinvestment in 2008 including the upgrading of MLC’s online capabilities. The relaunched mlc.com.au now offers financial advisers genuine straight through processing, improving online service capability and easier navigation and functionality with 35% of MasterKey applications now received online with straight through processing.

Maintained a leading position in all sectors of the rapidly growing superannuation system. More than 75% of MLC’s customers’ funds are invested in superannuation. MLC is the second largest provider of superannuation in Australia and has experienced sustained growth. MLC continues to focus on participating in the more profitable segments of the market, notwithstanding competitive pressures and the industry’s move towards lower margin, ‘badged’ platforms.

Consistently delivered strong returns through MLC's market leading manager of manager’s investment approach. MLC’s flagship fund, Horizon 4 has outperformed peers 84% of the time over rolling 5 year periods. Consistent performance requires broad diversification across investment strategies, asset classes and manager styles, which MLC is well placed to achieve having grown to become the world's third largest multi manager. MLC’s investment approach has been tested over multiple major market corrections in the last 22 years and is performing very well relative to peers during the current global investment market downturn.

Continued to take the lead on the important issue of building trust in the financial advice industry. This is now paying dividends with growth in the adviser networks in a very competitive market. The current volatile market conditions have increased focus on transparency and trust. MLC’s position has attracted 97 new advisers across the advice businesses to grow advisers to 1,401. MLC’s aligned adviser brands (Garvan Financial Planning, MLC Financial Planning, Apogee Financial Planning and Godfrey Pembroke) have grown by 27 new advisers taking the total number of advisers to 837 and NAB Financial Planning has grown by 70 to 564.

Led the bank owned financial advice transition. NAB Financial Planning continues to be well positioned in the retail, business and private banks, with strong sales despite challenging market conditions. NAB Financial Planning has now completed the transition to fee for advice for all new investment clients. The superior quality of our advisers is evidenced by NAB Financial Planning winning the Money Management/CoreData Dealer Group of the Year (Bank) award in July 2008, following Garvan being named Major Dealer Group of the Year by IFA Magazine / CoreData in December 2007. These awards highlight the strength of MLC’s highly diversified, quality advice based distribution model.

Continued to invest in the repositioning of the MLC brand. Brand awareness and consideration measures have both increased by around 50% since the launch of the new campaign “MLC. It all adds up” in early 2007.

Contributed positively to the Groups capital position through a focus on return on equity. MLC has introduced more capital efficient products which have enabled MLC to be a strong contributor to the Group through the repatriation of dividends, and by moving to a more optimal capital structure.

MLC

	Year to			Half Year to		
	Sep 08 $m	Sep 07 $m	Sep 08 v Sep 07%	Sep 08 $m	Mar 08 $m	Sep 08 v Mar 08%
Gross income	**2,195**	2,185	0.5	**1,089**	1,106	(1.5)
Volume related expenses	**(938)**	(899)	(4.3)	**(478)**	(460)	(3.9)
Net income	**1,257**	1,286	(2.3)	**611**	646	(5.4)
Operating expenses	**(681)**	(729)	6.6	**(344)**	(337)	(2.1)
Profit before tax	**576**	557	3.4	**267**	309	(13.6)
Income tax expense	**(168)**	(155)	(8.4)	**(79)**	(89)	11.2
Cash earnings before IoRE	**408**	402	1.5	**188**	220	(14.5)
IoRE [1]	**(14)**	39	large	**(5)**	(9)	44.4
Cash earnings	**394**	441	(10.7)	**183**	211	(13.3)
Represented by:						
Investments cash earnings before IoRE	**213**	239	(10.9)	**88**	125	(29.6)
Insurance cash earnings before IoRE	**195**	163	19.6	**100**	95	5.3
Cash earnings before IoRE	**408**	402	1.5	**188**	220	(14.5)
Performance Measures						
Funds under management (spot) ($m)	**94,599**	110,165	(14.1)	**94,599**	102,926	(8.1)
Funds under management (average) ($m)	**102,382**	102,109	0.3	**98,763**	106,546	(7.3)
Net funds flow ($m)	**1,781**	6,400	(72.2)	**(2,482)**	4,263	large
Annual inforce premiums (spot) ($m)	**859.3**	795.6	8.0	**859.3**	821.7	4.6
Annual inforce premiums (average) ($m)	**827.5**	751.6	10.1	**840.5**	808.7	3.9
New business premiums ($m) [2]	**201.8**	211.6	(4.6)	**109.6**	92.2	18.9
Operating expenses to net income (%)	**54%**	57%		**56%**	52%	
Investment cost to average FUM (bps)	**50**	54		**52**	47	
Insurance cost to average inforce premium (%)	**21%**	24%		**20%**	21%	
Cash earnings before IoRE per average FTE ($'000s)	**106**	103		**97**	116	
FTE's (spot)	**3,869**	3,820		**3,869**	3,870	
Financial advisers – bank channels	**564**	494		**564**	525	
Financial advisers – aligned channels	**837**	810		**837**	844	

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

(2) *MLC has adopted a new methodology for reporting retail sales from December 2007 comparable to its peers, prior periods have been recalculated using new methodology.*

MLC
Financial Highlights

September 2008 v September 2007

MLC's cash earnings before IoRE of $408 million were 1.5% above prior year despite the impact of the global investment market downturn.

This result was driven by:

- 10.1% growth in average annual inforce premiums as a result of continuing strong insurance sales
- 6.6% decrease in operating expenses reflecting the embedded efficiencies achieved through the CEE program and sound cost management
- Investment sales which were strong in the first quarter of 2008 across all channels with a softening thereafter in line with weaker market conditions. Additionally, 2007 included the impact of the Federal Government Simpler Super activities
- A $17 million write down in the annuities portfolio comprising an infrastructure asset and increasing credit spreads. These write downs may be recovered over the life of the annuity
- Negative investment markets driving a decline in spot FUM of 14.1% and flat average FUM, significantly lower net flows compared to 2007 which benefited from Simpler Super and hence reduced investments revenue
- Strong performance in wholesale investments with Jana Investment Advisers delivering increased flows, demonstrating the strength of its implemented consulting service and its ability to add significant value to client's portfolios.
- Negative IoRE reflecting the global investment market downturn.

September 2008 v March 2008

MLC's cash earnings before IoRE decreased by $32 million or 14.5%. This result was principally impacted by:

- The continued global investment market downturn resulting from a decline in average FUM of 7.3% represents a reduction in gross income of 1.5%
- Increasing credit spreads and an infrastructure asset write down in the annuity portfolio
- Increase in volume related expenses including an experience adjustment to Insurance policy liabilities
- $7 million or 2.1% increase in operating expenses principally due to investment in additional NAB planners and financial year-end expense seasonality
- Negative IoRE driven by the global investment market downturn.

MLC – Investments

	Year to Sep 08 $m	Year to Sep 07 $m	Sep 08 v Sep 07%	Half Year to Sep 08 $m	Half Year to Mar 08 $m	Sep 08 v Mar 08%
Gross income	1,221	1,315	(7.1)	590	631	(6.5)
Volume related expenses	(410)	(441)	7.0	(205)	(205)	-
Net income	811	874	(7.2)	385	426	(9.6)
Operating expenses	(511)	(547)	6.6	(259)	(252)	(2.8)
Profit before tax	300	327	(8.3)	126	174	(27.6)
Income tax expense	(87)	(88)	1.1	(38)	(49)	22.4
Cash earnings before IoRE	213	239	(10.9)	88	125	(29.6)

Movement in Funds under Management and Administration ($m)	As at Sep 07	Inflows	Outflows	Investment earnings	Other[1]	As at Sep 08
Master Funds (Platforms)	68,772	12,376	(11,053)	(11,288)	(1,815)	56,992
Other Retail	5,624	(9)	(410)	(278)	(473)	4,454
Total Retails (Excl. Cash)	74,396	12,367	(11,463)	(11,566)	(2,288)	61,446
Wholesale	24,755	4,272	(3,107)	(3,745)	-	22,175
Total ex Trustee and Cash Management	99,151	16,639	(14,570)	(15,311)	(2,288)	83,621
Cash Management	4,780	16,837	(17,376)	344	(92)	4,493
Trustee	6,234	3,882	(3,631)	-	-	6,485
Total	110,165	37,358	(35,577)	(14,967)	(2,380)	94,599

Movement in Funds under Management and Administration ($m)	As at Mar 08	Inflows	Outflows	Investment earnings	Other[1]	As at Sep 08
Master Funds (Platforms)	61,618	6,006	(5,060)	(4,213)	(1,359)	56,992
Other Retail	4,027	(31)	(149)	(93)	700	4,454
Total Retails (Excl. Cash)	65,645	5,975	(5,209)	(4,306)	(659)	61,446
Wholesale	24,567	1,007	(2,266)	(1,133)	-	22,175
Total ex Trustee and Cash Management	90,212	6,982	(7,475)	(5,439)	(659)	83,621
Cash Management	4,585	8,365	(8,710)	199	54	4,493
Trustee	8,129	1,766	(3,410)	-	-	6,485
Total	102,926	17,113	(19,595)	(5,240)	(605)	94,599

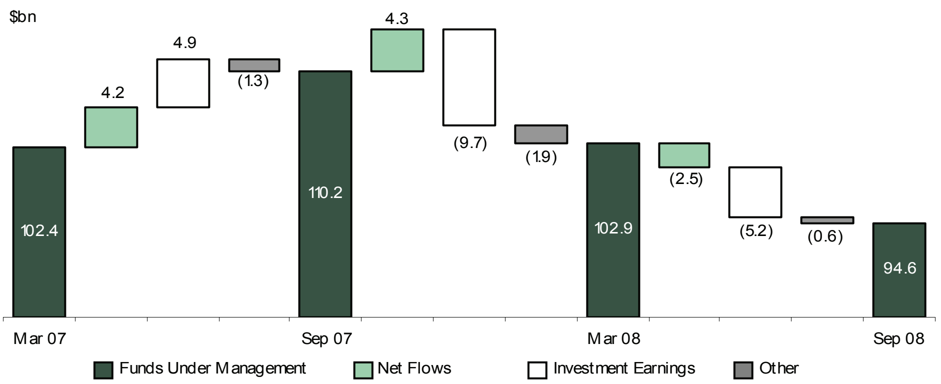
[1] Other includes trust distributions.

	Market Share Rank	Market Share Jun 08	Market Share Dec 07	Market Share Jun 07	Share of New Business [2] Rank	Share of New Business [2] Jun 08	Share of New Business [2] Dec 07	Share of New Business [2] Jun 07
Retail (Excl. Cash)	3	12.0%	12.1%	12.1%	3	10.2%	9.8%	9.7%
Total Masterfunds	2	16.6%	16.7%	16.2%	3	12.1%	12.1%	11.8%
Total Wholesale	1	7.7%	7.5%	6.5%	6	4.6%	4.1%	2.7%

Source: Plan for Life Australian Retail & Wholesale Investments Market share & Dynamics Report – June 2008

[2] Share of new business is based on annual gross inflows.

Funds Under Management



MLC – Investments

Financial Analysis

September 2008 v September 2007

Cash earnings before IoRE decreased by $26 million or 10.9%. Net FUM flows for the period are positive $1.8 billion, through retail investments $0.9 billion and wholesale $1.2 billion. Market conditions have resulted in significantly lower industry wide flows as a result of the continuing investment market downturn and the 2007 Simpler Super impacts.

Gross income decreased $94 million or 7.1%. This was due to:

Lower spot FUM ($95 billion compared with prior period of $110 billion) due to the significant investment market downturn resulting in negative investment earnings of $15 billion and hence reduced management fee income.

A $17 million write down in the annuities portfolio due to increased credit spreads and a specific infrastructure asset as a direct result of the global credit market downturn. Given the matched nature of the portfolio it is expected that these spreads will be recovered over the life of the annuity.

An unfavourable variance to prior year of $9 million as a result of superannuation members (with balances of less than $1,000) in “protected superannuation” products which experienced negative investment earnings in the year being entitled to administration fee rebates.

MLC’s gross investment margins have been impacted by the change in MLC’s business mix between retail platforms and wholesale implemented consulting resulting in a decline in investment margins.

Volume related expenses include commission payments, investment costs and other FUM related costs. Whilst it is expected that these expenses move in line with FUM there are occasions when specific market conditions can result in gross income and volume related expenses not being aligned.

The decrease of $31 million or 7.0% for the year reflected lower investment and other FUM related costs. Volume related expenses are aligned with average FUM once adjusting for the change in business mix.

Operating expenses decreased by $36 million or 6.6% demonstrating the strength and sustainability of MLC’s business model. Productivity and efficiency improvements as a result of the CEE program have continued to be achieved during a period of external environment turbulence. MLC has continued to invest in brand, distribution capacity and further operational platform enhancements such as MLC online.

September 2008 v March 2008

Cash earnings before IoRE decreased $37 million or 29.6%. Net FUM flows for the half were negative $2.5 billion mostly as a result of the outflow of trustees’ monies that are short term in nature. In addition MLC’s wholesale implemented consulting business experienced outflows of $1.3 billion highlighting the lumpy nature of this business.

Gross Income decreased $41 million or 6.5%, driven by the deterioration of the global investment market downturn which has resulted in a reduction of 7.3% in average FUM.

Superannuation members in protected superannuation products received $7 million of fee rebates.

Volume related expenses were flat and moved in accordance with gross income, after adjusting for the annuities write down and member protection rebates.

Net income decreased $41 million or 9.6%, with retail margins remaining flat after adjustment for investment market environmental impacts on the annuity and superannuation portfolios.

Operating expenses increased by $7 million or 2.8% as a result of seasonality relating to financial year end activities and the employment of additional NAB financial planners.

MLC’s efficiency program CEE continues to deliver, enabling further investment in the business including significant enhancement to the MLC website and online servicing capabilities.

In addition to refreshing the design of mlc.com.au, MLC took a major step forward in its program to drive improved online transactional capabilities with the implementation of straight through processing for its MasterKey Investment Service and Superannuation products. This represents the first stage of a multi-year commitment to drive improvement in MLC's online self-service capabilities.

MLC – Insurance

	Year to Sep 08 $m	Year to Sep 07 $m	Year to Sep 08 v Sep 07%	Half Year to Sep 08 $m	Half Year to Mar 08 $m	Half Year to Sep 08 v Mar 08%
Gross income	**974**	870	12.0	**499**	475	5.1
Volume related expenses	**(528)**	(458)	(15.3)	**(273)**	(255)	(7.1)
Net income	**446**	412	8.3	**226**	220	2.7
Operating expenses	**(170)**	(182)	6.6	**(85)**	(85)	-
Profit before tax	**276**	230	20.0	**141**	135	4.4
Income tax expense	**(81)**	(67)	(20.9)	**(41)**	(40)	(2.5)
Cash earnings before IoRE	195	163	19.6	100	95	5.3
Planned and Experience Analysis						
Planned Margins	**171**	143	19.6	**91**	80	13.8
Experience Profit / (loss)	**24**	20	20.0	**9**	15	(40.0)
Cash earnings before IoRE	195	163	19.6	100	95	5.3

Annual Inforce Premiums ($m)	**As at Sep 07**	**Sales[1]**	**Lapses**	**As at Sep 08**	**Sep 08 v Sep 07%**
Retail	633.4	159.0	(110.3)	**682.1**	7.7
Group Risk	162.2	42.8	(27.7)	**177.3**	9.3
Total	795.6	201.8	(138.0)	**859.4**	8.0

Annual Inforce Premiums ($m)	**As at Mar 08**	**Sales[1]**	**Lapses**	**As at Sep 08**	**Sep 08 v Mar 08%**
Retail	653.5	84.6	(56.1)	**682.0**	4.4
Group Risk	168.2	25.0	(15.9)	**177.3**	5.4
Total	821.7	109.6	(72.0)	**859.3**	4.6

	Market Share Rank	Market Share Mar 08	Market Share Dec 07	Market Share Mar 07	Share of New Business [1] Rank	Share of New Business [1] Mar 08	Share of New Business [1] Dec 07	Share of New Business [1] Mar 07
Retail risk premiums	1	**14.8%**	14.8%	15.2%	1	**15.5%**	15.7%	13.9%
Group risk	6	**8.5%**	8.7%	8.5%	5	**11.0%**	12.3%	11.0%

Source: DEXX&R Life Analysis - March 2008

(1) MLC has adopted a new methodology for reporting retail sales from December 2007 comparable to its peers, prior periods have been recalculated using new methodology.

MLC - Insurance

Financial Analysis

September 2008 v September 2007

Cash earnings before IoRE increased $32 million or 19.6%.

This strong growth in cash earnings was due to the continued growth across the business including Group Insurance 45% and Protected Loans 39% within the Retail book.

MLC continues to focus on selling and retaining quality, profitable business while cross-sell and new distribution are targeted areas for additional growth.

Gross income increased $104 million or 12.0%. This increase in gross income is primarily driven by the growth in average inforce premiums of 10.1%.

The current market conditions have given rise to strong investment earnings on the assets backing the Insurance portfolio, the majority of which are invested in government and semi government bonds resulting in an increase of $15 million (post tax).

Volume related expenses increased $70 million or 15.3%. This includes commission payments, claims and adjustments from the stocktake valuation of life policy liabilities (based on actuarial reviews of actual data and experience assumptions). Strong claims management has delivered a reduction in the net claims ratio across all products with the exception of the lump sum portfolio which deteriorated marginally over the period.

The insurance portfolio has experienced a slight increase in lapse rates resulting in the write off of acquisition costs.

Operating expenses reduced $12 million or 6.6% representing realisation of MLC's efficiency returns achieved through the CEE program. This reduction in expenses has enabled further product enhancements in the business, including a reduction in level premium rates for Life and Total and Permanent Disability policyholders, the introduction of Income Protection cover within Superannuation, and reduced medical examinations by up to 30% through underwriting improvements.

MLC has also refreshed the Group Insurance website and launched a new Super Group Insurance product providing tax effective insurance for employees which they can transfer with their super balance if they choose to change super funds, thereby maintaining cover.

Planned Margins and Experience Profit. Margin on Services planned profit margins have grown by 19.6% in the year principally due to changes in mortality assumptions. Experience profit has been affected by higher than expected earnings on assets backing the Insurance portfolio, partially offset by a slight increase in lapse rates.

September 2008 v March 2008

Cash earnings before IoRE increased $5 million or 5.3%.

The growth in cash earnings is largely attributable to the final quarters strong sales momentum.

Gross income grew by $24 million or 5.1% driven mostly by average annual inforce premium growth of 3.9%, with Group insurance being the major contributor.

In addition, the insurance portfolio's investment earnings on the assets backing the portfolio showed increased returns through the markets with increased demand for quality securities.

Volume related expenses increased $18 million or 7.1% slightly above Gross Income. Net claims experience has improved during the period returning to previous experience and favourable to long term averages.

An experience adjustment to insurance policy liabilities across the insurance portfolio has resulted in volume related expenses increasing above the growth in gross income, mostly as a result of the slight increase in policy lapse rates.

Operating expenses were flat largely due to seasonal cost factors and the ongoing investment in the NAB Financial Planning sales force, offset by the continued productivity and efficiency improvements released through the CEE program.

UK Region

Lynne Peacock

The UK Region operates a traditional banking model, under the Yorkshire and Clydesdale Bank brands. The business focuses on delivering conventional banking products to business and retail customers.

Strategic Highlights & Business Developments

Business conditions over the period have become increasingly challenging, with the continued dislocation in financial markets and deteriorating economic indicators. Against this backdrop, the priorities for the Region have been to **improve the already strong funding and liquidity position, preserve the capital base, and grow lending prudently,** particularly in the second half where lending and deposits grew broadly in step. The Region has demonstrated its resilience in exceptional market conditions. These results, underpinned by firm cost control and strong credit management, reflect a robust financial performance, with cash earnings up by 2.5% and underlying profit up by 11.9%.

Over the year, the Region **continued to execute its strategy of planned growth** in the business sector through Integrated Financial Solutions (iFS) relationship banking and maintained its growth in secured personal lending in the retail business. Over the year, lending volumes increased from £24.6 billion to £31.4 billion, including the transfer from nabCapital signalled at the half year.

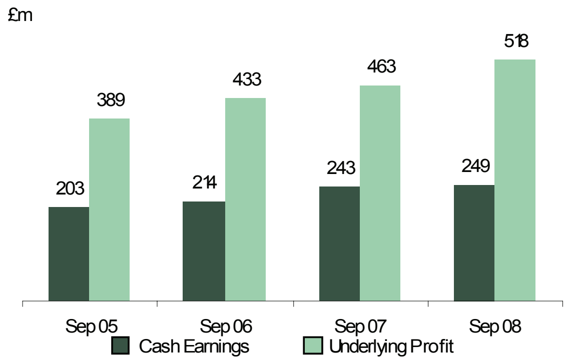
Reflecting current market conditions, **iFS pursued growth selectively** throughout the period, while **progressively fine-tuning its risk settings** in response to market conditions which deteriorated rapidly, particularly during the second half. This included a reinforced focus on the acquisition of both high quality trading business relationships and customer deposits. Over the year, iFS deposits grew by 19.5% from £7.7 billion to £9.2 billion and iFS lending grew by 24.2% from £15.7 billion to £19.5 billion. In the second half, deposits grew by 9.1% (£0.8 billion) and lending by 13.1% (£2.4 billion).

The **Retail business has proved resilient** in a challenging trading environment and achieved an appropriate balance between growing deposits and securing good quality mortgage business. A strong focus on process improvement and the further enhancement of the customer experience contributed to an improvement in customer retention.

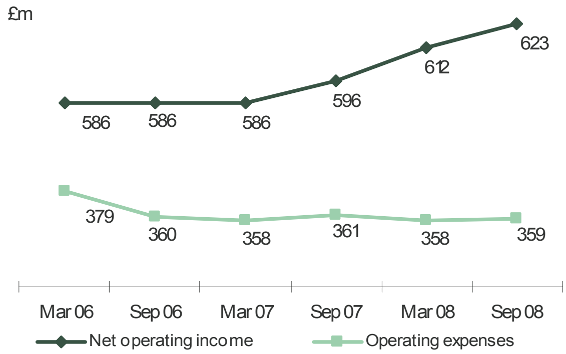
Underlying income growth continued to be good, with an 8.3% increase year on year. After absorbing extra funding and liquidity costs of £46 million, growth remained strong at 4.5%. These costs were the key driver of net interest margin contraction with the underlying decrease slowing, reflecting repricing actions and normalisation after a period of strong growth.

Process improvement and business efficiency was a key focus for the UK Region with the business improving its cost to income ratio by 220bps over the prior year. This reflects operating expenses which have now been held flat for six consecutive halves and continued improvements in revenue.

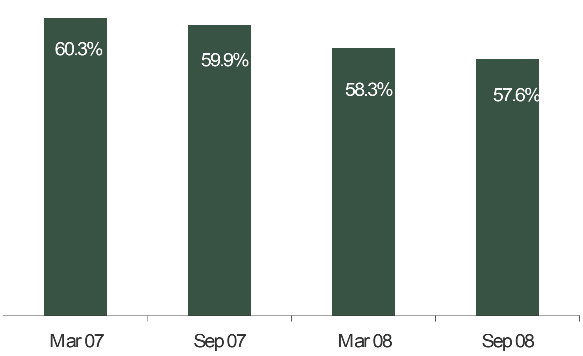
UK Region Cash Earnings and Underlying Profit



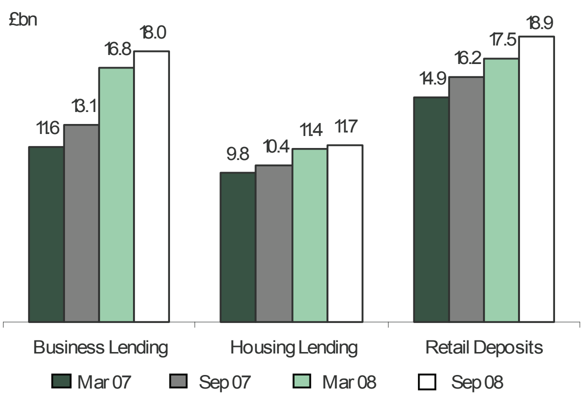
UK Region Income and Expense Trends



UK Region Cost to Income ratio



UK Volumes – Half Year Averages



The **asset quality of mortgages and unsecured lending proved sound,** benefiting from improvements to credit processes over the last few years and a cautious approach to lending. As a result, the proportion of mortgages 90 days or more in arrears is less than half the UK industry average. In business banking, with an increased volume of mature loans, firm arrears management and the relationship model proved effective in controlling losses. As a result of the rapidly deteriorating UK economic conditions, gross impaired assets increased in the second half from a low historical base and reflected the growth experienced in recent years. The Region continues to provide prudently.

Operating Environment

The weaker prospects resulting from the global credit issues continue to weigh heavily on the UK economy which is expected to experience its slowest period of growth for over 15 years. Activity was flat in the second quarter of 2008, pushing annual growth down to just 1.4%. Output is expected to fall in the third quarter with the CBI predicting that the economy will be entering a recession by the end of this year. The economy is expected to grow by just 1% this year and by 0.6 % in 2009. However, the effect on the wider economy of recent events in the markets has yet to be fully felt and could adversely affect growth further next year.

Increases in food and energy prices have elevated inflation to 5.2% at September 2008. The recent 50 basis points cut in interest rates by the Bank of England coupled with the slowing economic growth will ultimately push inflation down. Further rate cuts could provide the impetus for a modest recovery from the latter part of 2009. As a result the Region maintains a cautious approach to lending.

Funding and liquidity costs continue to be impacted by the dislocation in the market. Credit spreads for longer-term funding have widened significantly in the last year, resulting in higher costs of wholesale funding. The average spreads between base rate and 1 month and 3 month LIBOR in the year were 43 basis points and 69 basis points respectively against historic averages of 11 and 18 basis points, as increased credit and liquidity risk premiums are built in. This impact is being mitigated to some extent through moving lending from base rate to LIBOR related pricing.

In early October the UK government announced a series of measures designed to support the UK Banking Industry.

In late September, after breaching regulatory requirements, Bradford & Bingley (B&B) was taken into public ownership. The cost of guaranteeing B&B's deposits will be met by the Financial Services Compensation Scheme, of which the Clydesdale Bank is a member.

The Office of Fair Trading (OFT) investigation into the operation of the personal current account market in the UK was published on 16 July 2008 and highlighted perceived issues of transparency and switching. The consultation period ends on 31 October 2008. In parallel with the market study, the OFT has been undertaking a cost study in relation to a number of banks to inform an assessment of whether charges are fair under the Unfair Terms in Consumer Contracts Regulations 1999.

The bank charges legal test case also continues. In July 2008, the Court heard argument on two aspects namely, whether the initial finding that current terms and conditions (T&Cs) are capable of an assessment under the Regulations applies to historic T&Cs and, secondly, whether certain historic T&Cs amount to penalties at common law. On 8 October 2008 the Judge ruled that Clydesdale Bank PLC was entitled to a declaration that none of its T&Cs examined by the Court amount to penalties at common law.

The appeal against the finding made by the Court in April to the effect that the terms and conditions are capable of being assessed for fairness under the Regulations will be heard from late October. In the meantime, the FSA has extended the waiver (under the terms of which banks do not have to process claims for a return of charges where no financial hardship is involved) until January 2009.

The Competition Commission is nearing completion of its review of the Payment Protection Insurance market and is expected to make recommendations in relation to the transparency of the product and changes to the way in which it is sold.

Customer, Employee and Community

Customers

Customer retention rates improved in the Retail business; a trend reinforced by higher acquisition of customers towards the end of the period. The number of customers of both Retail and the UK business overall, increased for the first time in several years. iFS customer numbers continued to grow strongly.

The Financial Services Authority's (FSA) 'Treating Customers Fairly' principles for the UK continue to be embedded throughout the business.

Employees

During the year, a three-year salary deal with the trade union Unite was successfully negotiated. This provides greater stability and assurance to both staff and the business at a time of economic uncertainty.

Community

Through our award winning payroll giving scheme, 15% of staff now give to charities through this means. From February 2008, the Region has been working with a new charity partner - Help the Hospices - which supports over 200 charities that care for terminally ill patients.

The Region continues to support the communities in which it operates through its sponsorship programme. Current sponsorships include: The Scottish Premier League football, the National Trust and Twenty20 Cricket. Initiatives supporting the goal of being carbon neutral by September 2010 continue with extensive recycling, environmental procurement policies and energy saving campaigns.

Awards

At the Credit Today Awards Ceremony in London the Banking Delivery Services team was awarded Fraud Prevention Team of the Year and the Retail Credit team won the Mortgage Lender of the Year award.

UK Region

Results presented in local currency. *See page 62 for results in $AUDm*

	Year to			Half Year to		
	Sep 08 £m	**Sep 07 £m**	**Sep 08 v Sep 07%**	**Sep 08 £m**	**Mar 08 £m**	**Sep 08 v Mar 08%**
Net interest income	**879**	813	8.1	**446**	433	3.0
Other operating income	**356**	369	(3.5)	**177**	179	(1.1)
Net operating income	**1,235**	1,182	4.5	**623**	612	1.8
Operating expenses	**(717)**	(719)	0.3	**(359)**	(358)	(0.3)
Underlying profit	**518**	463	11.9	**264**	254	3.9
Charge to provide for bad and doubtful debts	**(175)**	(119)	(47.1)	**(115)**	(60)	(91.7)
Cash earnings before tax	**343**	344	(0.3)	**149**	194	(23.2)
Income tax expense	**(94)**	(101)	6.9	**(39)**	(55)	29.1
Cash earnings	**249**	243	2.5	**110**	139	(20.9)
Average Volumes (£bn)						
Gross loans and acceptances	**31.4**	24.6	27.6	**32.2**	30.6	5.2
Interest earning assets	**33.6**	26.6	26.3	**34.5**	32.6	5.8
Total assets	**36.1**	29.7	21.5	**37.1**	35.1	5.7
Retail deposits	**18.2**	15.6	16.7	**18.9**	17.5	8.0
Performance Measures						
Cash earnings on average assets	**0.69%**	0.82%	(13bps)	**0.59%**	0.79%	(20bps)
Net interest margin	**2.62%**	3.06%	(44bps)	**2.59%**	2.66%	(7bps)
Cost to income ratio	**57.9%**	60.1%	220bps	**57.6%**	58.3%	70bps
Cash earnings per average FTE (£'000s)	**28**	27		**25**	31	
FTEs (spot)	**8,758**	8,850		**8,758**	8,966	

UK Region

Financial Analysis (in local currency)

September 2008 v September 2007

Cash earnings increased by 2.5% over September 2007 reflecting higher income, flat expenses and the lower tax charge, partially offset by higher charges to provide for doubtful debts. Over the same period, underlying profits increased by 11.9%.

Average gross loans and acceptances increased £6.8 billion, or by 27.6%, including the transfer from nabCapital signalled at the half year.

Business lending volumes grew by £5.0 billion. This growth is largely driven by the continued success of iFS and its increasing customer base, although growth was slowed in the second half of the year in the light of changing market conditions. A managed and cautious approach to mortgage lending (balancing the volume and margin trade-off) has resulted in 13.4% mortgage volume growth, mainly in the offset mortgage product through the retail and direct channel network. Redemptions were also lower. Exposure to credit card and personal loan lending continued to fall as planned, with average balances declining 5.1% over the year.

Average retail deposit volumes grew by 16.7% (£2.6 billion) in a highly competitive market, reflecting continued focus on this area and the strength of the UK brands. iFS average deposit growth of 19.5% and Retail network balance growth of 7.7% represented a very creditable performance and reflect the strong positions of both the Clydesdale and Yorkshire brands.

Net interest income increased by 8.1% reflecting the strong balance sheet growth partially offset by the rising cost of funds.

Net interest margin decreased by 44 basis points from 3.06% to 2.62%. Of this, market dislocation costs accounted for 14 basis points and the nabCapital transfer 8 basis points.

The underlying margin reduced by 22 basis points and was primarily driven by the cost of wholesale funding relative to deposit funding and partially by product mix. Lending margins widened by 2 basis points as a result of better pricing for risk. Conversely, deposit margins remained flat, reflecting increased competition in the UK market.

Other operating income decreased by 3.5%. The operating lease business was disposed of in December 2007, resulting in a £22 million reduction in related income (partially offset by lower expenses). There was, however, a one-off net gain on disposal of £1 million. Underlying other operating income was flat, with increased lending related fees being offset by lower other fee income. In particular, and in line with the rest of the UK market, payment protection revenues remained under pressure. Stock-market fluctuations also affected initial investment fees, with income falling by £3 million.

Operating expenses were flat on the prior corresponding period despite higher investment costs, including the recruitment of additional staff in iFS during the year, additional depreciation arising from investment spend in prior periods and general wage inflation. These were offset by back office efficiency savings and process improvements and the sale of the operating lease business, which reduced expenses by £19 million in the current year (offset by a reduction in Other Operating Income).

The **cost to income ratio** at 57.9% improved by 220 basis points over the prior year, reflecting the continued improvements in revenue whilst costs have again been held flat despite significant investment in the business.

The **charge to provide for doubtful debts** increased by £56 million against the prior corresponding period. Within this increase two connections have contributed to over one third (£21 million) of the increase in the charge. The remaining increase in provisions was driven by higher business lending volumes and the consumer slowdown as discussed earlier, and was mitigated in part by the portfolio shift away from unsecured personal lending and actions taken over the past two years. Additionally, improved arrears management has ensured that the value of accounts 90 days past due has remained stable in the mortgage and unsecured categories.

The **income tax** charge includes a reduction in the corporation tax rate, retrospective credits for research and development spend, and the release of provisions no longer required.

September 2008 v March 2008

Cash earnings decreased by £29 million on the March 2008 half. This decrease reflects higher charges to provide for bad & doubtful debts and increased funding costs, partially offset by higher net operating income. Over the same period, underlying profits increased by 3.9%.

Average gross loans and acceptances increased by 5.2% (£1.6 billion) on the March 2008 half. Business lending volumes grew by 7.1% while managed mortgage lending experienced volume growth of 2.6%. Card and personal loan balances declined by 2.6%.

Average retail deposit volumes grew by 8.0% (£1.4 billion). This was primarily driven by the continued momentum in the Financial Solutions Centres and a good performance in the Retail network.

Net interest income increased 3.0% with the portfolio growth offset by margin, mix and market dislocation effects.

The **net interest margin** decreased by 7 basis points from 2.66% to 2.59%, reflecting the cost of wholesale funding relative to deposit funding, as well as the effects of adverse market conditions, partially offset by more judicious pricing. The underlying margin contraction was reduced to 1 basis point.

Other operating income declined by 1.1% driven by retrospective profit share which is traditionally received in the first half and rental income from the operating lease assets received in the first half before they were sold.

Operating expenses remained broadly flat on the prior half, reflecting lower staff related costs and lower operating lease depreciation following the sale of operating lease assets in the first half.

The **cost to income ratio** at 57.6% decreased by 70 basis points.

The **charge to provide for doubtful debts** increased by £55 million over the March 2008 half. This is driven by the need to be prudently provided in deteriorating economic conditions, amplified by the low historical base, the lending growth as well as the two charges accounting for £21 million noted earlier.

The **tax** charge benefits from the release of provisions which were no longer required.

Other Items

Asset Quality

	As at		
	Sep 08	**Mar 08**	**Sep 07**
Gross impaired assets (£m)	**175**	87	63
Gross impaired assets to gross loans and acceptances	**0.53%**	0.27%	0.23%
90+ DPD assets (£m)	**154**	123	125
90+ DPD to gross loans and acceptances	**0.46%**	0.38%	0.47%
Gross impaired assets and 90+ DPD to gross loans and acceptances	**0.99%**	0.65%	0.70%
Total provision to gross loans and acceptances	**1.07%**	0.97%	1.07%
Net write-offs to gross loans and acceptances	**0.40%**	0.29%	0.43%
Bad and doubtful debts charge to credit risk weighted assets	**0.65%**	0.40%	0.52%

In line with the current economic environment, some leading asset quality indicators have softened during the second half of the year. However, the portfolio compares well against UK peers. Overall asset quality remains strong with a portfolio that is well-secured and diversified both geographically and by lending type. The overall balance sheet risk continues to be managed by increasing secured elements of the book and managing unsecured elements as a proportion of the overall book. The mortgage book does not include any low doc (self certified) or sub prime lending.

The average Loan To Value ratio (LTV) of the mortgage book is 63% on an un-indexed basis with the average LTV on applications falling to 59% in recent months. As a result loss levels remain very low as a proportion of the overall portfolio.

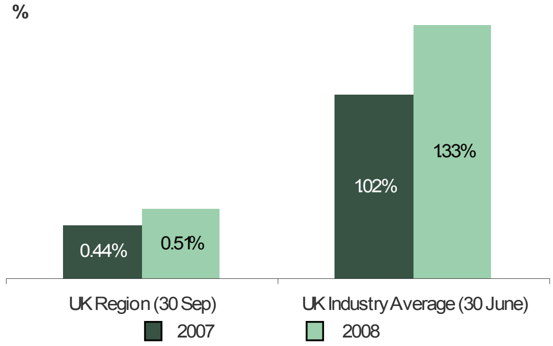
Lending on commercial property represents some 23% of gross loans and acceptances (45% of the business book). Of this, circa £5 billion is investment lending, with development lending totalling circa £3 billion. Within this there is a good spread of exposures with low exposure to inner city apartments and offices. As iFS continued to mature, new property lending exposures fell to 28% of total new business lending in the three months to the end of September 2008. In addition, risk settings continued to be refined.

All asset quality measures remain under close management scrutiny and review to ensure actions in place remain appropriate in the current environment. Actions undertaken in the year have included enhanced collections strategies, increasing resourcing levels in our Business Recovery area, tightening of retail credit policy, emphasis on staff training and a continued focus on early identification and referral.

The increase of the September 2008 gross impaired asset balances over the March 2008 balances includes two connections detailed earlier which account for almost one-third of the increase (£21 million). The underlying increase reflects the current market conditions, primarily in business lending, the low historical base and the growth experienced by the Region in recent years.

The ratio of 90+DPD to gross loans and acceptances increased only modestly from 0.38% to 0.46%. This increase reflects the improved management of balances in this category including an enhanced contact programme with mortgage customers. Mortgage balances 90+DPD remain well below the UK industry average.

Proportion of Mortgages in arrears by 90+ DPD by value

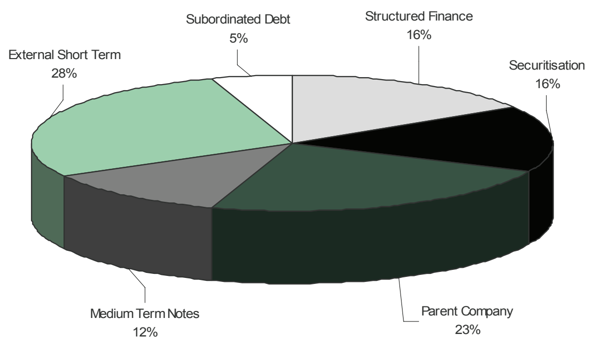


Taking gross impaired assets and 90+DPD balances together, the ratio has increased to 0.99%

The coverage ratio of total provision to gross loans and acceptances has increased from 0.97% in March 2008 to 1.07% in September 2008. This reflects additional provisioning, primarily for business lending, and is considered to be prudent in current circumstances.

Capital & Funding Position

Clydesdale Bank PLC Diversity of Wholesale Funding [(1)]



(1) *As at 30 September 2008*

The UK's position as a member of a stable and geographically diversified group has proved to be an asset in these turbulent times. The long term credit ratings of Clydesdale Bank (CB) were maintained through the period (AA- by Standard & Poors, Aa3 by Moodys and AA- by Fitch), and proved to be valuable in the attraction and retention of funds.

CB has continued to maintain strong capital ratios with a core Tier 1 ratio of 7.6% and Total Solvency of 11.4% as at 30 September 2008. The bank is eligible to participate in the market initiatives announced by the UK

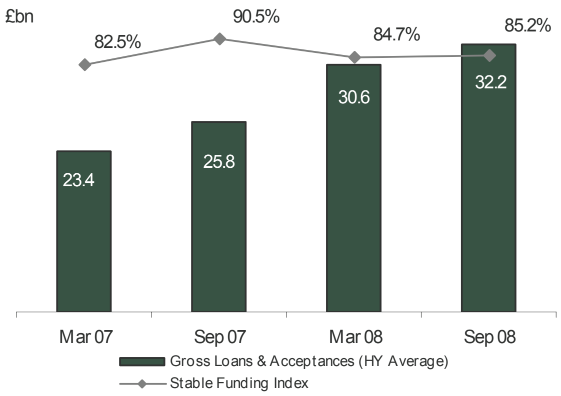
Government in October. However CB's capital plans assume no capital raising from this source.

As at 30 September, CB held a portfolio of liquid assets totalling £6.8 billion; substantially higher than that held prior to the recent market turbulence. This portfolio included UK government gilts, balances in the Bank of England Reserve Account and funds held with the parent.

Despite volatile market conditions, CB's strong liquidity position was maintained. This was due in part to a diverse funding base which includes a mix of short, medium, and long-term wholesale funding, parent company funding, and securitisation. Subsequent to the year end, the bank has (following the earlier participation by most other UK banks) made use of the UK Government's Special Liquidity Scheme (SLS), which was announced in April 2008 through a covered bond programme.

The Stable Funding Index (SFI) remained within the historical range, moving from 90.5% in September 2007 to 85.2% in September 2008. The relative stability of the index reflects the continuing contribution of customer deposits to the overall funding requirement.

Stable Funding Index



The UK Group continues to recognise the importance of retail deposits and has launched a number of new products as a means of ensuring that strong deposit growth continues in this area. This growth will ensure that the UK remains well positioned to grow without increasing the refinancing risks typically associated with wholesale funding.

Investment Spend

Investment continued on systems and processes, with total cash expenditure of £89 million in 2008 compared to £103 million in 2007. Investment was directed into three broad categories; efficiency and sustainable revenue, infrastructure, and compliance.

October 2007 saw another significant milestone in the ongoing re-engineering of the business, with the Teller Programme completing its deployment into Clydesdale Bank. This concluded the Teller Project that commenced in 2005 as part of the Strategic Agenda Programme.

Investment in the front office continued, with the mobilisation of the Business Lending Programme to implement an end-to-end business lending system.

During April 2008 a suite of changes was successfully implemented to ensure continued compliance with the Consumer Credit Act. These changes are part of an overall change programme which was completed in October 2008.

On 27 May 2008, Clydesdale Bank successfully joined the UK Banking Industry Faster Payments scheme, along with ten other UK banks. CB was the first member bank to send a transaction via the new service and obtained a valid response from the receiving bank within a second. Our customers can receive Faster Payments as part of a phased rollout, which will be completed later in the year.

Development of the new second Data Centre was completed ahead of schedule with full migration concluded in July 2008.

The new Business Internet Channel was successfully piloted to external customers in July 2008. September 2008 saw another significant milestone of the programme, with 50 external customers trained and using the application. Feedback from customers on the pilot has been positive, particularly around the system's ease of use.

Previous investment in convergence continued to be exploited through various initiatives. In September 2008 the 'On-line Origination of Term Deposits' system was launched, which improves the customers' experience when applying for term deposit products.

Distribution

The network of Financial Solutions Centres (FSCs) and retail branches has remained stable over the six months to September 2008, with 77 FSCs and 342 branches.

iFS added one principal FSC and two satellite sites during the year and has continued to demonstrate strong levels of underlying growth in its core business, with a focus on sound lending priced appropriately for risk. In conjunction with Specialist & Acquisition Finance, there have been a number of successes in attracting high value trading business relationships from our competitors.

Within Retail, the branch refurbishment programme continues with improvements to nearly half of the branches. A strong focus on process improvement and further enhancement of the customer experience has contributed to improved efficiency. The launch of the new Signature Current Account is expected to continue the improving trend in customer numbers.

New look websites for Clydesdale Bank (cbonline.co.uk) and Yorkshire Bank (ybonline.co.uk) were launched during the year.

UK Region

Results presented in Australian dollars. See page 58 for results in local currency

	Year to			Half Year to		
	Sep 08 $m	Sep 07 $m	Sep 08 v Sep 07%	Sep 08 $m	Mar 08 $m	Sep 08 v Mar 08%
Net interest income	1,910	1,982	(3.6)	**940**	970	(3.1)
Other operating income	773	898	(13.9)	**373**	400	(6.8)
Net operating income	2,683	2,880	(6.8)	**1,313**	1,370	(4.2)
Operating expenses	(1,557)	(1,751)	11.1	**(756)**	(801)	5.6
Underlying profit	1,126	1,129	(0.3)	**557**	569	(2.1)
Charge to provide for bad and doubtful debts	(381)	(290)	(31.4)	**(246)**	(135)	(82.2)
Cash earnings before tax	745	839	(11.2)	**311**	434	(28.3)
Income tax expense	(203)	(247)	17.8	**(80)**	(123)	35.0
Cash earnings	542	592	(8.4)	**231**	311	(25.7)

Impact of foreign exchange rates movements

Favourable/ (unfavourable) September 2008	Year since Sep 07 $m	Sep 08 v Sep 07 Ex FX %	Half year since Mar 08 $m	Sep 08 v Mar 08 Ex FX %
Net interest income	**(231)**	8.1	**(58)**	3.0
Other operating income	**(94)**	(3.5)	**(24)**	(1.1)
Operating expenses	**189**	0.3	**48**	(0.3)
Charge to provide for bad and doubtful debts	**46**	(47.1)	**12**	(91.7)
Income tax expense	**24**	6.9	**6**	29.1
Cash earnings	**(66)**	2.5	**(16)**	(20.9)

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NZ Region

Cameron Clyne

The NZ Region consists of the Retail, Insurance, Business and Agri businesses in New Zealand operating under the 'BNZ' and 'BNZ Partners' brands, (it excludes 'BNZ Capital', nabCapital – NZ operations).

Strategic Highlights & Business Developments

Solid revenue growth, driven by a profitable market share focus**, disciplined cost management** and **stable asset quality,** have delivered cash earnings growth of 12.1% for the NZ Region over the September 2007 full year.

The performance of the NZ Region for September 2008 reflects the continuing success from our focus on the **three strategic themes of simplification, culture and new revenue** streams. These strategic themes are continuing to provide the foundations for the organisation to navigate through the current turbulent global economic conditions and deliver long-term sustainable returns to the Group and its shareholders.

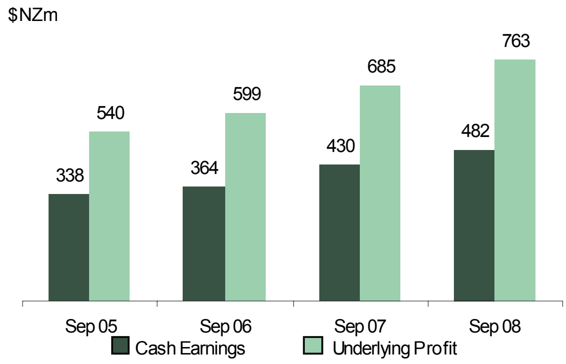
Simplification efforts have continued to reduce the complexity in processes, systems, structures and products, using the well engrained disciplines of continuous improvement (Kaizen) making life easier for customers and staff alike. **This is the third consecutive year of flat costs** while also continuing to grow revenue and improve customer satisfaction.

The NZ Region's Culture programme has supported the empowerment of employees at all levels of the organisation through an ongoing focus on people development, leadership and talent identification. The latest employee survey results show an **increase in staff engagement levels**, putting the NZ Region above the Australasian Best Employers' average for Financial Services organisations.

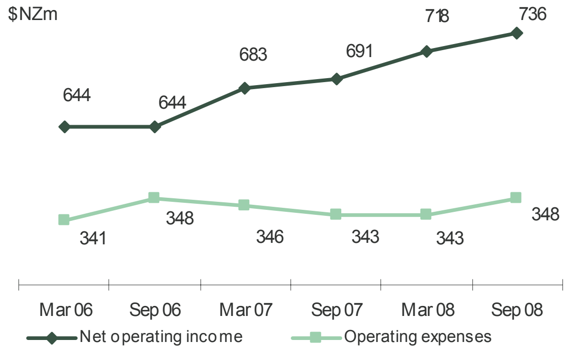
The NZ Region's new revenue initiatives are focused on innovative products, services and improved retail distribution, combined with the continued development and leverage of strategic partnerships. In addition, the NZ Region has **adopted Group best practice with the operational launch of the iFS business model from 1 October 2008**. This will provide a unique customer-centric experience and will increase cross-sell opportunities across Business, Agribusiness and the Private Bank under the 'BNZ Partners' brand.

The NZ Region has experienced an increase in the levels of past due and impaired assets in line with changes in the credit cycle. The increase in these lead indicators needs to be considered in the context of the historical lows in recent years. **Actual levels of net write-offs for the NZ Region remain relatively low.**

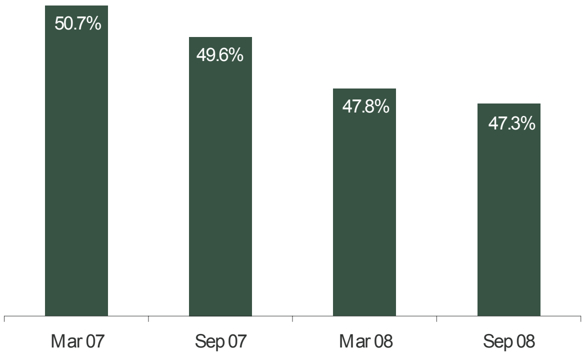
NZ Region Cash Earnings and Underlying Profit



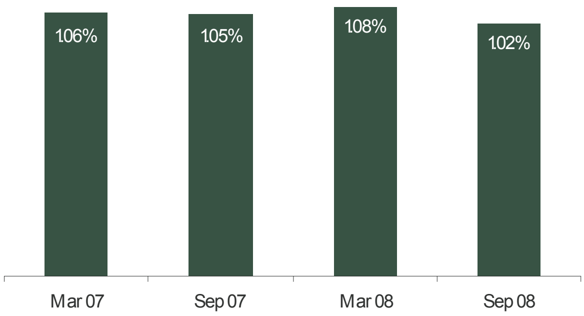
NZ Region Revenue and Expense Trends



NZ Region Cost to Income Ratio



NZ Region Return on Average Assets



Operating Environment

The New Zealand banking market remains very competitive, with five major banking brands and a number of niche players competing to provide financial services. The number of niche players in New Zealand has diminished substantially during the current year, as unregulated finance companies have continued to collapse in the wake of the global market disruption.

Economic conditions in New Zealand have deteriorated, with a number of key indicators showing that the economy has entered a recession. Significant negative effects on the economy include: higher oil and food prices, high interest rates, slowing net migration levels, and the high New Zealand dollar throughout the majority of the year, which has had an adverse impact on exporters. Unemployment levels remain at historical lows, although these have recently started to trend upwards. From a positive perspective, commodity prices for dairy products have remained strong, underpinning strong growth in the rural sector throughout the year.

Credit spreads paid by banks on wholesale funding have continued to increase due to the ongoing volatility in global credit markets. The Reserve Bank of New Zealand (RBNZ) has reduced the Official Cash Rate (OCR) by 75 basis points during the September half to 7.50%, in response to weakening economic activity. These were the first OCR cuts in over five years and are anticipated to be the beginning of an easing cycle by the RBNZ for domestic interest rates.

The current environment has contributed to slowing housing growth, with house prices and sales volumes continuing to decline from the historical highs seen in recent years. Agriculture and business lending volumes remain solid, primarily due to the continued strength in commodity prices and the New Zealand farming sector. Competition for customer deposits has intensified due to the increased costs of wholesale funding. However, deposit volume growth for registered banks remains strong as consumers switch from the unregulated finance sector.

Lead asset quality indicators including an increase in past due assets and impaired assets demonstrate that credit conditions became more challenging during the year. The changes in these indicators need to be seen in terms of moving off the low base set by benign credit conditions in recent years. Overall asset quality for the NZ Region remains sound with relatively low levels of actual write-offs and stable provision coverage ratios.

Customer, Employee and Community

The NZ Region has focused its efforts on the three pillars of customer, employee and community using the strategic themes of simplification and culture.

On 1 October 2008, the BNZ rebrand was rolled out to provide three distinct identities for each of the core businesses in New Zealand. The 'BNZ' and 'BNZ Partners' brands represent the activities of the NZ Region while 'BNZ Capital' is part of nabCapital's New Zealand operations.

'BNZ Partners' brings together the NZ Region's successful Agribusiness, Business and Private Banking functions. This provides a platform to better service the wide ranging needs of its customers in these segments so as to build successful business relationships for long-term sustainable growth.

Retail Banking now operates under the 'BNZ' brand. By taking innovative products and services to market and listening to customers, BNZ is continuing to focus on providing a customer experience more like a retail experience than that of traditional banking. BNZ has continued to deliver new 'Out of the Box' products during the year.

As part of the cultural strategy, the NZ Region continues to empower employees at all levels of the organisation and promote a constructive culture. Results of the latest Organisational Culture Inventory / Employee Opinion Survey show a clear increase in bankwide engagement by staff across the NZ Region.

Supporting the culture focus, the internal vision 'Success: Yours!' was launched where employees are encouraged to achieve the best for themselves and their customers by excelling at their work, behaving constructively and continuously improving what they do. Other initiatives include the pilot of flexible working hours and staff well-being.

The NZ Region has a strong community focus, examples of which include providing permanent employees with two days paid volunteer leave per annum and supporting various national and regional community sponsorships, partnerships and initiatives.

A highlight during the year was winning the Best Provincial Cause Sponsorship category at the 2007 New Zealand Sponsorship Awards for the NZ Region's commitment to raise the awareness of domestic violence in New Zealand through sponsorship of the Preventing Violence in the Home programme. Other successful initiatives include the release of the 1000th kiwi chick as part of the BNZ Save the Kiwi programme which the NZ Region has supported since 1991.

The NZ Region is committed to doing business in a way that respects the environment. Sustainability initiatives include 'Cut Statements, Grow Trees' which was launched to reduce paper statements. Other initiatives include recycling, waste minimisation and energy reduction.

NZ Region

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

	Year to			Half Year to		
	Sep 08 NZ$m	**Sep 07 NZ$m**	**Sep 08 v Sep 07%**	**Sep 08 NZ$m**	**Mar 08 NZ$m**	**Sep 08 v Mar 08%**
Net interest income	**1,083**	980	10.5	**544**	539	0.9
Other operating income	**371**	394	(5.8)	**192**	179	7.3
Net operating income	**1,454**	1,374	5.8	**736**	718	2.5
Operating expenses	**(691)**	(689)	(0.3)	**(348)**	(343)	(1.5)
Underlying profit	**763**	685	11.4	**388**	375	3.5
Charge to provide for bad and doubtful debts	**(67)**	(52)	(28.8)	**(37)**	(30)	(23.3)
Cash earnings before tax	**696**	633	10.0	**351**	345	1.7
Income tax expense	**(214)**	(203)	(5.4)	**(108)**	(106)	(1.9)
Cash earnings	**482**	430	12.1	**243**	239	1.7
Average Volumes (NZ$bn)						
Gross loans and acceptances	**43.7**	39.1	11.8	**45.2**	42.1	7.4
Interest earning assets	**44.9**	40.0	12.3	**46.5**	43.2	7.6
Total assets	**45.9**	40.8	12.5	**47.5**	44.3	7.2
Retail deposits	**22.8**	21.0	8.6	**23.3**	22.2	5.0
Performance Measures						
Cash earnings on average assets	**1.05%**	1.05%	-	**1.02%**	1.08%	(6 bps)
Net interest margin	**2.42%**	2.45%	(3 bps)	**2.35%**	2.49%	(14 bps)
Cost to income ratio	**47.5%**	50.1%	260 bps	**47.3%**	47.8%	50 bps
Cash earnings per average FTE (NZ$'000s)	**110**	96		**112**	108	
FTEs (spot)	**4,293**	4,444		**4,293**	4,349	

NZ Region

Financial Analysis (in local currency)

September 2008 v September 2007

Cash earnings for the year increased by 12.1 % to $482 million, reflecting solid income growth, a profitable market share focus, the continuation of strong cost management disciplines and stable asset quality, despite a rise in impaired and past due assets in line with the credit cycle.

Net interest income grew by 10.5%, reflecting solid but slowing volume growth, partially offset by declining margins as a result of higher funding costs and competitive pressure on margins.

Average lending volumes increased by 11.8% and retail deposits increased by 8.6%. Lending growth rates are slowing from the highs seen in recent years due to a rapidly cooling property market in a recessionary environment. Business and agriculture lending remains solid, primarily due to the strength of commodity prices. Retail deposit volume growth has become a key focus, as wholesale funding costs increase.

Net interest margin declined by 3 basis points to 2.42% due to product mix changes and an increased proportion of wholesale funding which has become more expensive on the back of significantly higher offshore credit margins. This has been partially offset by higher capital benefit earnings in the current year.

Other operating income decreased by 5.8%. The decrease is mainly attributable to the one-off proceeds in September 2007 from the sale of MasterCard shares ($10 million) and the adverse impact in the current year from lower foreign exchange transactional fees and Wealth Management revenue. Underlying customer fee growth remains relatively flat due to the focus on ensuring the customer value proposition remains attractive by actively promoting simplified products and fee structures. The NZ Region has also benefited from a strong relationship with BNZ Capital with increasing cross-sell opportunities.

Operating expenses remained flat for the third consecutive year, through sustainable cost management efficiency gains. These stemmed from continuous improvement disciplines that helped offset annual salary increases and re-investment in people, processes and systems.

The **cost to income ratio** improved from 50.1% to 47.5% during the year primarily due to growth in income, while expenses have been held flat. Importantly, branch satisfaction and staff engagement levels have both improved at the same time.

The **charge to provide for doubtful debts** increased by $15 million over the September 2007 period in line with changes in the credit cycle. With economic conditions slowing, the NZ Region has experienced an increase in 90+DPD and impaired assets over the period from the historical New Zealand market lows seen in recent periods. The ratio of gross impaired assets to gross loans and acceptances rose by 21 basis points to 0.34%. However, this has not translated into write-offs, with the level of net write-offs to gross loans and acceptances increasing by only 2 basis points to 0.09%.

September 2008 v March 2008

Cash earnings increased by 1.7% to $243 million when compared to the March 2008 half, reflecting a slowing second half economy, lower revenues and higher levels of bad and doubtful debt charges. This was partially offset by the continuation of strong cost management disciplines.

Net interest income grew by 0.9%, reflecting increased funding costs and competitive pressure on pricing.

Average lending volumes increased by 7.4%, reflecting slowing housing lending growth rates in an environment where economic conditions are tightening. Business and agriculture lending growth, however, remained strong during the half year. In response to the focus on growing customer funding, retail deposit volumes grew by 5.0%.

Net interest margin decreased by 14 basis points to 2.35%. The September 2008 half has been adversely affected by increased funding costs and competitive market pressure. The turmoil in international credit markets has intensified competition for customer deposits over the half year, thereby placing increasing downward pressure on the total net interest margin.

Other operating income increased by 7.3% largely due to higher foreign exchange revenue, increased cross sell opportunities with BNZ Capital and timing of Wealth Management revenue when compared to the prior half year. Underlying customer fee growth remains flat.

Operating expenses had a small increase from the March 2008 half. The increase of 1.5% in the current half reflects the investment related to the roll-out of the iFS operating model from 1 October 2008.

The **cost to income ratio** improved by 50 basis points to 47.3% due to revenue growth and cost management.

The **charge to provide for doubtful debts** increased by $7m. With economic conditions slowing, the NZ Region has experienced an increase in impaired assets from the historical New Zealand market lows seen in recent periods. The level of net write-offs has remained stable over the half.

Other Items

Asset Quality

90+DPD and impaired assets have increased from historical New Zealand market lows as a result of the deterioration in the operating environment. The deterioration in these lead indicators has not resulted in a significant increase in write-offs, reflecting the strength of the Bank's front line business credit analysis and independent credit risk management function. BNZ's historically conservative approach to lending has ensured that the NZ Region is well placed in the current market environment.

Given the increase in 90+DPD and impaired assets is within the secured portfolio, the NZ Region is not expecting any significant increases in net write-offs for the 2009 financial year. The NZ Region's historically conservative approach to lending has ensured it is well placed in the current market environment.

The region has conducted several reviews across its portfolio and remains comfortable with the credit quality of these assets.

	As at		
	Sep 08	**Mar 08**	**Sep 07**
Gross impaired assets (NZ$m)	**160**	42	54
Gross impaired assets to gross loans and acceptances	**0.34%**	0.10%	0.13%
90+DPD assets (NZ$m)	**94**	94	52
90+DPD assets to gross loans and acceptances	**0.20%**	0.22%	0.13%
Gross impaired assets and 90+DPD assets to gross loans and acceptances	**0.54%**	0.32%	0.26%
Total provisions to gross loans and acceptances	**0.57%**	0.52%	0.50%
Net write-offs to gross loans and acceptances	**0.09%**	0.07%	0.07%
Bad and doubtful debts charge to credit risk weighted assets	**0.29%**	**0.16%**	0.15%

Balance Sheet Management

The NZ Region's Stable Funding Index (SFI) remained above its 70% target during the September 2008 half. The Customer Funding Index (CFI) declined slightly to 54% reflecting an increasingly competitive environment for deposits. The Term Funding Index (TFI) increased to 18%.

Market Share

	As at		
	Sep 08	**Mar 08**	**Sep 07**
Housing[1]	**15.8**	15.9	16.0
Cards[1]	**27.0**	27.8	28.7
Agribusiness[1]	**17.9**	18.2	18.3
Retail deposits[1] [2]	**17.1**	17.4	17.7

(1) *Source RBNZ – August 2008.*

(2) *Retail deposits excludes some deposits by business banking customers captured in money market deposits in the BNZ General Disclosure Statement.*

Distribution

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

	As at		
	Sep 08	**Mar 08**	**Sep 07**
Number of retail branches	**179**	179	179
Number of ATM's	**428**	417	419
Number of internet banking customers (no. '000s)	**410**	380	371

NZ Region

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

	Year to			Half Year to		
	Sep 08 $m	**Sep 07 $m**	**Sep 08 v Sep 07%**	**Sep 08 $m**	**Mar 08 $m**	**Sep 08 v Mar 08%**
Net interest income	**908**	864	5.1	**442**	466	(5.2)
Other operating income	**311**	348	(10.6)	**156**	155	0.6
Net operating income	**1,219**	1,212	0.6	**598**	621	(3.7)
Operating expenses	**(579)**	(608)	4.8	**(282)**	(297)	5.1
Underlying profit	**640**	604	6.0	**316**	324	(2.5)
Charge to provide for bad and doubtful debts	**(56)**	(46)	(21.7)	**(30)**	(26)	(15.4)
Cash earnings before tax	**584**	558	4.7	**286**	298	(4.0)
Income tax expense	**(180)**	(179)	(0.6)	**(89)**	(91)	2.2
Cash earnings	**404**	379	6.6	**197**	207	(4.8)

Impact of foreign exchange rates movements

Favourable/ (unfavourable) March 2008	**Year since Sep 07 $m**	**Sep 08 v Sep 07 Ex FX**	**Half year since Mar 08 $m**	**Sep 08 v Mar 08 Ex FX %**
Net interest income	**(47)**	10.5	(29)	0.9
Other operating income	**(16)**	(5.8)	(10)	7.3
Operating expenses	**30**	(0.3)	19	(1.5)
Charge to provide for bad and doubtful debts	**3**	(28.8)	1	(23.3)
Income tax expense	**9**	(5.4)	6	(1.9)
Cash earnings	**(21)**	12.1	(13)	1.7

nabCapital

John Hooper

nabCapital is the capital markets and institutional banking division of the NAB Group. Its key lines of business include Institutional Banking, Corporate Finance, Markets, and Structuring and Investments. As a global business, it operates in three core regions of Australia (which incorporate businesses in the United States and Asia), New Zealand and the United Kingdom.

Strategic Highlights & Business Developments

Disappointingly, the extremely challenging international market environment significantly and adversely affected cash earnings in 2008, however core businesses continued to perform well, **delivering a 36% increase in underlying profit** compared to the prior year. This result highlights the benefits of a diverse business in the face of an unprecedented market disruption, and the success of its ongoing efforts to build a suite of higher return products.

nabCapital's underlying profit growth was underpinned by an exceptional performance across the Markets business, which achieved significant growth in revenue and net profits. Markets was well positioned to benefit from the increased market volatility as a result of enhanced cross sell opportunities, increased client transaction volumes, improved margins and strong risk and trading results. The lending businesses benefited from growth in Corporate Finance and re-pricing initiatives in Institutional Banking.

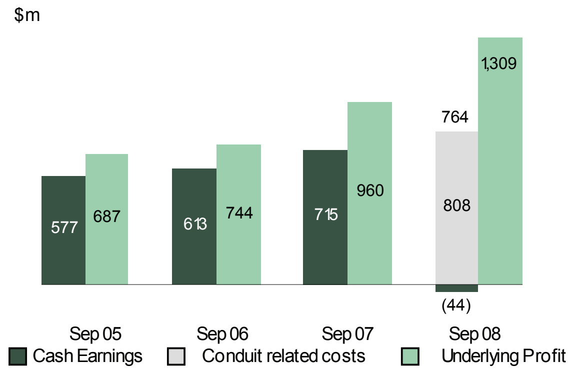
However, cash earnings were significantly affected by the need for additional provisioning and risk mitigation costs, particularly with respect to the portfolio of Asset Backed Securities (ABS) Collaterised Debt Obligations (CDOs) held within nabCapital's conduit structures (provision of $1,011 million). The write-down in these assets was a result of the severe distress in the US housing market experienced throughout 2008.

This decision to provision for a downside scenario, together with the purchase of additional credit enhancement on the synthetic CDO (SCDO) portfolio, has enabled nabCapital to focus on **managing the business for the long term while sustaining profitability in challenging times.**

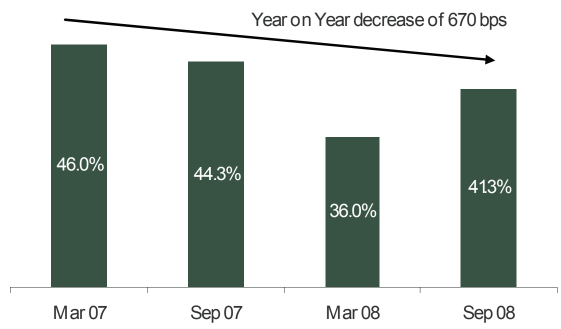
The push for long term, sustainable growth in nabCapital will be aligned with a rapidly changing and challenging market environment. The core strategy for nabCapital continues to be a relationship-led domestic franchise focused on maximising cross sell opportunities across all segments, supplemented by product-led initiatives in areas of competitive expertise.

The transition to a Basel II environment has increased the level of RWAs and affected returns. The business has identified a number of optimisation strategies to maximise the efficient use of the balance sheet and capital and to reflect the changing operating conditions.

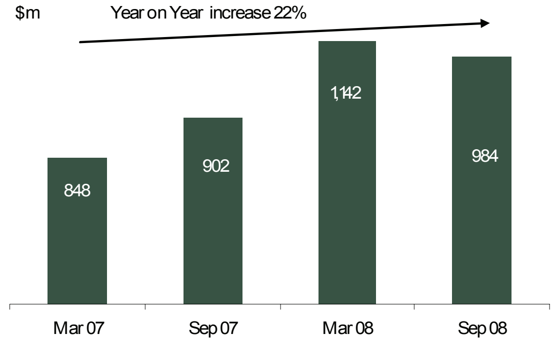
nabCapital Cash Earnings and Underlying Profit



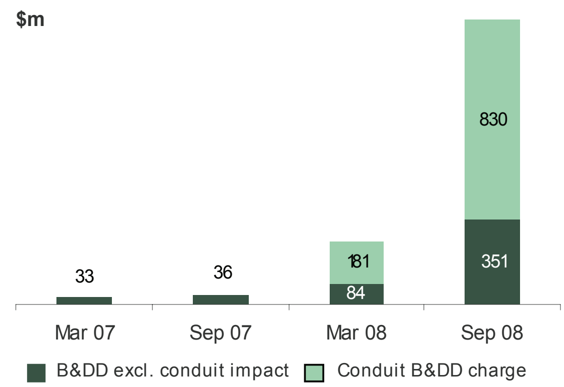
nabCapital Cost to Income Ratio



nabCapital Revenue



nabCapital Charge to Provide for Bad and Doubtful Debts



Despite the dislocation in segments of the distribution market, nabCapital's **Originate-Warehouse-Distribute (OWD) model, adapted to the changed market circumstances, remains central to how it does business and an important part of managing the transition to a Basel II environment**. Investor clients are looking for risk management and product solutions based on the principles of simplicity, transparency and the sharing of risk, all areas of competitive strength for nabCapital. The OWD model is a flexible approach that is continually re-aligned for changes in market conditions, investor appetite and our own appetite for risk.

nabCapital sponsors a number of securitisation conduits that were previously not consolidated within the Group balance sheet. The Group's accounting policy has been revised to consolidate these entities. Refer to the Financial Report in Section 5 for further information.

As a result of the closure of some previously existing distribution channels, nabCapital has also consolidated a number of other transaction related entities during the period.

The net impact of these first time consolidations on the 2008 nabCapital result is set out below:

	Sep 08 $m
Net operating income	25
Operating expenses	(20)
Underlying profit	**5**
Charge to provide for doubtful debts	0
Cash earnings before tax	**5**

Operating Environment

Global financial conditions continued to deteriorate throughout the year, driving sustained volatility in foreign exchange and interest rates, reduced liquidity across all markets, and a slowing in segments of distribution, including securitisation and syndication.

nabCapital was well placed to deal with the global conditions, particularly in the Markets division where, through sound risk management practices and a strong client focus, it was able to meet client demands to support them in managing market volatility.

The institutional team continued to focus on re-pricing initiatives to recover increased funding costs.

The deteriorating credit environment has also affected asset quality in the lending businesses, resulting in an increase in impaired assets from historically low levels. nabCapital remains focused on early identification and active management of these exposures in order to mitigate the risk of loss.

Customer, Employee and Community

A commitment to delivering innovative capital markets solutions for clients saw nabCapital involved in a range of notable transactions in 2008. These included:

- A joint venture with the leasing arm of Sumitomo Mitsui Banking Corporation to provide a £262 million operating lease to Transport for London for a fleet of new trains to be used for services on the new London Overground Railway.
- A ground-breaking US$300 million transaction for the Newcastle Permanent Building Society to access the US Private Placement market.

nabCapital was recognised for the Wesfarmers transaction by claiming FinanceAsia's Best M&A Deal for 2007. In addition, it was awarded Euroweek's Loan House of the Year for 2007 and ranked first in the Insto magazine's league tables for domestic bond issuance in New Zealand.

nabCapital continues to invest in people and the community. It launched an Award for Collaboration and a CEO Award for Innovation to reward and recognise people within the business who are role modelling the behavioural attributes designed to drive the strategic agenda. The benefits of this work were reflected in the employee satisfaction results and engagement scores, which showed steady improvement across the business.

nabCapital's community investment program continued to evolve through the year, with the launch of a matched giving program for employees and the allocation of 16 community grants to various organisations through the Employee Community Grants Program. nabCapital's partnership with the Earthwatch Institute moved into its second year, with 10 employees selected to participate in scientific field research on a range of important environmental issues around the globe.

nabCapital's Carbon Solutions Group is the Bank's centre of excellence on issues relating to the commercial impact of climate change. It works closely with clients to facilitate an understanding of the risks and opportunities arising from both the physical drivers of climate change, and evolving regulatory carbon frameworks. In August, nabCapital hosted an invitation-only forum for key corporate clients featuring the Federal Minister for Climate Change and Water, Senator Penny Wong. The Forum explored the commercial effect of the Federal Government's carbon emissions trading scheme due to open in 2010 and the opportunities it will generate.

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Results presented at actual exchange rates

	Year to			Half Year to		
	Sep 08 $m	Sep 07 $m	Sep 08 v Sep 07%	Sep 08 $m	Mar 08 $m	Sep 08 v Mar 08%
Net operating income	**2,126**	1,750	21.5	**984**	1,142	(13.8)
Operating expenses	**(817)**	(790)	(3.4)	**(406)**	(411)	1.2
Underlying profit	**1,309**	960	36.4	**578**	731	(20.9)
Charge to provide for doubtful debts	**(1,446)**	(69)	large	**(1,181)**	(265)	large
Cash earnings before tax	**(137)**	891	large	**(603)**	466	large
Income tax (expense)/benefit	**91**	(176)	large	**184**	(93)	large
Cash earnings before minority interest	**(46)**	715	large	**(419)**	373	large
Net profit – minority interest	**2**	-	large	**2**	-	large
Cash earnings	**(44)**	715	large	**(417)**	373	large
Average Volumes ($bn)						
Gross loans and acceptances	**52.6**	45.5	15.6	**53.6**	51.7	3.7
Interest earning assets - external	**152.0**	115.6	31.5	**149.5**	154.6	(3.3)
Interest earning assets - internal	**40.4**	37.0	9.2	**44.5**	36.1	23.3
Interest earning assets - total	**192.4**	152.6	26.1	**194.0**	190.7	1.7
Performance Measures						
Cost to income ratio	**38.4%**	45.1%	670bps	**41.3%**	36.0%	(530bps)
FTEs (spot)	**2,600**	2,239		**2,600**	2,416	

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Financial Analysis

September 2008 v September 2007

Cash earnings decreased by $759 million, when compared to 2007, reflecting a significantly higher bad and doubtful debts charge. This was partially offset by improved earnings in Markets from higher cross sell activity and distribution of risk management products to clients, as well as a strong trading performance.

Net operating income increased by 21.5% or $376 million, driven by an outstanding Markets performance, due to increased deal flow, success of the cross-sell strategy to all client segments and improved trading results. Institutional Banking and Corporate Finance provided solid contributions as they benefited from momentum gained in prior periods and re-pricing initiatives, while Portfolio Management achieved favourable earnings on capital management hedging strategies. The Structuring and Investments (S&I) results have been affected by the severe market conditions and the hedging costs associated with the SCDO risk mitigation strategy.

Operating expenses increased by $27 million or 3.4%, largely due to the first time consolidation of conduits and certain structured property funds. Excluding this impact, expenses increased slightly by $7 million or 0.9% reflecting higher personnel costs to support revenue growth and a number of initiatives to build out a flexible and scaleable infrastructure. This was partially offset by lower incentive payments due to the decline in the profitability and returns of the business.

The **cost to income ratio** improved by 670 basis points to 38.4%, reflecting solid income growth.

The **charge to provide for bad and doubtful debts** increased by $1,377 million from historical lows, mainly due to provisions associated with ABS CDOs. Underlying asset quality has trended downwards in nabCapital over the last year due to a sustained deterioration in global credit conditions. As a result, underlying provision levels have also increased, primarily due to an increase in collective provisioning as well as an increase in specific provisions on a small number of corporate exposures.

Income tax expense moved from a charge to a benefit, largely as a result of significantly higher provisioning levels associated with ABS CDOs.

Average interest earning assets increased by $40 billion (26.1%) primarily reflecting additional Markets assets largely to support increased Group liquidity ($24 billion), origination activity ($7 billion) and the full year impact of consolidating conduits ($6 billion).

September 2008 v March 2008

Cash earnings decreased by $790 million on the March 2008 half year, mainly as a result of significantly higher provisioning levels, as well as a decrease in revenues from the highs achieved in the March 2008 half year.

Net operating income decreased by $158 million or 13.8% on the March 2008 half year. This was a result of lower Structuring and Investments income mainly driven by increased impairment charges and fair value adjustments, hedging costs associated with the SCDO risk management strategy and a reversal of some mark to market gains relating to capital management hedging strategies. Markets' operating income was also down from an exceptional first half. This was partially offset by an increased contribution from Corporate Finance from momentum gained in the March 2008 half and Institutional Banking, as the business benefits from re-pricing initiatives.

Operating expenses decreased by $5 million or 1.2% on the March 2008 half year, however excluding the impact of the first time consolidation, expenses were down $25 million or 6.1%. This was due to a reduction in incentive payments, partially offset by higher personnel costs associated with initiatives to build out a flexible and scaleable infrastructure.

The **cost to income ratio** increased by 530 basis points to 41.3% at September 2008, mainly due to a decrease in income.

The **charge to provide for bad and doubtful debts** increased $916 million for the September 2008 half year, mainly driven by provisions associated with ABS CDOs, downgrades across the portfolio and an increase in specific provisions on a small number of corporate exposures.

The **effective tax rate** for nabCapital increased from 20.0% in the March 2008 half year to 30.5% in the September 2008 half year mainly due to the impact of the conduit related provisions.

Average interest earning assets increased by $3 billion (1.7%) compared to March 2008 reflecting a cautious approach to growth in the current volatile market environment.

Other Items

Asset Quality

nabCapital's asset quality remains sound, with approximately 89%(1) of exposures rated as investment grade (equivalent AAA to BBB-).

The portfolio remains well diversified across industry groups and investment grades although the deterioration in economic and credit conditions over the past year has seen an increase in the number and value of troubled exposures. Whilst still within acceptable tolerances, nabCapital is focused on early identification and active management of these exposures in order to mitigate the risk of loss.

Asset Quality - Conduits

As disclosed at 31 March 2008, nabCapital had an exposure of US$1.1 billion to a portfolio of ABS CDOs that contain exposure to US sub-prime mortgage assets. Given the uncertain economic environment and rating downgrades, a provision of $181 million was established at 31 March 2008 in respect of this exposure. An additional provision of $830 million was established in the September 2008 half to reflect the severe deterioration in conditions in the US housing markets.

As at 30 September 2008, nabCapital's exposure via conduits is $17.1 billion. This comprises:

- $12.1 billion of nabCapital client originated assets.
- $4.7 billion of purchased assets, including:
  - $1.7 billion of Corporates (SCDOs).
  - $1.8 billion of Leverage Loans (CLOs) - includes 9 transactions, in all but one case the exposure to the most senior class of notes and initial subordination ranging from 27-38%.
  - $0.8 billion of Commercial property (CMBS) - exposure to the most senior bonds with ratio of relevant note tranche to property value ranging from 38-52%.
  - $0.4 billion of Infrastructure bonds (credit wrapped bonds).
- $0.3 billion of ABS CDOs – remaining exposure provided to approximately 42%.

To reduce the risk of loss of principal on the SCDOs and preserve Basel II capital, nabCapital has developed and implemented a risk mitigation strategy during September 2008. As a result, each SCDO is now able to sustain an increased level of credit events before any loss of principal. Ongoing hedge costs will approximate $60 million in cash earnings per annum for the next 5 years and a lesser amount thereafter, although the timing of recognition may vary depending on the performance of the underlying portfolio. These hedging costs will be accommodated within normal levels of credit hedge spending as existing hedging strategies will be reduced as they are no longer considered optimal in a Basel II environment.

nabCapital has also recently performed an extensive review of the quality of the underlying conduit assets with external auditor oversight. Management is satisfied that the level of provisioning is currently adequate given the nature of the underlying assets and current loss rate. All conduit assets will remain subject to normal credit review processes until maturity.

Impaired Assets – Loans and Advances

The level of gross impaired assets has increased by $240 million from the March 2008 position to $552 million at September 2008, mainly due to a small number of corporate exposures rated as impaired during the period. This contributed to increases in the ratio of gross impaired assets to gross loans and acceptances.

	As at		
Asset Quality(2)	**Sep 08**	**Mar 08**	**Sep 07**
Gross impaired assets ($m)	**552**	312	211
Gross impaired assets to gross loans and acceptances	**1.04%**	0.59%	0.42%
Specific provision to gross impaired assets	**44.0%**	43.9%	39.8%
Net write-offs to gross loans and acceptances	**0.09%**	0.00%	0.08%

(1) *Investment Grade is calculated using Expected Loss methodology. Expected Loss is the product of Probability of Default x Exposure at Default x Loss Given Default.*

(2) *nabCapital has further impaired assets relating to its conduit exposures classified as Held to Maturity assets (HTM) totalling $323 million. During the year, a large proportion of conduit impaired HTM assets were written off. This relates to our exposure to the ABS CDOs.*

Investment Spend

nabCapital's investment in core infrastructure for September 2008 full year is $102 million. This compares to prior year investment of $78 million, representing an overall increase of $24 million (or 31%).

Efficiency/Revenue generating projects have increased by $13 million year-on-year. This investment has primarily focused on the Markets business to enhance product capability, facilitating faster speed to market for new products, and developing an improved risk management capability. In addition to improving nabCapital's market position and competitive advantage, current initiatives are designed to achieve simplicity and flexibility in back office processes, assisting to drive long-term cost efficiency.

Investment in Infrastructure initiatives has increased by $20 million on the prior year. Areas of focus in 2008 included refreshing core desktop and communication applications, as well as consolidating nabCapital's legacy data and information environments. The significant uplift in Infrastructure spend reflects a continued focus on delivering enhanced quality, global consistency and robustness in both data assets and reporting/disclosure capability.

Cash spend on Compliance related projects was down by approximately $9 million due to the completion of the Sarbanes-Oxley program in 2007 and reduced Basel II investment activity.

Central Functions

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

	Year to			Half Year to		
	Sep 08 $m	Sep 07 $m	Sep 08 v Sep 07 %	Sep 08 $m	Mar 08 $m	Sep 08 v Mar 08 %
Net operating income	58	308	(81.2)	55	3	large
Operating expenses	(294)	(312)	5.8	(168)	(126)	(33.3)
Underlying Profit	(236)	(4)	large	(113)	(123)	(8.1)
Charge to provide for bad and doubtful debts	(1)	4	large	(1)	-	large
Cash earnings before tax	(237)	-	large	(114)	(123)	(7.3)
Income tax (expense)/ benefit	250	70	large	199	51	large
Cash earnings before distributions and minority interest	13	70	(81.4)	85	(72)	large
Net profit – minority interest	(1)	-	large	-	(1)	large
Cash earnings / (deficit)	12	70	(82.9)	85	(73)	large
Represented by:						
Group Funding	51	175	(70.9)	51	-	large
Corporate Centre	(46)	(88)	(47.7)	8	(54)	large
New Business & Development	(14)	(17)	(17.6)	5	(19)	large
Great Western Bank	21	-	large	21	-	large
Cash earnings / (deficit)	12	70	(82.9)	85	(73)	large

September 2008 v September 2007

Cash earnings from Central Functions decreased by $58 million from the September 2007 year. This is largely due to increased liquidity costs and unfavourable interest and exchange rates. This has been offset by the inclusion of Great Western Bank (GWB) from June 2008 onwards and tax credits as a result of the utilisation of carried forward tax losses.

Net operating income decreased by $250 million. This is the result of: additional costs incurred through a move to higher liquidity holdings in response to the adverse credit conditions; lower income due to decreasing offshore interest rates and unfavourable exchange rates on funding transactions. These driving factors were partially offset by $63 million contributed by GWB in the September 2008 half.

Other operating expenses decreased by $18 million due to a number of smaller items. This has been partially offset by the inclusion of costs incurred by GWB.

Income tax benefit has increased by $180 million as a result of a number of tax credits recognised during the second half of the year, including a one-off $30 million benefit from the recognition of a deferred tax asset in the US as a result of being able to utilise carried forward tax losses against the future earnings of GWB.

September 2008 v March 2008

Cash earnings from Central Functions increased by $158 million when compared with the March 2008 half. This is largely due to the inclusion of GWB and the utilisation of tax credits.

Net operating income increased by $52 million and includes $63 million from GWB, with net gains on FX forwards and revenue hedges, and increased income on shareholders funds, partially offset by unfavourable exchange rates on funding transactions.

Other operating expenses increased by $42 million. This is a result of the inclusion of $30 million of costs from GWB, and higher business development expenditure than in the March 2008 half.

Income tax benefit increased by $148 million. This is primarily due to a number of tax credits recognised during the second half of the year.

Other Items

Corporate Responsibility

Schools First was initiated in October 2008. It is the Group's single most significant community investment and the largest corporate-sponsored education initiative in Australia. Schools First is a collaboration between the Group and three not-for-profit organisations - Australia Cares, the Foundation for Young Australians and the Australian Council for Educational Research and is based on the premise that schools are stronger and students achieve more when the community is involved. Through a series of national workshops and a national awards program Schools First aims to inspire, strengthen and reward school-community partnerships. The Group has committed $5 million per annum in total award funding to recognise and support excellence in these partnerships. Additionally, a knowledge bank will be established during the program that researches and shares best practice in school and community partnerships. Schools First will initially operate within Australia before being offered in the other geographies the Group operates in.

Great Western Bank

George Frazis

Great Western Bank was acquired by the Group on 3 June 2008. Great Western Bank provides a full range of traditional banking services, together with wealth management and insurance products through a footprint of 102 branches throughout six states predominantly in the mid west of the United States.

Strategic Highlights & Business Developments

Despite extremely difficult business conditions in the United States, earnings and margins have been maintained since acquisition. Cash earnings for the four months since acquisition were US$18m, with average interest earning assets growing by 10.2% (annualised) to US$3.3bn over the same period. The growth in assets was matched by a 10.2% (annualised) growth in total deposits to US$3.2bn.

The average net interest margin has also remained strong at 3.87%. This compares favourably to peers, as reported by the Federal Deposit Insurance Commission (FDIC), with statistics indicating 3.4% as an average across all commercial banks in the June 2008 quarter.

Effective cost management has also been maintained, with an average cost to income ratio of 48.2% since acquisition. The average cost to income ratio of all commercial banks, as reported by the FDIC was 58.4% in the June 2008 quarter.

Excellent progress has been made with the integration and development of the existing governance model, together with improved business platforms and processes to the Group's standards. Work has also commenced on the execution of the regional Agribusiness and SME strategies identified with the acquisition.

Operating Environment

The economic environment within the US has continued to deteriorate since acquisition. The latest indicators point to a decline in retail spending and industrial output as the economy moves into recession. This is feeding into the national labour market with payroll levels falling and the unemployment rate increasing.

The regions where Great Western Bank operates have not been immune to these adverse trends. The business surveys conducted by the relevant regional Federal Banks show deteriorating conditions in manufacturing and the Federal Reserve's assessment is that many of the deteriorating trends seen elsewhere in the US are evident in the Mid-Western states.

A number of the states where Great Western operates seem, however, to be outperforming the national average. Economic growth in Kansas, South Dakota and Nebraska has been quite strong in recent years and the labour market in those states has been holding up much better than at national level. The important farm, energy and resource industries have supported activity in the region with high commodity returns supporting incomes and land prices.

The increasing number of bank failures in the US has affected the reserves of the FDIC, with resultant increases in premiums for banks to insure deposits with the regulator. The continued weakness in the economy is likely to further increase foreclosures and delinquency rates.

Customer, Employee and Community

Great Western Bank has a diverse customer base and continues to develop employees, products and processes to ensure that the needs of its customers are met.

Extensive training and development opportunities are provided to all staff, with these programs continually improved. Great Western Bank has continued to expand and develop a strong sense of community, with employees volunteering time in community service and serving on the boards of civic and non-profit organisations.

Great Western Bank

Results presented in local currency. See below for results in $AUDm

	Year to			Half Year to		
	Sep 08 $USm	Sep 07 $USm	Sep 08 v Sep 07%	Sep 08 $USm	Mar 08 $USm	Sep 08 v Mar 08%
Net interest income	42	-	large	42	-	large
Other operating income	14	-	large	14	-	large
Net operating income	56	-	large	56	-	large
Operating expenses	(27)	-	large	(27)	-	large
Underlying profit	29	-	large	29	-	large
Charge to provide for bad and doubtful debts	(1)	-	large	(1)	-	large
Cash earnings before tax	28	-	large	28	-	large
Income tax expense	(10)	-	large	(10)	-	large
Cash earnings	18	-	large	18	-	large
Average Volumes (US$bn)						
Gross loans and acceptances	2.6	-	large	2.6	-	large
Interest earning assets	3.3	-	large	3.3	-	large
Total assets	3.6	-	large	3.6	-	large
Retail deposits	3.2	-	large	3.2	-	large
Performance Measures (annualised where applicable)						
Cash earnings on average assets	1.61%	-	large	1.61%	-	large
Net interest margin	3.87%	-	large	3.87%	-	large
Cost to income ratio	48.2%	-	large	48.2%	-	large
Cash earnings per average FTE ($'000s)	71	-	large	71	-	large
FTEs (spot)	816	-	large	816	-	large

Other Items

Asset Quality

	As at		
	Sep 08	Mar 08	Sep 07
Gross impaired assets ($m)	24	-	-
Gross impaired assets to gross loans and acceptances	0.89%	-	-
90+ DPD assets ($m)	-	-	-
90+ DPD to gross loans and acceptances	-	-	-
Gross impaired assets and 90+ DPD to gross loans and acceptances	0.89%	-	-
Total provision to gross loans and acceptances	1.18%	-	-
Net write offs to gross loans and acceptances	0.04%	-	-

Asset quality remains strong, reflecting the nature of the loan portfolio and the geographic footprint of Great Western Bank which is currently less exposed to the US economic downturn than many peers. While there are some indicators of increasing stress in the consumer market, the asset portfolio does not contain any sub-prime lending

Balance Sheet Management

Great Western Bank has a very strong capital base. The Tier 1 capital ratio for US regulatory purposes is 9.87% as of 30 September 2008. The loan portfolio of the Bank is entirely funded by deposits, with excess liquidity predominantly invested in available for sale US Federal Government or Agency backed securities.

Great Western Bank

Results presented in Australian dollars. See above for results in local currency

	Year to			Half Year to		
	Sep 08 $m	Sep 07 $m	Sep 08 v Sep 07%	Sep 08 $m	Mar 08 $m	Sep 08 v Mar 08 %
Net interest income	47	-	large	47	-	large
Other operating income	16	-	large	16	-	large
Net operating income	63	-	large	63	-	large
Operating expenses	(30)	-	large	(30)	-	large
Underlying profit	33	-	large	33	-	large
Charge to provide for bad and doubtful debts	(1)	-	large	(1)	-	large
Cash earnings before tax	32	-	large	32	-	large
Income tax expense	(11)	-	large	(11)	-	large
Cash earnings	21	-	large	21	-	large

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Section 5

Financial Report

Consolidated Income Statement

	Note	Year to Sep 08 $m	Year to Sep 07 $m	Half Year to Sep 08 $m	Half Year to Mar 08 $m
Interest income		**39,385**	30,958	**20,744**	18,641
Interest expense		**(28,287)**	(21,212)	**(14,924)**	(13,363)
Net interest income		**11,098**	9,746	**5,820**	5,278
Premium and related revenue		**780**	714	**400**	380
Investment revenue		**(10,162)**	8,177	**(4,010)**	(6,152)
Fee income		**530**	543	**249**	281
Claims expense		**(492)**	(515)	**(253)**	(239)
Change in policy liabilities		**8,378**	(6,313)	**3,245**	5,133
Policy acquisition and maintenance expense		**(817)**	(828)	**(410)**	(407)
Investment management expense		**(34)**	(20)	**(18)**	(16)
Net life insurance income	14	**(1,817)**	1,758	**(797)**	(1,020)
Gains less losses on financial instruments at fair value	3	**(118)**	600	**(465)**	347
Other operating income	3	**3,967**	3,925	**1,909**	2,058
Total other income		**3,849**	4,525	**1,444**	2,405
Personnel expenses	4	**(4,142)**	(4,229)	**(2,060)**	(2,082)
Occupancy-related expenses	4	**(492)**	(519)	**(257)**	(235)
General expenses	4	**(2,646)**	(2,664)	**(1,297)**	(1,349)
Total operating expenses		**(7,280)**	(7,412)	**(3,614)**	(3,666)
Charge to provide for doubtful debts	9	**(2,703)**	(790)	**(1,763)**	(940)
Profit before income tax expense		**3,147**	7,827	**1,090**	2,057
Income tax (expense)/ benefit	5	**(39)**	(2,255)	**175**	(214)
Net profit		**3,108**	5,572	**1,265**	1,843
Net (profit)/loss attributable to minority interest	14	**1,428**	(994)	**584**	844
Net profit attributable to members of the Company		**4,536**	4,578	**1,849**	2,687

	cents	cents	cents	cents
Basic earnings per share (cents)	**262.7**	269.0	**104.6**	158.9
Diluted earnings per share (cents)	**260.9**	268.4	**103.8**	158.1

Consolidated Balance Sheet

	Note	30 Sep 08 $m	31 Mar 08 $m	30 Sep 07 $m
		As at		
Assets				
Cash and liquid assets		**18,209**	12,256	12,796
Due from other banks		**46,996**	39,163	25,144
Trading derivatives		**35,788**	25,540	23,019
Trading securities		**20,767**	22,450	21,272
Investments - available for sale		**1,542**	1,128	1,345
Investments - held to maturity		**17,154**	16,447	18,065
Investments relating to life insurance business	14	**52,896**	57,346	62,630
Other financial assets at fair value		**30,600**	27,304	25,189
Hedging derivatives		**2,126**	2,307	1,203
Loans and advances	8	**353,075**	335,475	317,203
Due from customers on acceptances	8	**53,381**	51,100	49,322
Property, plant and equipment		**1,661**	1,875	1,958
Goodwill and other intangible assets		**6,335**	5,410	5,368
Deferred tax assets		**2,851**	1,462	1,266
Other assets		**13,418**	12,750	8,440
Total assets		**656,799**	612,013	574,220
Liabilities				
Due to other banks		**52,423**	50,557	42,566
Trading derivatives		**32,263**	24,746	23,248
Other financial liabilities at fair value		**23,584**	23,508	21,850
Hedging derivatives		**1,172**	530	536
Deposits and other borrowings	11	**327,466**	286,223	263,742
Liability on acceptances		**16,075**	21,489	30,443
Life policy liabilities	14	**46,150**	49,580	53,097
Current tax liabilities		**25**	85	254
Provisions		**1,359**	1,123	1,359
Bonds, notes and subordinated debt		**98,239**	92,402	80,983
Other debt issues		**1,622**	1,559	926
Managed fund units on issue	14	**7,406**	7,673	8,116
Deferred tax liabilities		**702**	790	1,404
Other liabilities		**15,467**	20,943	15,811
Total liabilities		**623,953**	581,208	544,335
Net assets		**32,846**	30,805	29,885
Equity				
Contributed equity	12	**14,731**	12,643	12,441
Reserves	12	**549**	641	1,071
Retained profits	12	**17,510**	17,494	16,059
Total equity (parent entity interest)		**32,790**	30,778	29,571
Minority interest in controlled entities		**56**	27	314
Total equity		**32,846**	30,805	29,885

Consolidated Recognised Income and Expense Statement

		Year to		Half Year to	
		Sep 08	Sep 07	Sep 08	Mar 08
	Note	$m	$m	$m	$m
Actuarial gains/(losses) from defined benefit pension plans	12	4	444	(143)	147
Cash flow hedges					
Gains/(losses) taken to equity	12	(445)	202	(578)	133
Gains/(losses) transferred to income statement	12	(94)	7	(112)	18
Exchange differences on translation of foreign operations	12	(180)	(725)	227	(407)
Income tax on items taken directly to or transferred directly from equity		167	(213)	266	(99)
Other		36	10	5	31
Net income recognised directly in equity		(512)	(275)	(335)	(177)
Net profit		3,108	5,572	1,265	1,843
Total net income recognised		2,596	5,297	930	1,666
Attributable to:					
Members of the parent		4,024	4,303	1,514	2,510
Minority interest		(1,428)	994	(584)	(844)
Total net income recognised		2,596	5,297	930	1,666

Consolidated Cash Flow Statement

		Year to		Half Year to	
		Sep 08	Sep 07	Sep 08	Mar 08
	Note	$m	$m	$m	$m
Cash flows from operating activities					
Interest received		**39,270**	30,653	**21,091**	18,179
Interest paid		**(26,892)**	(20,289)	**(14,139)**	(12,753)
Dividends received		**7**	11	**4**	3
Life insurance				**-**	
Premiums and other revenue received		**10,105**	10,811	**3,969**	6,136
Investment revenue received		**2,911**	2,497	**2,055**	856
Policy and other payments		**(7,948)**	(9,674)	**(3,785)**	(4,163)
Fees and commissions paid		**(402)**	(472)	**(171)**	(231)
Net trading revenue received		**4,121**	1,159	**3,862**	259
Other operating income received		**4,574**	4,284	**2,056**	2,518
Cash payments to employees and suppliers					
Personnel expenses paid		**(4,023)**	(4,034)	**(1,899)**	(2,124)
Other operating expenses paid		**(2,682)**	(3,610)	**(1,170)**	(1,512)
Goods and services tax paid		**(50)**	(43)	**(47)**	(3)
Cash payments for income taxes		**(2,556)**	(2,403)	**(1,336)**	(1,220)
Cash flows from operating activities before changes in operating assets and liabilities		**16,435**	8,890	**10,490**	5,945
Changes in operating assets and liabilities arising from cash flow movements					
Net placement of deposits with and withdrawal of deposits from supervisory central banks that are not part of cash equivalents		**59**	(17)	**35**	24
Net payments for and receipts from transactions in acceptances		**(18,444)**	(9,278)	**(7,694)**	(10,750)
Net funds advanced to and receipts from customers for loans and advances		**(35,758)**	(40,561)	**(13,029)**	(22,729)
Net acceptance from and repayment of deposits and other borrowings		**59,119**	48,890	**32,974**	26,145
Net movement in life insurance business investments		**(3,118)**	(2,168)	**(1,404)**	(1,714)
Net movement in other life insurance assets and liabilities		**8**	(690)	**-**	8
Net receipts from and payments for transactions in treasury bills and other eligible bills held for trading and not part of cash equivalents		**133**	117	**51**	82
Net payments for and receipts from transactions in trading securities		**720**	(7,709)	**1,770**	(1,050)
Net payments for and receipts from trading derivatives		**(8,275)**	1,155	**(7,100)**	(1,175)
Net funds advanced to and receipts from other financial assets at fair value		**(7,308)**	(4,536)	**(4,192)**	(3,116)
Net receipts from other financial liabilities at fair value		**2,598**	4,915	**961**	1,637
Net increase in other assets		**(6,500)**	(5,785)	**(4,774)**	(1,726)
Net increase in other liabilities		**9,534**	5,646	**8,794**	740
Net cash provided by/(used in) operating activities	13(a)	**9,203**	(1,131)	**16,882**	(7,679)

	Note	Year to Sep 08 $m	Year to Sep 07 $m	Half Year to Sep 08 $m	Half Year to Mar 08 $m
Cash flows from investing activities					
Movement in investments - available for sale					
Purchases		**(20,039)**	(15,779)	**(17,754)**	(2,285)
Proceeds from disposal		**85**	22	**82**	3
Proceeds on maturity		**18,099**	17,139	**15,369**	2,730
Movement in investments - held to maturity					
Purchases		**(29,865)**	(30,992)	**(16,154)**	(13,711)
Proceeds on disposal and on maturity		**28,218**	15,112	**13,074**	15,144
Purchase of controlled entities, net of cash acquired	13(d)	**(972)**	-	**(665)**	(307)
Purchase of property, plant, equipment and software		**(865)**	(789)	**(465)**	(400)
Proceeds from sale of property, plant, equipment and software, net of costs		**574**	194	**54**	520
Net cash provided by/ (used in)investing activities		**(4,765)**	(15,093)	**(6,459)**	1,694
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		**(20,368)**	(16,982)	**(12,919)**	(7,449)
Proceeds from issue of bonds, notes and subordinated debt, net of costs		**33,599**	32,956	**14,486**	19,113
Proceeds from issue of ordinary shares, net of costs		**20**	60	**-**	20
Proceeds from issue of BNZ income securities, net of costs		**380**	-	**-**	380
Proceeds from other debt issues, net of costs		**1,190**	-	**593**	597
Payments for buy back of ordinary shares		**-**	(1,200)	**-**	-
Dividends and distributions paid (excluding dividend reinvestment plan)		**(1,702)**	(2,922)	**(158)**	(1,544)
Net cash provided by financing activities		**13,119**	11,912	**2,002**	11,117
Net increase/(decrease) in cash and cash equivalents		**17,557**	(4,312)	**12,425**	5,132
Cash and cash equivalents at beginning of period		**(4,330)**	(306)	**1,223**	(4,330)
Effects of exchange rate changes on balance of cash held in foreign currencies		**(438)**	288	**(859)**	421
Cash and cash equivalents at end of period	13(b)	**12,789**	(4,330)	**12,789**	1,223

1. Principal Accounting Policies

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

This preliminary final report does not, and cannot be expected to, contain all disclosures of the type normally found within a full annual financial report and it is not designed or intended to be a substitute for the 2008 annual financial report.

This report should be read in conjunction with the 2007 annual financial report, the 2008 half year results and, when released, the 2008 annual financial report.

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

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

Change in accounting policy

The market dislocation in the asset-backed commercial paper market has changed the nature of the liquidity facilities provided by the Group to special purpose entities. This has caused the Group to review its existing accounting policy in relation to consolidation as it applies to special purpose entities. The result of this review is that the Group is changing its accounting policy which will result in the consolidation of the NAB-sponsored conduits.

Previously, an assessment of control and of exposure to the majority of risks and rewards arising from a special purpose entity was performed at the time of the initial investment in the entity and subsequently if there was a structural change in the relationship between the Group and the entity.

This policy has been changed such that in addition to assessing consolidation at inception and upon structural change, an assessment of consolidation is performed on an ongoing basis. In accordance with the requirements of AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, this change reflects the expected future direction of consolidation requirements under IFRS, is consistent with the IASB's response to the recommendations of the Financial Stability Forum report, is in line with the treatment of certain other international banks, and meets current market expectations.

The policy has been changed for the current financial year and has been applied retrospectively as required by accounting standards. Comparative information in relation to the 2007 financial year has been restated accordingly. The Group has applied a consistent and uniform assessment of credit and other appropriate processes to the assets and liabilities of the conduits, consistent with those applied to all other Group assets held to maturity and liabilities.

The following tables summarise the adjustments to each financial statement line item affected by the change in accounting policy. There is no impact on the income statement or earnings per share.

Balance sheet (extract)	As at 31 Mar 08 $m	As at 30 Sep 07 $m
Net assets - as reported	**30,805**	29,885
Adjustment to:		
Investments – held to maturity	**14,213**	13,049
Loans and advances	**(7,062)**	(3,667)
Other assets	**240**	204
Adjustment to total assets	**7,391**	9,586
Adjustment to:		
Deposits and other borrowings	**(7,062)**	(9,517)
Other liabilities	**(329)**	(69)
Adjustment to total liabilities	**(7,391)**	(9,586)
Net assets – as adjusted	**30,805**	29,885

Cash flow statement (extract)	Half Year to Mar 08 $m	Year to Sep 07 $m
Net (decrease)/increase in cash and cash equivalents - as reported	**5,132**	(4,312)
Adjustment to:		
Net funds advanced to and receipts from customers for loans and advances	**3,395**	3,667
Net acceptance from and repayment of deposits and other borrowings	**(2,455)**	9,517
Net (increase)/decrease in other assets	**(36)**	(204)
Net increase in other liabilities	**260**	69
Movement in investments - held to maturity (purchases)	**(1,164)**	(13,049)
Net (decrease)/increase in cash and cash equivalents – as adjusted	**5,132**	(4,312)

Adoption of accounting standards

On 1 October 2007, the Group adopted AASB 7 Financial Instruments: Disclosures. This new standard requires entities to disclose the nature and extent of their exposure to credit, market and liquidity risk arising from financial instruments. The disclosures are based on the Group's approach to assessing, monitoring and mitigating these risks. The new standard does not impact the recognition or measurement of financial instruments.

As a consequence of adopting AASB 7, the Group has modified the presentation of its income statement to include a line item disclosing fee income for the life insurance business. The prior period comparative disclosures have been adjusted to reflect this amendment. The impact of this reclassification is indicated below:

Income statement (extract)	Year to Sep 07 $m
Net life insurance income - as reported	1,758
Adjustment to:	
Premium and related revenue	(74)
Changes in policy liabilities	(469)
Fee income	543
Net life insurance income – as adjusted	1,758

Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

2. Segment Information

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

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

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

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

Major Customers

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

Operating and Business Segments

	Operating Segments						
	Australia Region $m	UK Region $m	NZ Region $m	nabCapital $m	Central Functions[1] $m	Eliminations/ Distributions[1] $m	Total $m
Year ended 30 September 2008							
Cash earnings	3,314	542	404	(44)	12	(312)	**3,916**
Net interest income	6,229	1,910	908	2,152	(57)	-	**11,142**
Total MLC and other operating income	3,178	773	311	(26)	115	(79)	**4,272**
Total assets	344,607	93,691	41,441	242,279	36,404	(101,623)	**656,799**
Year ended 30 September 2007							
Cash earnings	2,913	592	379	715	70	(283)	**4,386**
Net interest income	5,547	1,982	864	1,134	238	-	**9,765**
Total MLC and other operating income	2,984	898	348	616	70	(111)	**4,805**
Total assets	317,291	77,567	37,035	203,214	30,631	(91,866)	**573,872**
Half year ended 30 September 2008							
Cash earnings	1,738	231	197	(417)	85	(155)	**1,679**
Net interest income	3,293	940	442	1,204	(40)	-	**5,839**
Total MLC and other operating income	1,556	373	156	(220)	95	(24)	**1,936**
Total assets	344,607	93,691	41,441	242,279	36,404	(101,623)	**656,799**
Half year ended 31 March 2008							
Cash earnings	1,576	311	207	373	(73)	(157)	**2,237**
Net interest income	2,936	970	466	948	(17)	-	**5,303**
Total MLC and other operating income	1,622	400	155	194	20	(55)	**2,336**
Total assets	331,698	82,948	39,819	222,470	29,685	(94,607)	**612,013**

(1) *Certain elimination adjustments previously included within Central Functions have been allocated to Eliminations/Distributions to reflect the internal management of these items.*

	Year to		Half Year to	
	Sep 08	Sep 07	Sep 08	Mar 08
	$m	$m	$m	$m
Group cash earnings - ongoing	**3,916**	4,386	**1,679**	2,237
Disposed operations	**3**	8	**1**	2
Non cash earnings items (after tax):				
Distributions	**312**	283	**155**	157
Treasury shares	**375**	(123)	**145**	230
Fair value and hedge ineffectiveness	**(89)**	154	**(144)**	55
IoRE discount rate variation	**25**	(44)	**20**	5
Gain on Visa IPO	**225**	-	**-**	225
Charge to provide for bad and doubtful debts - economic cycle adjustment	**(150)**	-	**-**	(150)
Provision for new business initiatives	**(74)**	-	**-**	(74)
Revaluation losses on exchangeable capital units	**-**	(86)	**-**	-
GWB Integration Costs	**(7)**	-	**(7)**	-
Net profit attributable to members of the company	**4,536**	4,578	**1,849**	2,687

	Year to		Half Year to	
	Sep 08	Sep 07	Sep 08	Mar 08
	$m	$m	$m	$m
Net interest income for operating and business segments(1)	**11,142**	9,765	**5,839**	5,303
MLC net adjustment	**(33)**	2	**(18)**	(15)
Disposed operations	**(11)**	(21)	**(1)**	(10)
Net interest income	**11,098**	9,746	**5,820**	5,278

	Year to		Half Year to	
	Sep 08	Sep 07	Sep 08	Mar 08
	$m	$m	$m	$m
MLC and other operating income for operating and business segments(1)	**4,272**	4,805	**1,936**	2,336
Disposed operations	**45**	98	**-**	45
Net profit/(loss) attributable to minority interest	**(1,427)**	994	**(582)**	(845)
MLC net adjustment	**(1,462)**	433	**(696)**	(766)
Treasury shares	**445**	(131)	**168**	277
Fair value and hedge ineffectiveness	**(119)**	226	**(208)**	89
IoRE discount rate variation	**36**	(63)	**29**	7
Gain on Visa IPO	**242**	-	**-**	242
Revaluation losses on exchangeable capital units	**-**	(79)	**-**	-
MLC and other operating income	**2,032**	6,283	**647**	1,385

	As at		
	30 Sep 08	31 Mar 08	30 Sep 07
	$m	$m	$m
Total assets for operating and business segments(1)	**656,799**	612,013	573,872
Disposed operations	**-**	-	348
Total assets	**656,799**	612,013	574,220

(1) *Includes eliminations and distributions.*

3. Income

	Year to		Half Year to	
	Sep 08	Sep 07	Sep 08	Mar 08
	$m	$m	$m	$m
Gains less losses on financial instruments at fair value				
Trading securities	**(343)**	(19)	**(68)**	(275)
Trading derivatives				
Trading purposes	**254**	432	**(108)**	362
Risk management purposes [1] [2]	**(524)**	58	**(342)**	(182)
Assets, liabilities and derivatives designated in hedge relationships[2]	**(197)**	118	**(153)**	(44)
Assets and liabilities designated at fair value [2]	**602**	50	**287**	315
Gain on Visa IPO	**242**	-	**-**	242
Impairment of investments - available for sale	**(93)**	(40)	**(45)**	(48)
Other	**(59)**	1	**(36)**	(23)
	(118)	600	**(465)**	347
Other operating income				
Dividend revenue	**7**	11	**4**	3
Gains from sale of investments - available for sale	**38**	-	**38**	-
Gains from sale of loans and advances	**-**	35	**-**	-
Profit on sale of property, plant and equipment and other assets	**25**	51	**8**	17
Banking fees	**918**	887	**460**	458
Money transfer fees	**676**	591	**342**	334
Fees and commissions	**1,735**	1,572	**838**	897
Investment management fees	**434**	474	**210**	224
Fleet management fees	**17**	19	**8**	9
Rentals received on leased vehicle assets	**103**	161	**23**	80
Revaluation gains/(losses) on exchangeable capital units	**-**	(79)	**-**	-
Revaluation losses on investment properties	**(32)**	-	**(32)**	-
Other income	**46**	203	**10**	36
	3,967	3,925	**1,909**	2,058

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

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

4. Operating Expenses

	Year to		Half Year to	
	Sep 08	Sep 07	Sep 08	Mar 08
	$m	$m	$m	$m
Personnel expenses				
Salaries and related on-costs	**2,903**	2,865	**1,480**	1,423
Superannuation costs - defined contribution plans	**199**	185	**102**	97
Superannuation costs - defined benefit plans	**(7)**	16	**(8)**	1
Performance-based compensation				
Cash	**367**	464	**150**	217
Equity-based compensation	**206**	217	**89**	117
Other expenses	**474**	482	**247**	227
	4,142	4,229	**2,060**	2,082
Occupancy-related expenses				
Operating lease rental expense	**329**	353	**177**	152
Other expenses	**163**	166	**80**	83
	492	519	**257**	235
General expenses				
Fees and commission expense	**131**	202	**68**	63
Depreciation and amortisation of property, plant and equipment	**273**	258	**139**	134
Amortisation of intangible assets	**245**	216	**124**	121
Depreciation on leased vehicle assets [1]	**11**	53	**2**	9
Operating lease rental expense	**41**	59	**17**	24
Advertising and marketing	**241**	225	**119**	122
Charge to provide for operational risk event losses	**44**	13	**27**	17
Communications, postage and stationery	**323**	342	**170**	153
Computer equipment and software	**304**	223	**165**	139
Data communication and processing charges	**117**	94	**59**	58
Transport expenses	**72**	80	**34**	38
Professional fees	**260**	396	**127**	133
Travel	**105**	93	**56**	49
Loss on disposal of property, plant and equipment and other assets	**1**	19	**1**	-
Impairment losses recognised [2]	**32**	68	**2**	30
Other expenses [3]	**446**	323	**187**	259
	2,646	2,664	**1,297**	1,349
Total	**7,280**	7,412	**3,614**	3,666

(1) Depreciation on leased vehicle assets owned by the Group's Commercial Fleet business ceased on 1 October 2006 following the business being designated as held for sale. These assets were sold on 5 March 2008.

(2) Impairment losses in the September 2008 year include $30 million (March 2008 $30 million, September 2007 $64 million) relating to the impairment of leased vehicle assets of the Group's Commercial Fleet business.

(3) September 2008 includes a $106 million before tax provison relating to decommissioning (March 2008 half $106 million) and other non recurring costs that the Group is presently obligated to incur before the implementation of respective business initiatives.

5. Income tax expense

	Year to		Half Year to	
	Sep 08	Sep 07	Sep 08	Mar 08
	$m	$m	$m	$m
Profit before income tax expense	**3,147**	7,827	**1,090**	2,057
Deduct (profit)/loss before income tax expense attributable to the life insurance statutory funds and their controlled trusts[(1)]	**2,254**	(1,900)	**962**	1,292
Total profit excluding that attributable to the statutory funds of the life insurance business, before income tax expense	**5,401**	5,927	**2,052**	3,349
Prima facie income tax at 30%	**1,620**	1,778	**615**	1,005
Add/(deduct): Tax effect of amounts not deductible/(assessable)				
Dividend income adjustments	**(1)**	(3)	**-**	(1)
Assessable foreign income	**2**	9	**1**	1
Depreciation on buildings not deductible	**1**	6	**-**	1
Over provision in prior years	**(46)**	(78)	**(38)**	(8)
Foreign tax rate differences	**(19)**	44	**(10)**	(9)
Restatement of deferred tax balances for changes in UK and NZ tax rates	**(1)**	(17)	**(3)**	2
Foreign branch income not assessable	**(62)**	(59)	**(30)**	(32)
Treasury shares adjustment	**(64)**	31	**(28)**	(36)
Gain on Visa shares reduced by previously unrecognised tax losses	**(56)**	-	**-**	(56)
Previously unrecognised tax losses	**(93)**	-	**(93)**	-
Loss on exchangeable capital units not deductible	**-**	31	**-**	-
Interest expense on exchangeable capital units not claimed as deductible	**-**	7	**-**	-
Other	**(53)**	(77)	**(28)**	(25)
Total income tax expense on profit excluding that attributable to the statutory funds of the life insurance business	**1,228**	1,672	**386**	842
Income tax expense/(benefit) attributable to the statutory funds of the life insurance business[(1)]	**(1,189)**	583	**(561)**	(628)
Total income tax expense	**39**	2,255	**(175)**	214
Effective tax rate, excluding statutory funds attributable to the life insurance business	**22.7%**	28.2%	**18.8%**	25.1%

(1) *Refer to Note 14 for further information regarding the impact of negative investment markets during the September 2008 year.*

6. Dividends and Distributions

Dividends on ordinary shares	Amount per share cents	Franked amount per share %	Conduit foreign income per share %	Total amount $m
Final dividend declared in respect of the year ended 30 September 2008	97	100	Nil	**1,670**
Interim dividend declared in respect of the six months ended 31 March 2008	97	100	Nil	**1,584**
Total dividends paid or payable in respect of the year ended 30 September 2008	194			**3,254**

The record date for determining entitlements to the 2008 final dividend is 13 November 2008.
The final dividend has been declared by the directors of the Company and is payable on 17 December 2008.

Final dividend paid in respect of the year ended 30 September 2007	95	100	Nil	1,540
Interim dividend paid in respect of the six months ended 31 March 2007	87	90	10	1,418
Total dividends paid or payable in respect of the year ended 30 September 2007	182			2,958

	30 Sep 08		30 Sep 07	
Dividends on preference shares	Amount per security cents[(1)]	Total amount $m	Amount per security cents	Total amount $m
BNZ income securities	2.89	**13**	-	-

(1) *$A equivalent*

	30 Sep 08		30 Sep 07	
Distributions on other equity instruments	Amount per security $	Total amount $m	Amount per security $	Total amount $m
National Income Securities - Distributions for the year ended	8.70	**174**	7.60	152
Trust Preferred Securities - Distributions for the year ended	122.50	**49**	137.50	55
Trust Preferred Securities II - Distributions for the year ended	60.00	**48**	67.50	54
National Capital Instruments - Distributions for the year ended	5,125.00	**41**	2,750.00	22
Total distributions		**312**		283

Dividend and distribution plans

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

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

Dividend plans in operation are:

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

The last date for receipt of election notices for the dividend plans is 13 November 2008, 5pm (Melbourne time).

7. Net Tangible Assets

	As at		
	30 Sep 08	31 Mar 08	30 Sep 07
Net tangible assets per ordinary share ($)	**12.66**	12.66	12.26

8. Loans and Advances including Acceptances

	As at 30 Sep 08 $m	31 Mar 08 $m	30 Sep 07 $m
Overdrafts	**18,863**	17,175	16,514
Credit card outstandings	**7,575**	7,261	7,331
Asset & lease financing	**18,498**	17,651	17,756
Housing loans	**199,749**	193,095	185,809
Other term lending	**131,282**	120,281	107,670
Other	**8,261**	7,028	6,402
Fair value adjustment	**694**	457	180
Gross loans and advances	**384,922**	362,948	341,662
Acceptances	**53,381**	51,100	49,322
Gross loans and advances including acceptances	**438,303**	414,048	390,984
Represented by:			
Loans at fair value [(1)]	**25,732**	22,126	19,564
Loans at amortised cost	**359,190**	340,822	322,098
Acceptances	**53,381**	51,100	49,322
Gross loans and advances including acceptances	**438,303**	414,048	390,984
Unearned income and deferred net fee income	**(3,152)**	(2,766)	(2,788)
Provision for doubtful debts	**(2,963)**	(2,581)	(2,107)
Net loans and advances including acceptances	**432,188**	408,701	386,089
Securitised loans [(2)]	**9,217**	9,256	12,300

(1) *On the balance sheet this amount is included within 'Other financial assets at fair value'. These amounts are included in the product and geographical analysis below.*

(2) *On balance sheet securitised loans that have not met the accounting criteria for derecognition from the balance sheet.*

By product and geographic location	**Australia $m**	**Europe $m**	**New Zealand $m**	**United States $m**	**Asia $m**	**Total Group $m**
As at 30 September 2008						
Overdrafts	7,001	9,701	2,148	9	4	**18,863**
Credit card outstandings	5,249	1,223	1,097	6	-	**7,575**
Asset & lease financing	13,433	5,034	25	-	6	**18,498**
Housing loans	151,527	26,711	20,364	279	868	**199,749**
Other term lending	61,965	42,716	19,731	5,367	1,503	**131,282**
Other	4,465	1,545	153	2,098	-	**8,261**
Fair value adjustment	148	341	205	-	-	**694**
Gross loans and advances	243,788	87,271	43,723	7,759	2,381	**384,922**
Acceptances	53,375	6	-	-	-	**53,381**
Gross loans and advances including acceptances	297,163	87,277	43,723	7,759	2,381	**438,303**
Represented by:						
Loans at fair value	1,928	8,489	15,315	-	-	**25,732**
Loans at amortised cost	241,860	78,782	28,408	7,759	2,381	**359,190**
Acceptances	53,375	6	-	-	-	**53,381**
Gross loans and advances including acceptances	297,163	87,277	43,723	7,759	2,381	**438,303**

By product and geographic location	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total Group $m
As at 31 March 2008						
Overdrafts	6,443	8,845	1,884	-	3	**17,175**
Credit card outstandings	5,170	1,176	915	-	-	**7,261**
Asset & lease financing	12,990	4,630	28	-	3	**17,651**
Housing loans	146,588	25,177	20,647	-	683	**193,095**
Other term lending	59,251	38,261	18,786	2,652	1,331	**120,281**
Other	3,759	1,530	113	1,626	-	**7,028**
Fair value adjustment	37	356	64	-	-	**457**
Gross loans and advances	234,238	79,975	42,437	4,278	2,020	**362,948**
Acceptances	51,090	10	-	-	-	**51,100**
Gross loans and advances including acceptances	285,328	79,985	42,437	4,278	2,020	**414,048**
Represented by:						
Loans at fair value	794	7,529	13,803	-	-	**22,126**
Loans at amortised cost	233,444	72,446	28,634	4,278	2,020	**340,822**
Acceptances	51,090	10	-	-	-	**51,100**
Gross loans and advances including acceptances	285,328	79,985	42,437	4,278	2,020	**414,048**

By product and geographic location	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total Group $m
As at 30 September 2007						
Overdrafts	6,250	8,452	1,809	-	3	**16,514**
Credit card outstandings	4,975	1,294	1,062	-	-	**7,331**
Asset & lease financing	12,310	5,412	28	-	6	**17,756**
Housing loans	140,406	25,109	19,614	-	680	**185,809**
Other term lending	52,520	34,084	17,974	2,042	1,050	**107,670**
Other	3,452	1,151	47	1,723	29	**6,402**
Fair value adjustment	-	159	21	-	-	**180**
Gross loans and advances	219,913	75,661	40,555	3,765	1,768	**341,662**
Acceptances	49,316	6	-	-	-	**49,322**
Gross loans and advances including acceptances	269,229	75,667	40,555	3,765	1,768	**390,984**
Represented by:						
Loans at fair value	-	6,353	13,211	-	-	**19,564**
Loans at amortised cost	219,913	69,308	27,344	3,765	1,768	**322,098**
Acceptances	49,316	6	-	-	-	**49,322**
Gross loans and advances including acceptances	269,229	75,667	40,555	3,765	1,768	**390,984**

Movement from 31 March 2008 excluding foreign exchange	Increase / (Decrease) from 31 Mar 08 Australia %	Europe %	New Zealand %	United States %	Asia %	Total Group %
Overdrafts	8.7	5.8	17.8	large	-	**8.2**
Credit card outstandings	1.5	0.3	23.8	large	-	**4.1**
Asset & lease financing	3.4	4.9	(7.4)	-	50.0	**3.8**
Housing loans	3.4	2.4	1.8	large	11.0	**3.3**
Other term lending	4.6	7.7	8.5	76.9	(1.3)	**7.9**
Other	21.5	(3.4)	large	12.7	large	**14.7**
Total gross loans and advances	4.1	5.3	6.4	58.5	3.0	**5.3**

Movement from 30 September 2007 excluding foreign exchange	Increase / (Decrease) from 30 Sep 07 Australia %	Europe %	New Zealand %	United States %	Asia %	Total Group %
Overdrafts	12.0	16.8	21.4	large	33.3	**15.5**
Credit card outstandings	5.5	(3.9)	5.6	large	-	**4.0**
Asset & lease financing	9.1	(5.4)	(7.4)	-	-	**4.7**
Housing loans	7.9	8.3	6.2	large	16.0	**8.0**
Other term lending	18.0	27.5	12.2	large	30.1	**22.7**
Other	33.6	48.2	large	10.7	large	**33.3**
Total gross loans and advances	10.9	17.4	10.2	87.4	22.5	**13.2**

9. Doubtful Debts

	As at		
	30 Sep 08	31 Mar 08	30 Sep 07
	$m	$m	$m
Specific provision for doubtful debts	645	527	307
Collective provision for doubtful debts	2,318	2,054	1,800
Total provision for doubtful debts	2,963	2,581	2,107
Deduct: Specific provision for off-balance sheet credit-related commitments	-	(1)	-
Net provision for doubtful debts	2,963	2,580	2,107
Net provision for doubtful debts including assets at fair value			
Net provision for doubtful debts	2,963	2,580	2,107
Credit risk adjustment on assets at fair value [1]	331	255	202
Net provision for doubtful debts and credit risk adjustment on assets at fair value	3,294	2,835	2,309

[1] *As at 30 September 2008 included within the carrying value of loans recorded at fair value and trading derivatives is a credit risk adjustment of $331 million (March 2008 $255 million; September 2007 $202 million).*

Movement in provisions for doubtful debts

	Year to Sep 08			Year to Sep 07		
	Specific	Collective	Total	Specific	Collective	Total
	$m	$m	$m	$m	$m	$m
Opening balance	307	1,800	2,107	184	1,838	2,022
Acquisition of controlled entities	5	36	41	-	-	-
Transfer to/(from) specific/collective provision	1,202	(1,202)	-	693	(693)	-
Bad debts recovered	192	-	192	207	-	207
Bad debts written off	(1,052)	-	(1,052)	(790)	-	(790)
Charge to income statement [1]	-	1,692	1,692	-	790	790
Foreign currency translation and other adjustments	(9)	(8)	(17)	13	(135)	(122)
Total provisions for doubtful debts	645	2,318	2,963	307	1,800	2,107

[1] *Excludes $1,011 million of impairment charges on conduit assets classified as Investments-held to maturity.*

	Half Year to Sep 08			Half Year to Mar 08		
	Specific	Collective	Total	Specific	Collective	Total
	$m	$m	$m	$m	$m	$m
Opening balance	527	2,054	2,581	307	1,800	2,107
Acquisition of controlled entities	5	36	41	-	-	-
Transfer to/(from) specific/collective provision	722	(722)	-	480	(480)	-
Bad debts recovered	127	-	127	65	-	65
Bad debts written off	(731)	-	(731)	(321)	-	(321)
Charge to income statement [1]	-	933	933	-	759	759
Foreign currency translation and other adjustments	(5)	17	12	(4)	(25)	(29)
Total provisions for doubtful debts	645	2,318	2,963	527	2,054	2,581

[1] *Excludes $830 million of impairment charges on conduit assets classified as Investments-held to maturity.*

	Year to		Half Year to	
	Sep 08	Sep 07	Sep 08	Mar 08
Total charge for doubtful debts by geographic location	$m	$m	$m	$m
Australia	1,084	400	508	576
Europe	535	340	379	156
New Zealand	60	46	34	26
United States	9	6	9	-
Asia	4	(2)	3	1
Total charge to provide for doubtful debts - recognised in provision	1,692	790	933	759
Total charge on investments - held to maturity	1,011	-	830	181
Total charge to provide for doubtful debts - recognised in income statement	2,703	790	1,763	940

10. Asset Quality

Summary of impaired assets	30 Sep 08 $m	31 Mar 08 $m	30 Sep 07 $m
	As at		
Gross impaired assets [1] [2]	2,149	1,474	1,094
Less: Specific provisions - impaired assets	(645)	(527)	(307)
Net impaired assets	1,504	947	787

Movement in gross impaired assets	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total Group $m
Balance at 31 March 2007	620	124	24	-	1	769
New	502	168	36	47	-	753
Written off	(57)	(41)	(17)	-	-	(115)
Returned to performing or repaid	(245)	(50)	-	-	(1)	(296)
Foreign currency translation adjustments	-	(12)	(1)	(4)	-	(17)
Balance at 30 September 2007	820	189	42	43	-	1,094
New	624	181	29	-	-	834
Written off	(65)	(27)	(17)	-	-	(109)
Returned to performing or repaid	(236)	(55)	(18)	(22)	-	(331)
Foreign currency translation adjustments	-	(13)	-	(1)	-	(14)
Balance at 31 March 2008	1,143	275	36	20	-	1,474
New	802	574	176	16	2	1,570
Impaired assets of entities acquired	-	-	-	18	-	18
Written off	(306)	(173)	(30)	(1)	-	(510)
Returned to performing or repaid	(291)	(86)	(40)	(11)	-	(428)
Foreign currency translation adjustments	-	23	(1)	3	-	25
Gross impaired assets at 30 September 2008	1,348	613	141	45	2	2,149

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

(2) *Impaired assets do not include conduit assests classified as Investments - held to maturity in the balance sheet. There were $323 million of impaired conduit assets within this category at 30 September 2008, nil in prior periods.*

Gross impaired assets to gross loans & acceptances - by geographic location	As at 30 Sep 08 %	31 Mar 08 %	30 Sep 07 %
Australia	**0.45**	0.40	0.30
Europe	**0.70**	0.34	0.25
New Zealand	**0.32**	0.08	0.10
United States	**0.58**	0.47	1.14
Asia	**0.08**	-	-
Total gross impaired assets to gross loans & acceptances (1)	**0.49**	0.36	0.28

(1) Includes loans at amortised cost and at fair value.

Group coverage ratios	30 Sep 08	31 Mar 08	30 Sep 07
Net impaired assets to total equity (2)	**4.6**	3.1	2.7
Net impaired assets to total equity plus collective provision (2) (3)	**4.2**	2.9	2.5
Specific provision to gross impaired assets	**30.0**	35.8	28.1
Total provision to gross impaired assets (3)	**153**	192	211
Total provision to gross loans and acceptances (3)	**0.75**	0.68	0.59
Collective provision to total risk-weighted assets (3) (6)	**0.77**	0.60	0.56
Collective provision to credit risk-weighted assets (3) (7)	**0.85**	0.61	0.56
Collective provision plus general reserve for credit losses to credit risk-weighted assets (3) (4) (5) (8)	**0.85**	0.65	0.71

(2) Total parent entity interest in equity.

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

(4) From 1 July 2006, a General Reserve for Credit Losses was established to align with APRA's proposed benchmark of 0.5% of collective provisions on a post tax basis to credit risk-weighted assets under Basel I. As at 30 September 2008 this has been reversed now that the Group is accredited under Basel II. The General Reserve for Credit Losses has been appropriated from Retained Profits (refer Note 12 'Contributed Equity and Reserves').

(5) Includes general reserve for credit losses of nil before tax (31 March 2008 $166 million; 30 September 2007 $464 million).

(6) September 2007 and March 2008 collective provision to total risk weighted assets was prepared under Basel I. Under a pro forma Basel II basis at March 2008 the ratio would have been 0.69%.

(7) September 2007 and March 2008 collective provision to credit risk weighted assets was prepared under Basel I. Under a pro forma Basel II basis at March 2008 the ratio would have been 0.75%.

(8) September 2007 and March 2008 collective provision plus general reserve for credit losses to credit to credit-risk weighted assets was prepared under Basel I. Under a pro forma Basel II basis at March 2008 the ratio would have been 0.75%

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

Summary of non-impaired loans 90 days past due	As at 30 Sep 08 $m	31 Mar 08 $m	30 Sep 07 $m
Total non-impaired assets past due 90 days or more with adequate security	**1,259**	1,092	959
Non-impaired assets portfolio facilities past due 90 to 180 days	**247**	285	248
Total 90 day past due loans	**1,506**	1,377	1,207
Total 90 day past due loans to gross loans and acceptances (%)	**0.34**	0.33	0.31

Non-impaired loans 90 days past due - by geographic location	As at 30 Sep 08 $m	31 Mar 08 $m	30 Sep 07 $m
Australia	**1,079**	1,026	876
Europe	**346**	268	286
New Zealand	**79**	82	45
United States	**1**	-	-
Asia	**1**	1	-
Total 90 day past due loans	**1,506**	1,377	1,207

11. Deposits & Other Borrowings

	As at		
	30 Sep 08	31 Mar 08	30 Sep 07
	$m	$m	$m
Deposits not bearing interest	**12,457**	11,169	10,977
On-demand and short-term deposits	**116,391**	112,035	119,500
Certificates of deposit	**76,968**	48,929	36,714
Term deposits	**100,065**	87,045	77,631
Total deposits	**305,881**	259,178	244,822
Securities sold under agreements to repurchase	**2,286**	5,512	3,615
Borrowings	**33,867**	37,744	29,556
Fair value adjustment	**(83)**	(88)	(118)
Total deposits and other borrowings	**341,951**	302,346	277,875
Represented by:			
Total deposits at fair value [1]	**14,485**	16,123	14,133
Total deposits and other borrowings at cost	**327,466**	286,223	263,742
Total deposits and other borrowings	**341,951**	302,346	277,875

[1] *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 & geographic location	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total Group $m
As at 30 September 2008						
Deposits not bearing interest	9,129	1,966	550	811	1	**12,457**
On-demand and short-term deposits	73,299	31,745	7,639	3,581	127	**116,391**
Certificates of deposit	43,985	23,104	3,211	6,668	-	**76,968**
Term deposits	56,260	18,916	15,234	2,775	6,880	**100,065**
Total deposits	182,673	75,731	26,634	13,835	7,008	**305,881**
Securities sold under agreements to repurchase	2,223	-	-	63	-	**2,286**
Borrowings	13,937	578	6,829	12,523	-	**33,867**
Fair value adjustment	-	(16)	(67)	-	-	**(83)**
Total deposits and other borrowings	198,833	76,293	33,396	26,421	7,008	**341,951**
Represented by:						
Total deposits at fair value	-	2,433	12,052	-	-	**14,485**
Total deposits and other borrowings at cost	198,833	73,860	21,344	26,421	7,008	**327,466**
Total deposits and other borrowings	198,833	76,293	33,396	26,421	7,008	**341,951**

By product & geographic location	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total Group $m
As at 31 March 2008						
Deposits not bearing interest	9,028	1,187	622	328	4	**11,169**
On-demand and short-term deposits	71,897	30,636	7,833	1,553	116	**112,035**
Certificates of deposit	31,640	13,065	3,764	460	-	**48,929**
Term deposits	47,098	17,957	15,417	688	5,885	**87,045**
Total deposits	159,663	62,845	27,636	3,029	6,005	**259,178**
Securities sold under agreements to repurchase	3,100	510	-	1,902	-	**5,512**
Borrowings	21,321	504	7,548	8,371	-	**37,744**
Fair value adjustment	-	(35)	(53)	-	-	**(88)**
Total deposits and other borrowings	184,084	63,824	35,131	13,302	6,005	**302,346**
Represented by:						
Total deposits at fair value	-	2,406	13,717	-	-	**16,123**
Total deposits and other borrowings at cost	184,084	61,418	21,414	13,302	6,005	**286,223**
Total deposits and other borrowings	184,084	63,824	35,131	13,302	6,005	**302,346**

By product & geographic location	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total Group $m
As at 30 September 2007						
Deposits not bearing interest	8,710	1,368	557	341	1	**10,977**
On-demand and short-term deposits	73,459	34,072	7,667	4,216	86	**119,500**
Certificates of deposit	23,201	8,902	4,223	388	-	**36,714**
Term deposits	40,292	14,585	14,775	1,498	6,481	**77,631**
Total deposits	145,662	58,927	27,222	6,443	6,568	**244,822**
Securities sold under agreements to repurchase	2,577	18	-	1,020	-	**3,615**
Borrowings	17,345	2,009	5,004	5,198	-	**29,556**
Fair value adjustment	-	(89)	(29)	-	-	**(118)**
Total deposits and other borrowings	165,584	60,865	32,197	12,661	6,568	**277,875**
Represented by:						
Total deposits at fair value	-	2,295	11,838	-	-	**14,133**
Total deposits and other borrowings at cost	165,584	58,570	20,359	12,661	6,568	**263,742**
Total deposits and other borrowings	165,584	60,865	32,197	12,661	6,568	**277,875**

Movement from 31 March 2008 excluding foreign exchange	Increase / (Decrease) from 31 Mar 08 Australia %	Europe %	New Zealand %	United States %	Asia %	Total Group %
Deposits not bearing interest	1.1	59.8	(8.6)	large	(80.0)	**10.8**
On-demand and short-term deposits	2.0	-	0.7	large	(4.5)	**2.9**
Certificates of deposit	39.0	70.7	(11.9)	large	-	**56.0**
Term deposits	19.5	1.6	1.6	large	2.2	**13.4**
Total deposits	14.4	16.3	(0.5)	large	2.0	**16.8**
Securities sold under agreements to repurchase	(28.3)	large	-	(97.1)	-	**(60.6)**
Borrowings	(34.6)	10.5	(6.6)	30.7	-	**(12.6)**
Total deposits and other borrowings	8.0	15.3	(2.0)	73.6	2.0	**11.6**

Movement from 30 September 2007 excluding foreign exchange	Increase / (Decrease) from 30 Sep 07 Australia %	Europe %	New Zealand %	United States %	Asia %	Total Group %
Deposits not bearing interest	4.8	46.3	0.9	large	-	**13.5**
On-demand and short-term deposits	(0.2)	(5.2)	1.9	(22.8)	33.7	**(2.3)**
Certificates of deposit	89.6	large	(22.3)	large	-	**large**
Term deposits	39.6	31.9	5.0	68.5	(3.5)	**28.4**
Total deposits	25.4	30.8	-	95.2	(3.0)	**25.1**
Securities sold under agreements to repurchase	(13.7)	large	-	(94.4)	-	**(38.5)**
Borrowings	(19.6)	(70.7)	39.6	large	-	**13.2**
Total deposits and other borrowings	20.1	27.4	6.0	89.7	(3.0)	**22.9**

12. Contributed Equity And Reserves

Contributed equity	As at 30 Sep 08 $m	31 Mar 08 $m	30 Sep 07 $m
Issued and paid-up ordinary share capital			
Ordinary shares, fully paid	**10,020**	7,932	8,110
Issued and paid-up preference share capital			
BNZ Income Securities	**380**	380	-
Other contributed equity			
National Income Securities	**1,945**	1,945	1,945
Trust Preferred Securities	**975**	975	975
Trust Preferred Securities II	**1,014**	1,014	1,014
National Capital Instruments	**397**	397	397
Total contributed equity	**14,731**	12,643	12,441

Movements in contributed equity	Year to Sep 08 $m	Year to Sep 07 $m	Half Year to Sep 08 $m	Half Year to Mar 08 $m
Ordinary share capital				
Balance at beginning of period	**8,110**	7,948	**7,932**	8,110
Shares issued				
Dividend reinvestment plan [(1)]	**1,668**	-	**1,560**	108
Executive share option plan no. 2	**20**	59	**-**	20
Paying up of partly paid shares	**-**	1	**-**	-
Employee share savings plan	**5**	-	**3**	2
Debt conversion to equity	**598**	-	**598**	-
Net gain/(loss) realised on treasury shares	**(40)**	32	**(50)**	10
Share buy back	**-**	(1,200)	**-**	-
Exchangeable capital units converted	**-**	1,335	**-**	-
Purchase and vesting of treasury shares	**(341)**	(70)	**(23)**	(318)
Current period equity based payments expense vested immediately	**-**	5	**-**	-
Balance at end of period	**10,020**	8,110	**10,020**	7,932
BNZ Income Securities				
Balance at beginning of period	**-**	-	**380**	-
Movement during period	**380**	-	**-**	380
Balance at end of period	**380**	-	**380**	380
National Income Securities				
Balance at beginning of period	**1,945**	1,945	**1,945**	1,945
Movement during period	**-**	-	**-**	-
Balance at end of period	**1,945**	1,945	**1,945**	1,945
Trust Preferred Securities				
Balance at beginning of period	**975**	975	**975**	975
Movement during period	**-**	-	**-**	-
Balance at end of period	**975**	975	**975**	975
Trust Preferred Securities II				
Balance at beginning of period	**1,014**	1,014	**1,014**	1,014
Movement during period	**-**	-	**-**	-
Balance at end of period	**1,014**	1,014	**1,014**	1,014
National Capital Instruments				
Balance at beginning of period	**397**	397	**397**	397
Movement during period	**-**	-	**-**	-
Balance at end of period	**397**	397	**397**	397

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

Reserves	As at 30 Sep 08 $m	31 Mar 08 $m	30 Sep 07 $m
General reserve	**997**	807	866
Asset revaluation reserve	**76**	102	102
Foreign currency translation reserve	**(1,040)**	(1,267)	(860)
Cash flow hedge reserve	**(178)**	302	197
Equity based payments reserve	**663**	572	451
General reserve for credit losses	**-**	116	325
Available for sale investments reserve	**31**	9	(10)
Total reserves	**549**	641	1,071

Movements in reserves	Year to Sep 08 $m	Year to Sep 07 $m	Half Year to Sep 08 $m	Half Year to Mar 08 $m
General reserve				
Balance at beginning of period	**866**	687	**807**	866
Transfer from/(to) retained profits	**131**	179	**190**	(59)
Balance at end of period	**997**	866	**997**	807
Asset revaluation reserve				
Balance at beginning of period	**102**	100	**102**	102
Revaluation of land and buildings	**(9)**	18	**(9)**	-
Tax on revaluation adjustments	**3**	(6)	**3**	-
Transfer to retained profits	**(20)**	(10)	**(20)**	-
Balance at end of period	**76**	102	**76**	102
Foreign currency translation reserve				
Balance at beginning of period	**(860)**	(135)	**(1,267)**	(860)
Currency translation adjustments	**(180)**	(725)	**227**	(407)
Balance at end of period	**(1,040)**	(860)	**(1,040)**	(1,267)
Cash flow hedge reserve				
Balance at beginning of period	**197**	52	**302**	197
Gains/(losses) on cash flow hedging instruments	**(445)**	202	**(578)**	133
Gains/(losses) transferred to the income statement	**(94)**	7	**(112)**	18
Tax on cash flow hedging instruments	**164**	(64)	**210**	(46)
Balance at end of period	**(178)**	197	**(178)**	302
Equity based payments reserve				
Balance at beginning of period	**451**	227	**572**	451
Current period equity based payments expense	**224**	219	**93**	131
Tax on equity based payments	**(12)**	5	**(2)**	(10)
Balance at end of period	**663**	451	**663**	572

	Year to		Half Year to	
	Sep 08	Sep 07	Sep 08	Mar 08
	$m	$m	$m	$m
General reserve for credit losses (1)				
Balance at beginning of period	**325**	135	**116**	325
Transfer from/(to) retained profits	**(325)**	190	**(116)**	(209)
Balance at end of period	**-**	325	**-**	116

(1) *From 1 July 2006, a General Reserve for Credit Losses was established to align with APRA's proposed benchmark of 0.5% of collective provisions on a post tax basis to credit risk-weighted assets under Basel I. As at 30 September 2008 this has been reversed now that the Group is accredited under Basel II. The General Reserve for Credit Losses has been appropriated from Retained Profits.*

	Year to		Half Year to	
	Sep 08	Sep 07	Sep 08	Mar 08
	$m	$m	$m	$m
Available for sale investments reserve				
Balance at beginning of period	**(10)**	(2)	**9**	(10)
Net revaluation losses	**(48)**	(48)	**(31)**	(17)
Impairment transferred to the income statement	**93**	40	**45**	48
Deferred income taxes	**(4)**	-	**8**	(12)
Balance at end of period	**31**	(10)	**31**	9

	Year to		Half Year to	
	Sep 08	Sep 07	Sep 08	Mar 08
Reconciliation of Movement in Retained Profits	$m	$m	$m	$m
Balance at beginning of period	**16,059**	14,461	**17,494**	16,059
Actuarial gains/(losses) on defined benefit plans	**4**	444	**(143)**	147
Income tax on items taken directly to or transferred directly from equity	**4**	(143)	**45**	(41)
Net profit attributable to members of the Company	**4,536**	4,578	**1,849**	2,687
Total available for appropriation	**20,603**	19,340	**19,245**	18,852
Transfer from/(to) general reserve	**(131)**	(179)	**(190)**	59
Transfer from asset revaluation reserve	**20**	10	**20**	-
Transfer from/(to) general reserve for credit losses	**325**	(190)	**116**	209
Dividends paid	**(2,995)**	(2,639)	**(1,526)**	(1,469)
Distributions on other equity instruments	**(312)**	(283)	**(155)**	(157)
Balance at end of period	**17,510**	16,059	**17,510**	17,494

13. Notes to the Cash Flow Statement

(a) Reconciliation of net profit attributable to members of the members of the Company to net cash used in operating activities

	Year to		Half Year to	
	Sep 08	Sep 07	Sep 08	Mar 08
	$m	$m	$m	$m
Net profit attributable to members of the Company	4,536	4,578	1,849	2,687
Add/(deduct):				
(Increase)/decrease in interest receivable	(481)	(780)	24	(505)
Increase in interest payable	1,395	922	785	610
Increase in unearned income and deferred net fee income	366	476	323	43
Fair value movements				
Assets, liabilities and derivatives held at fair value	4,329	552	4,246	83
Net adjustment to bid/offer valuation	59	(32)	36	23
(Decrease)/increase in personnel provisions	(92)	(51)	71	(163)
(Decrease)/increase in other operating provisions	71	(187)	248	(177)
Equity based payments recognised in equity or reserves	225	224	94	131
Superannuation costs - defined benefit pension plans	(7)	16	(8)	1
Impairment losses on non-financial assets	32	68	2	30
Impairment losses on financial assets	93	-	93	-
Charge to provide for bad and doubtful debts	2,703	790	1,763	940
Increase in provision for new business	106	-	-	106
Depreciation and amortisation expense	529	527	265	264
Revaluation losses on exchangeable capital units	-	79	-	-
Movement in life insurance policyholder liabilities	(6,060)	8,077	(2,951)	(3,109)
Unrealised loss/(gain) on investments relating to life insurance business	11,561	(1,495)	5,401	6,160
Decrease/(increase) in other assets	231	(4,841)	(20)	251
(Decrease)/increase in other liabilities	(340)	139	(175)	(165)
Decrease in income tax payable	(546)	(156)	(474)	(72)
(Decrease)/increase in deferred tax liabilities	(516)	(80)	149	(665)
(Increase)/decrease in deferred tax assets	(1,455)	88	(1,186)	(269)
Deduct: Operating cash flow items not included in profit	(7,232)	(10,021)	6,392	(13,624)
(Deduct)/add: Investing or financing cash flows included in profit				
(Profit)/loss on investments classified as available for sale and held to maturity	(280)	8	(38)	(242)
Profit on sale of property, plant, equipment and other assets	(24)	(32)	(7)	(17)
Net cash provided by/(used in) operating activities	9,203	(1,131)	16,882	(7,679)

(b) Reconciliation of cash and cash equivalents

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

	Year to		Half Year to	
	Sep 08	Sep 07	Sep 08	Mar 08
Cash and cash equivalents	$m	$m	$m	$m
Assets				
Cash and liquid assets (excluding money at short call)	18,209	12,796	18,209	12,256
Treasury and other eligible bills	79	424	79	459
Due from other banks (excluding mandatory deposits with supervisory central banks)	46,924	25,016	46,924	39,065
	65,212	38,236	65,212	51,780
Liabilities				
Due to other banks	(52,423)	(42,566)	(52,423)	(50,557)
Total cash and cash equivalents	12,789	(4,330)	12,789	1,223

(c) Non-cash financing and investing activities

	Year to Sep 08 $m	Year to Sep 07 $m	Half Year to Sep 08 $m	Half Year to Mar 08 $m
New share issues				
Dividend reinvestment plan	**1,666**	-	**1,558**	108
Bonus share plan	**86**	103	**40**	46
Movement in assets under finance lease	**34**	21	**(7)**	41

(d) Acquisitions of controlled entities

The following acquisitions were made during the year to September 2008:

- on 31 October 2007, the Group acquired 100% of Austcorp 670 Hunter Street Fund for cash consideration.
- on 2 November 2007, the Group acquired 90% of New City Living Japan KK for cash consideration.
- on 9 November 2007, MLC Limited acquired 51% of Northward Capital Pty Ltd for cash consideration.
- on 3 June 2008, National Americas Investment Inc. acquired 100% of a regional bank, Great Western Bancorporation, the holding company of Great Western Bank, based in the United States; and
- on 7 August 2008, the Group acquired 70% of an investment property business, NabInvest Oxley Singapore Pty Ltd.

The operating results of the acquired entities have been included in the Group's consolidated income statement from their acquisition dates. Details of the acquisitions were as follows:

Cost of acquisition	Great Western Bank Year to Sep 08 $m	Great Western Bank Year to Sep 07 $m	Other Businesses Year to Sep 08 $m	Other Businesses Year to Sep 07
Cash paid	**924**	-	**101**	-
Deferred cash consideration	**94**	-	**-**	-
Direct costs of acquisition	**10**	-	**-**	-
Total cost of acquisitions	**1,028**	-	**101**	-

	Great Western Bank Year to Sep 08 Fair value $m	Great Western Bank Year to Sep 08 Carrying value $m	Other Businesses Year to Sep 08 Fair value $m	Other Businesses Year to Sep 08 Carrying value
Cash and liquid assets	227	227	13	13
Due from other banks	72	72	-	-
Investments - available for sale	678	678	2	2
Loans and advances	3,257	3,281	-	-
Property, plant and equipment	81	83	-	-
Goodwill and other intangible assets	82	109	1	1
Deferred tax assets	9	27	-	-
Other assets	33	33	333	333
Due to other banks	-	-	(249)	(249)
Deposits and other borrowings	(4,030)	(4,035)	(24)	(24)
Bonds, notes and subordinated debt	(51)	(51)	-	-
Other liabilities	(83)	(83)	(4)	(4)
Net identifiable assets and liabilities	275	341	72	72
Goodwill on acquisition	753		29	
Total purchase consideration	1,028		101	
Less: Deferred consideration	(94)		-	
Less: Cash and cash equivalents acquired				
Cash and liquid assets	(227)		(13)	
Due from other banks	(72)		-	
Due to other banks	-		249	
Net cash outflow	635		337	

There were no other material entities over which the Group gained control during the year 30 September 2008. The Group holds no material interests in associates or joint venture entities as at 30 September 2008. Refer to Note 1 for change in accounting policy.

14. Life Insurance Operations

Income Statement Items	Year to Sep 08 $m	Year to Sep 07 $m	Half Year to Sep 08 $m	Half Year to Mar 08 $m
Premium and related revenue	**780**	714	**400**	380
Investment revenue	**(10,162)**	8,177	**(4,010)**	(6,152)
Fee income	**530**	543	**249**	281
Claims expense	**(492)**	(515)	**(253)**	(239)
Change in policy liabilities	**8,378**	(6,313)	**3,245**	5,133
Policy acquisition and maintenance expense	**(817)**	(828)	**(410)**	(407)
Investment management expense	**(34)**	(20)	**(18)**	(16)
Net life insurance income	**(1,817)**	1,758	**(797)**	(1,020)
(Profit)/loss before income tax expense attributable to the life insurance statutory funds and their controlled trusts	**2,254**	(1,900)	**962**	1,292
Income tax expense/(benefit) attributable to the statutory funds of the life insurance business	**(1,189)**	583	**(561)**	(628)
Net (profit)/loss attributable to minority interest	**1,428**	(994)	**584**	844

Related Balance Sheet Items	As at 30 Sep 08 $m	As at 31 Mar 08 $m	As at 30 Sep 07 $m
Investments relating to life insurance business	**52,896**	57,346	62,630
Life policy liabilities	**46,150**	49,580	53,097
Managed fund units on issue	**7,406**	7,673	8,116

In accordance with Australian accounting standards, 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 Managed fund units on issue represent amounts owed to policy holders and unit holders of consolidated trusts. Movements in these liabilities reflect policy and unit holders' share in the performance of investment assets and accordingly the share of net life insurance income.

Negative investment market experience within domestic and global financial markets over the course of the 30 September 2008 full year has had a significant impact upon individual components of the Group's life insurance operations as follows:

- a reduction in investment revenue attributable to unit linked investments and life insurance business that is largely offset by movements in amounts owing to policyholders.
- a reduction in investment revenue attributable to equity investment holdings in consolidated trusts. The minority interest holders of the trusts share in these losses; their share is reflected as the Net loss attributable to minority interests and therefore increases Net profit attributable to members of the company.
- the Income tax expense attributable to life insurance business includes both policyholder and shareholder tax across a range of products and is impacted by the negative earnings for both policyholders and shareholders.

15. Contingent Liabilities and Commitments

Legal Proceedings

Entities within the Group are defendants from time to time in legal proceedings arising from the conduct of their business.

The Group does not consider that the outcome of any proceedings, either individually or in aggregate, is likely to have a material effect on its financial position. Where appropriate, provisions have been made.

There are contingent liabilities in respect of claims, potential claims and court proceedings against entities of the Group. The aggregate of potential liability in respect thereof cannot be accurately assessed.

Exchangeable capital units capital raising

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

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

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

In accordance with ATO practice on disputed assessments, the Group has paid 50% of the amounts owing under the amended assessments, a total of $307 million. These payments have been recognised as an asset by the Group in its accounts, included within other assets, on the basis that the Group expects recovery of the amount paid to the ATO. Interest may accrue on the unpaid disputed amounts. The Group has not tax-effected interest paid on the ExCaps after 1 October 2003 whilst the tax treatment is in dispute. As the ExCaps have now been redeemed no additional income tax expense arose for the 2008 year (compared to additional income tax expense of $7 million in the 2007 year).

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

New Zealand structured finance transactions

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

As part of this review, subsidiaries of the Group have received amended tax assessments for the 1998 to 2005 years from the IRD with respect to certain structured finance transactions. The amended assessments are for income tax of approximately NZ$416 million. As at 30 September 2008, interest of NZ$217 million (net of tax) would be payable on this amount. The possible application of penalties has yet to be considered by the IRD.

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

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

The financial effect of the unpaid balance of the amounts owing under the amended assessments has not been brought to account in the financial statements for the year ended 30 September 2008.

Wealth Management Reinsurance

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

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

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

In accordance with ATO practice on disputed assessments, the Group has paid 50% of the amounts owing under the amended assessments. This payment has been recognised as an asset by the Group in its accounts as at 30 September 2008 on the basis that the Group expects full recovery of the amount paid to the ATO. Interest may accrue on the unpaid disputed amount. No provision has been raised for this matter.

Objections have been lodged disputing the ATO's amended assessments. The objections are currently being considered by the ATO. The Group has made further submissions to the ATO in support of its position. The ATO has advised that they are likely to determine the objections by the end of October 2008. Should the objections be determined unfavourably by the ATO, the Group intends to pursue all necessary avenues of appeal.

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

The Office of Fair Trading investigation into the operation of the personal current account market in the UK was published on 16 July 2008 and highlighted perceived issues of transparency and switching. The OFT has invited responses by 31 October 2008 and will consult further with the banking industry, consumer groups and the government to decide on what steps need to be taken and by whom. In parallel with the market study, the OFT has been undertaking a cost study in relation to a number of banks to inform an assessment of whether charges are fair under the Unfair Terms in Consumer Contracts Regulations 1999.

The bank charges legal test case also continues. In July 2008 the Court heard argument on two aspects namely, whether the initial finding that current terms and conditions are capable of an assessment under the Regulations applies to historic terms and conditions and, secondly, whether certain historic terms and conditions amount to penalties at common law. On 8 October 2008 the Judge ruled that the bank was entitled to a declaration that none of its terms and conditions examined by the Court amount to penalties at common law.

The appeal against the finding made by the Court in April to the effect that the terms and conditions are capable of being assessed for fairness under the Regulations will be heard in late October and early November 2008. In the meantime, the FSA has extended the waiver (under the terms of which Banks do not have to process claims for a return of charges where no financial hardship is involved) until January 2009.

Financial Services Compensation Scheme

In late September, after breaching regulatory requirements, Bradford & Bingley (B&B) was taken into public ownership. The cost of guaranteeing B&B's deposits will be met by the Financial Services Compensation Scheme, of which the Clydesdale Bank is a member. At present we do not have clarity upon the financial implications for the Group, as the value at which any future levy may be raised is dependent upon the future performance of the B&B loan portfolio.

Compliance Statement

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

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

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

Michaela Healey
Company Secretary

21 October 2008

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Section 6

Supplementary Information

1. Disclosures on Special Purpose Entities

The following supplementary disclosures are based on Financial Stability Forum (FSF) recommendations that were included in its report dated 7 April 2008 entitled *Enhancing Market and Institutional Resilience*.

(a) Special purpose entities (SPEs)

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 programmes (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, primarily through SPEs (conduits) that provide funding for 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 AIFRS as the derecognition criteria is not met. Refer Note 8 in Section 5.

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 multi-seller 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, as well as rated securities arbitrage assets (purchased assets). Each SPE funds the acquisition of assets by the issuance of debt securities directly into the market or via an issuing entity. Securities issued to external investors are usually in the form of commercial paper and medium term notes. Standby liquidity facilities are typically made available to the SPE to fund acquired assets in the event that commercial paper cannot be reissued to external investors. Ordinary equity in the SPE is typically held by a third party.

Most of the transactions in which the Group is involved are asset backed commercial paper (ABCP) transactions through its sponsored conduits 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, asset liquidity provider, warehouse facilities and derivative provider and dealer for these transactions.

The NAB sponsored conduits have now been consolidated in the financial statements as a consequence of a change to the Group's existing accounting policy on consolidation. Full details on this change in accounting policy are provided with the Financial Report in Section 5.

Non-NAB sponsored conduits for third parties 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 role is limited to provision of standby liquidity facilities and, in some cases, other support facilities to fund acquired assets in the event that commercial paper cannot be reissued to external investors. These entities are generally not consolidated, with liquidity facilities being included in loans and advances.

Standby liquidity facilities

The Group's conduit business model is based around the form of business origination. Assets fall into two origination categories: purchased assets, which were acquired on set investment criteria to seed a new conduit and/or achieve critical mass; and client originated assets, which were originated as part of a broader client relationship. Historically, conduit funding delivered to the client cost effective and flexible financing alternatives. Assets are categorised by origination type and then by asset class, resulting in the grouping of assets based on common features and risks.

Table 1 shows the conduit standby liquidity facility limits extended by the Group to both NAB-sponsored and non-NAB sponsored SPEs, the amount drawn and available to be drawn under the liquidity facility to repay outstanding commercial paper, and related provisions. It also shows the total securities issued by the conduits including asset backed commercial paper and medium term notes, the non-cash carrying value of assets on the Group's balance sheet, and the associated fair value. The standby liquidity facilities are only available to fund repayment of outstanding commercial paper in cases where it cannot be rolled.

Note: unutilised limit over and above the drawn and available amount cannot be accessed to fund additional assets until commercial paper is reissued.

Table 1	**Group liquidity facilities**					**Conduit**		
As at 30 September 2008	**Limit $m**	**Drawn & available[1] $m**	**Drawn-down**	**Specific Provision[2] $m**	**Collective Provision[2] $m**	**Securities on issue[3] $m**	**Asset carrying value[4] $m**	**Fair value[5] $m**
SPE Purchased ABS CDOs								
Super-senior note holder	325	**310**	310			-	310	103
Junior note holder	13	**13**	13			-	13	28
Total SPE purchased ABS CDOs [6]	338	**323**	323	(131)		-	323	131
SPE other purchased assets								
Infrastructure (credit wrapped bonds)	389	**377**	377			59	435	422
Leveraged loans (CLOs)	1,901	**1,814**	1,725			88	1,814	1,511
Commercial property (CMBS)	883	**841**	841			-	841	731
Corporates (SCDO)	1,680	**1,662**	1,662			-	1,662	1,000
Total SPE other purchased assets	4,853	**4,694**	4,605	-		147	4,752	3,664
NAB client originated assets								
Auto/equipment	2,522	**1,727**	373			1,371	1,712	1,704
Credit wrapped bonds	757	**741**	741			511	1,252	1,079
Prime residential mortgage	5,415	**3,741**	889			2,852	3,732	3,732
Non-LMI prime residential mortgage	1,120	**892**	462			430	893	893
Non-conforming residential mortgage	1,322	**1,035**	528			666	1,194	1,123
Sub-prime residential mortgages	178	**178**	178			-	178	147
Subscription loans	1,721	**1,330**	-			1,329	1,321	1,321
Commercial property (CMBS)	638	**555**	169			387	555	543
NAB CLO	537	**511**	511			312	824	736
Credit wrapped ABS	1,088	**975**	-			975	970	589
Other	486	**377**	160			217	386	369
Total NAB client originated assets	15,784	**12,062**	4,011	-		9,050	13,017	12,236
Represented by:								
NAB sponsored conduits	13,881	**10,341**	3,850	-		7,492	11,329	10,548
Non-NAB sponsored conduits	1,903	**1,721**	161	-		1,558	1,688	1,688
Total NAB client originated assets [7]	15,784	**12,062**	4,011	-		9,050	13,017	12,236
Total	20,975	**17,079**	8,939	(131)	(32)	9,197	18,092	16,031

Note: footnotes appear on the following page

(1) Drawn and available represents amounts drawn-down under the standby liquidity facility, and amounts currently available to be drawn to maturing commercial paper if it cannot be rolled.

(2) The Group has undertaken a detailed asset by asset review that factors in the risk mitigation strategy on SCDOs. The detailed asset review confirmed each asset's carrying value and provisioning. No further material provisioning against this portfolio is required in the 2008 results. All conduit assets will remain subject to normal credit review processes until maturity. The collective provision relates to the entire portfolio.

(3) Securities on issue exclude amounts drawn under liquidity facilities and include ABCP issued of $8,196 million, including $56 million supported by a third party liquidity facility provider, and medium term notes of $1,001 million. Of the securities on issue, the Group holds $430 million of commercial paper issued by NAB sponsored conduits.

(4) Comprises total non-cash assets of the conduit. For non-NAB sponsored conduits, this only includes that portion of the conduit assets to which the Group is exposed through the standby liquidity facilities. This is the amount recorded on the Group's balance sheet.

(5) Consistent with Note 44 Fair value of financial instruments to the Annual Financial Report there is a requirement to disclose the net fair value of on and off-balance sheet financial instruments and this is included in the table. The estimated fair values are based on relevant information available at 30 September. 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 dislocation 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 investments 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 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 distressed 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 SCDO 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 assigns zero value to the monolines protection.

(6) As disclosed at 31 March 2008, nabCapital had an exposure of US$1.1 billion ($1.2 billion) to a portfolio of ABS CDOs that contain exposure to US sub-prime mortgage assets. Given the uncertain economic environment and rating downgrades, a collective provision of $181 million was established at 31 March 2008 in respect of this exposure. An additional provision of $830 million was established in the September 2008 half to reflect the severe deterioration in conditions in the US housing markets. The $323 million above reflects the net amount after part of the provision was written off against the asset.

(7) In the 25 July 2008 ASX announcement, drawn and available was $9 billion. The movement is comprised of a reduction for repayments and ABS CDOs write offs of $(1) billion, increase for exchange rate movements of $1 billion, increase for non-NAB sponsored conduits of $2 billion, and increase for redraws and new business of $1 billion.

Table 2 shows the total drawn and available standby liquidity facility of the Group to all conduits by geography.

Table 2 **By geographic distribution (1)**	**Australia and New Zealand $m**	**Europe $m**	**US $m**	**Asia $m**	**Other $m**	**Total drawn & available $m**
As at 30 September 2008						
SPE Purchased ABS CDOs						
Super-senior note holder	-	-	310	-	-	**310**
Junior note holder	-	-	13	-	-	**13**
Total SPE purchased ABS CDOs	-	-	323	-	-	**323**
SPE other purchased assets						
Infrastructure (credit wrapped bonds)	265	112	-	-	-	**377**
Leveraged loans (CLOs) (2)	-	937	876	-	1	**1,814**
Commercial property (CMBS) (3)	-	841	-	-	-	**841**
Corporates (SCDO) (4)	32	547	951	68	64	**1,662**
Total SPE other purchased assets	297	2,437	1,827	68	65	**4,694**
NAB client originated assets						
Auto/equipment	855	-	872	-	-	**1,727**
Credit wrapped bonds(5)	741	-	-	-	-	**741**
Prime residential mortgage	3,741	-	-	-	-	**3,741**
Non-LMI prime residential mortgage	404	488	-	-	-	**892**
Non-conforming residential mortgage	664	371	-	-	-	**1,035**
Sub-prime residential mortgages	-	-	178	-	-	**178**
Subscription loans	-	240	958	132	-	**1,330**
Commercial property (CMBS)	-	493	62	-	-	**555**
NAB CLO	379	109	23	-	-	**511**
Credit wrapped ABS(5)	-	-	975	-	-	**975**
Other	193	61	84	17	22	**377**
Total NAB client originated assets	6,977	1,762	3,152	149	22	**12,062**
Total exposure to standby liquidity facilities	7,274	4,199	5,302	217	87	**17,079**

(1) Location of underlying exposure i.e. the location of the ultimate borrower/reference entity.

(2) Includes nine transactions, in all but one case with exposure to the most senior class of notes, and initial subordination ranging from 27-38%. Reported losses to date range from 0% for six transactions, to 1.6% for one transaction. Excess spread available to cover ongoing losses exceeds 1% per annum.

(3) 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 38-52%. The properties securing larger loans are let with quality tenants, have low vacancy rates and good lease profiles. The loan vintages are 2006 and 2007.

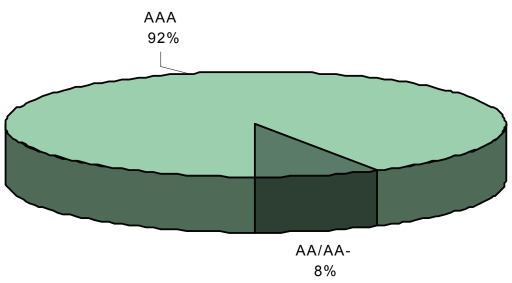
(4) Includes six credit linked notes backed by six single tranche corporate credit CDOs (portfolios of credit default swaps). Additional protection has been purchased (refer "Protection purchased to hedge exposure to SPE other purchased assets").

(5) Credit wrapped bonds and ABS are wrapped by highly rated monoline insurers.

Further analysis of standby liquidity facilities

Rating analysis

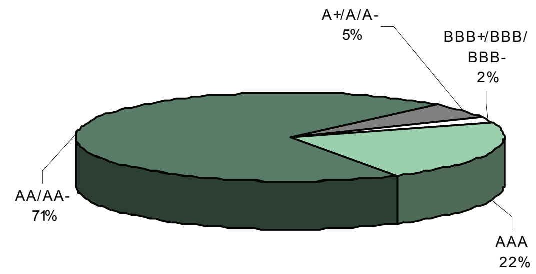
Current S&P equivalent ratings - $4.7 billion SPE other purchased assets (1)



(1) *Includes NAB internally rated assets mapped to S&P risk grades.*

The ABS CDOs of $323 million not written off is currently rated CCC-.

Current S&P equivalent ratings - $12.1 billion NAB client originated assets (1) (2)



(1) *Includes NAB internally rated assets mapped to S&P risk grades.*

(2) *The current rating of one credit wrapped bond is based on the BBB+ rating of the underlying asset.*

Asset quality information relevant to specific exposures

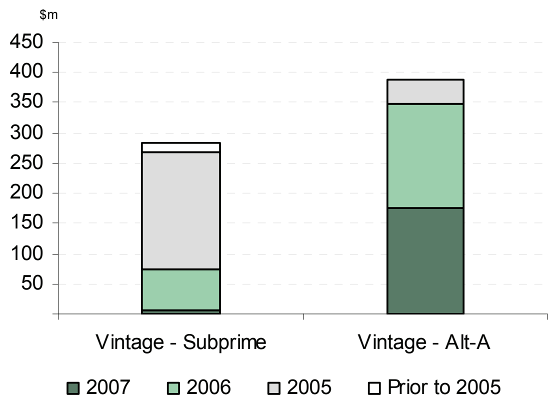
Table 3 shows asset quality and past due analysis of underlying collateral of NAB client originated assets.

Table 3 As at 30 September 2008	Weighted average term to maturity Years	Weighted average current LVR %	Mortgage insurance coverage %	Days past due 31-60 %	 61-90 %	 >90 %
NAB client originated assets						
Auto/equipment[(1)]	2.97	n/a	n/a	1.08	0.27	0.29
Prime residential mortgage	27.15	65.17	100.00	0.35	0.36	0.58
Non-LMI prime residential mortgage	27.82	72.28	0.00	2.16	1.31	0.29
Non-conforming residential mortgage	26.13	76.64	0.00	4.64	4.06	8.77
Sub-prime residential mortgages[(2)]	26.30	83.24	46.58	4.59	2.14	6.98

(1) *All auto/equipment transactions benefit from various types of credit enhancements including subordination, excess spread, etc.*

(2) *Mortgage insurance coverage on sub-prime residential mortgages at inception is shown. The >90 days percentage does not include loans in foreclosure or homes foreclosed upon but not liquidated, which together represent an additional 29% of the current principal balance.*

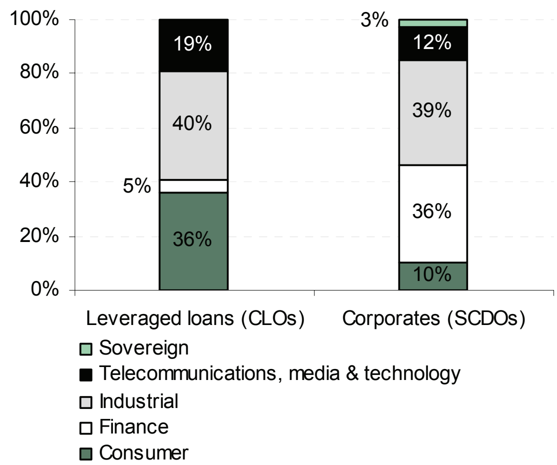
Vintage of sub-prime and Alt-A exposures (1) (2)



(1) *US sub-prime exposure of the Group was $285 million as at 30 September 2008. This amount represents $56 million included in ABS CDOs not written off, $178 million of sub-prime residential mortgage backed securities and $51 million as part of credit wrapped ABS in the NAB client originated assets.*

(2) *US Alt-A exposure of the Group was $386 million as at 30 September 2008. This amount represents $141 million included in ABS CDOs not written off, and $245 million as part of credit wrapped ABS in the NAB client originated assets.*

Industry splits - SPE other purchased assets (1) (2)



(1) *Leveraged loans (CLOs) total $1.8 billion.*

(2) *Corporates (SCDOs) total $1.7 billion.*

Conduit credit exposure to the financial guarantor sector (monoline insurers)

Table 4 summarises the indirect exposures to third party transactions supported by monoline financial guarantees and contingent risk via guaranteed investment contracts (SCDOs). In the event of monoline failure, the benefit of the financial guarantee falls away resulting in exposure to the underlying asset.

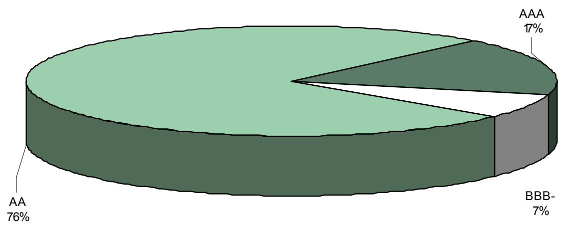
Table 4 **As at 30 September 2008**	**Carrying value of assets with exposure to monoline insurers** **$m**
Against SPE other purchased assets:	
Infrastructure (credit wrapped bonds) [(1)]	377
Guaranteed investment contracts (provided to SCDOs) [(2)]	811
Against NAB client originated assets:	
Credit wrapped bonds [(1)]	741
Credit wrapped ABS [(3)]	975
Other	44
Total	2,948

(1) *These bonds are issued by well known essential infrastructure and energy borrowers and are themselves high quality investment grade assets.*

(2) *Funds invested by conduits in three of six SCDOs have been placed in guaranteed investment contracts, which have been guaranteed by monolines resulting in a contingent exposure.*

(3) *Monoline-wrapped portfolio of ABS, some of which have also been individually monoline-wrapped.*

Current S&P equivalent rating of monolines



Protection purchased to hedge exposure to SPE other purchased assets

In September 2008 the Group completed a risk mitigation strategy in relation to the $1.6 billion of Corporates (SCDO) within its conduit portfolio. As a result, long-dated hedges have been entered into with a large, highly reputable, global bank counterparty which strengthens the Group's position and substantially reduces the likelihood of loss arising from the SCDOs. The new protection levels mean that all six SCDOs are in a significantly mitigated risk position. Subordination has been improved as a result of risk mitigation activities, and the portfolio is managed to maintain the credit quality of the tranche.

Hedging costs associated with the synthetic CDO risk mitigation strategy has lowered 2008 cash earnings by approximately $100 million. Ongoing hedge costs will approximate $60 million in cash earnings per annum for the next 5 years and a lesser amount thereafter, although the timing of recognition may vary depending on the performance of the underlying portfolio. These hedging costs are expected to be accommodated within normal levels of credit hedge spending as existing hedging strategies will be reduced as they are no longer considered optimal in a Basel II environment.

Other exposures

In addition to standby liquidity facilities discussed above, there are securitisation exposures arising from warehouse facilities (refer Table 5), asset liquidity facilities ($327 million), credit enhancements ($412 million), investments in non-NAB sponsored SPE's ($296 million), derivatives ($219 million) and redraw facilities ($15 million).

Credit enhancements are arrangements in which the Group holds a securitisation exposure that is available to absorb losses in the pool and thereby provides credit protection. Derivative transactions include interest rate and currency derivatives provided to securitisation SPEs.

Warehouse facilities are funding facilities provided to client SPEs until such time as the facility is refinanced by commercial paper conduits or the term securitisation market. Typically these facilities are reviewed annually. These facilities are in addition to standby liquidity facilities.

Table 5 shows the limit and drawn amount under the facility. All underlying exposures are in Australia and New Zealand. The undrawn limit is available to fund additional assets.

Table 5 **As at 30 September 2008**	**Limit** **$m**	**Drawn-down** **$m**
NAB client originated assets:		
Auto/equipment	116	104
Prime residential mortgage	1,859	1,340
Non-conforming residential mortgage	485	231
Other	929	850
Total warehouse facilities [(1)]	3,389	2,525

(1) *Of the drawn amount, $377 million is via consolidated NAB-sponsored conduits resulting in the recognition of the underlying asset on the balance sheet.*

Table 6 shows available asset quality and past due analysis of underlying collateral of warehouse facilities.

Table 6 **As at 30 September 2008**	**Weighted average current LVR** **%**	**Mortgage insurance coverage** **%**	**Days past due** **31-60** **%**	**Days past due** **61-90** **%**	**Days past due** **>90** **%**
NAB client originated assets					
Auto/equipment	n/a	n/a	0.43	0.15	0.49
Prime residential mortgage [(1)]	79.43	100.00	1.56	1.77	7.75
Non-conforming residential mortgage	65.78	0.00	0.66	0.33	0.33

(1) *Includes a transaction structured to invest in fully insured non-performing prime mortgages.*

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 conduits are Titan Securitisation, TSL (USA) Inc, Quasar Securitisation, CentreStar and MiraStar Securitisation);
- Manager (operator of securitisation SPEs including managing assets and liabilities and providing accounting and administrative services);
- Standby liquidity provider (a provider of liquidity available to repay ABCP if unable to reissue ABCP;
- Asset liquidity provider (a provider of liquidity to cover mismatches in cashflow for securitisation structures);
- Warehouse facility provider (a lender to securitisation SPEs pending refinance via issuance of securities);
- Derivative provider;
- Investor in securities issued;
- Letter of credit provider (a provider of credit enhancement to securitisation structures); and
- 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. Derivatives such as interest rate swaps, basis swaps or cross-currency swaps have the same accounting treatment as non-securitisation derivatives.

The Group has changed its accounting policy in relation to consolidation. Under this revised policy, NAB sponsored securitisation conduits are consolidated by the Group. Refer to Section 5 for full details of the change in accounting treatment.

(c) Funding program SPEs

The Group has established programs to raise funding from the issue of equity instruments or debt instruments.

Material funding programs of the Group that use SPEs as at 30 September 2008 are as follows:

Table 7

As at 30 September 2008	$m
Trust Preferred Securities	975
Trust Preferred Securities II	1,014
National Capital Instruments	397
BNZ Income Securities	380

The SPEs used in the above funding programs are controlled by the Group under Australian Equivalent to International Financial Reporting Standards (AIFRS) 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.

Securitisation of own assets are included in Note 8 in Section 5.

(d) Other SPEs

nabCapital is involved in transactions that involve the use of SPEs. All of these SPEs are recorded on the balance sheet.

Table 8

As at 30 September 2008	$m
Consolidated SPEs	
Investments in debt securities	4,040
Investments in property trusts	540
Funding transactions	(5,514)
Lease finance	1,444

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 and review processes and all assets continue to perform.

The Group also utilises SPEs to invest in a range of property trusts and other property related investments as well as a means to access alternate sources of funding.

Lease Financing involves extending finance to clients in order to meet their particular asset financing requirements mainly in the mining, mobile infrastructure and transport industries.

2. Net Interest Margins and Spreads

Group	Year to Sep 08 %	Year to Sep 07 %	Sep 08 v Sep 07	Half Year to Sep 08 %	Half Year to Mar 08 %	Sep 08 v Mar 08
Net interest spread [1]	**1.69**	1.79	(10bp)	**1.74**	1.64	10bp
Benefit of net free liabilities, provisions and equity	**0.50**	0.48	2bp	**0.51**	0.49	2bp
Net interest margin [2]	**2.19**	2.27	(8bp)	**2.25**	2.13	12bp

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

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

Interest earning assets	Year to Sep 08 $bn	Sep 08 Mix %	Year to Sep 07 $bn	Sep 07 Mix %	Movement in mix % of Group AIEA
Australia Banking	**255.4**	**50.4**	229.0	53.4	(3.0)
UK Region	**73.0**	**14.4**	64.9	15.1	(0.7)
NZ Region	**37.6**	**7.4**	35.2	8.2	(0.8)
nabCapital	**192.4**	**38.0**	152.6	35.6	2.4
Other [1]	**(51.9)**	**(10.2)**	(52.6)	(12.3)	2.1
Group	**506.5**	**100.0**	429.1	100.0	-

Net interest income and margins	Year to Sep 08 $m	Sep 08 NIM %	Year to Sep 07 $m	Sep 07 NIM %	NIM Change
Australia Banking	**6,188**	**2.42**	5,520	2.41	1bp
UK Region	**1,910**	**2.62**	1,982	3.06	(44bp)
NZ Region	**908**	**2.42**	864	2.45	(3bp)
nabCapital	**2,152**	**1.12**	1,134	0.74	38bp
Other [1]	**(16)**	**0.03**	265	(0.50)	53bp
Group - Ongoing operations	**11,142**	**2.20**	9,765	2.28	(8bp)
Disposed operations & MLC net interest income	**(44)**	**(0.01)**	(19)	(0.01)	0bp
Group - per income statement	**11,098**	**2.19**	9,746	2.27	(8bp)

Contribution to Group Margin	Impact of Change in NIM [2]	Impact of Change in Mix [3]	Impact on Group NIM
Australia Banking	1bp	(1bp)	**0bp**
UK Region	(7bp)	0bp	**(7bp)**
NZ Region	0bp	0bp	**0bp**
nabCapital	13bp	(3bp)	**10bp**
Other [1]	(7bp)	(4bp)	**(11bp)**
Group - Ongoing operations	0bp	(8bp)	**(8bp)**
Disposed operations & MLC net interest income	0bp	0bp	**0bp**
Group per average balance sheet	0bp	(8bp)	**(8bp)**

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

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

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

3. Loans and Advances by Industry and Geography

As at 30 September 2008	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total $m
Government and public authorities	937	91	542	44	-	**1,614**
Agriculture, forestry, fishing and mining	7,541	3,407	6,837	501	42	**18,328**
Financial, investment and insurance	9,791	3,932	1,052	3,795	858	**19,428**
Real estate - construction	998	3,234	231	640	178	**5,281**
Manufacturing	4,820	2,957	2,074	358	12	**10,221**
Real estate - mortgage	151,527	26,711	20,364	279	868	**199,749**
Instalment loans to individuals and other personal lending (including credit cards)	9,185	6,661	1,402	346	6	**17,600**
Asset and lease financing	13,433	5,034	25	-	6	**18,498**
Commercial property services	17,617	20,052	6,279	-	23	**43,971**
Other commercial and industrial	27,939	15,192	4,917	1,796	388	**50,232**
Gross loans and advances (1)	243,788	87,271	43,723	7,759	2,381	**384,922**
Acceptances	53,375	6	-	-	-	**53,381**
Gross loans and advances including acceptances	297,163	87,277	43,723	7,759	2,381	**438,303**
Deduct: Unearned income and deferred net fee income	(2,192)	(917)	(26)	(13)	(4)	**(3,152)**
Provisions for doubtful debts	(1,897)	(822)	(163)	(73)	(8)	**(2,963)**
Total net loans and advances including acceptances	293,074	85,538	43,534	7,673	2,369	**432,188**

As at 31 March 2008 (1)	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total $m
Government and public authorities	951	613	369	13	-	**1,946**
Agriculture, forestry, fishing and mining	6,489	3,412	6,075	-	25	**16,001**
Financial, investment and insurance	10,206	2,997	1,431	3,628	760	**19,022**
Real estate - construction	855	2,333	102	46	97	**3,433**
Manufacturing	4,766	2,945	1,893	416	11	**10,031**
Real estate - mortgage	146,588	25,177	20,647	-	683	**193,095**
Instalment loans to individuals and other personal lending (including credit cards)	9,260	6,340	1,479	-	72	**17,151**
Asset and lease financing	12,990	4,630	28	-	3	**17,651**
Commercial property services	15,803	17,749	5,967	-	-	**39,519**
Other commercial and industrial	26,330	13,779	4,446	175	369	**45,099**
Gross loans and advances (1)	234,238	79,975	42,437	4,278	2,020	**362,948**
Acceptances	51,090	10	-	-	-	**51,100**
Gross loans and advances including acceptances	285,328	79,985	42,437	4,278	2,020	**414,048**
Deduct: Unearned income and deferred net fee income	(1,880)	(854)	(25)	(4)	(3)	**(2,766)**
Provisions for doubtful debts	(1,732)	(662)	(160)	(23)	(4)	**(2,581)**
Total net loans and advances including acceptances	281,716	78,469	42,252	4,251	2,013	**408,701**

(1) *Presentation has been adjusted to be on a consistent basis with 30 September 2008.*

As at 30 September 2007	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total $m
Government and public authorities	699	569	320	16	-	**1,604**
Agriculture, forestry, fishing and mining	6,371	2,854	5,694	-	43	**14,962**
Financial, investment and insurance	6,928	3,112	1,347	3,228	726	**15,341**
Real estate - construction	909	1,804	79	50	61	**2,903**
Manufacturing	4,639	2,663	2,094	310	10	**9,716**
Real estate - mortgage	140,406	25,109	19,614	-	680	**185,809**
Instalment loans to individuals and other personal lending (including credit cards)	9,021	5,141	1,413	-	-	**15,575**
Asset and lease financing	12,310	5,412	28	-	6	**17,756**
Commercial property services	13,641	14,635	5,396	-	56	**33,728**
Other commercial and industrial	24,989	14,362	4,570	161	186	**44,268**
Gross loans and advances [1]	219,913	75,661	40,555	3,765	1,768	**341,662**
Acceptances	49,316	6	-	-	-	**49,322**
Gross loans and advances including acceptances	269,229	75,667	40,555	3,765	1,768	**390,984**
Deduct: Unearned income and deferred net fee income	(1,868)	(889)	(24)	(4)	(3)	**(2,788)**
Provisions for doubtful debts	(1,294)	(640)	(145)	(24)	(4)	**(2,107)**
Total net loans and advances including acceptances	266,067	74,138	40,386	3,737	1,761	**386,089**

[1] *Includes loans at fair value.*

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 paid by the Group. Averages are predominantly daily averages. Interest income figures include interest income on impaired assets to the extent cash payments have been received. Amounts classified as Other International represent interest earning assets or interest bearing liabilities of the controlled entities and overseas branches, excluding Europe. Impaired assets are included within interest earning assets within loans and advances.

Average assets and interest income

	Year ended Sep 08			Year ended Sep 07[1]		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Average interest earning assets						
Due from other banks						
Australia	**15,925**	**968**	**6.1**	12,974	723	5.6
Europe	**13,642**	**644**	**4.7**	8,364	444	5.3
Other International	**3,874**	**201**	**5.2**	4,218	252	6.0
Marketable debt securities						
Australia	**30,033**	**2,247**	**7.5**	13,684	743	5.4
Europe	**13,040**	**712**	**5.5**	6,997	270	3.9
Other International	**8,409**	**430**	**5.1**	6,674	368	5.5
Loans and advances - housing						
Australia	**145,816**	**11,697**	**8.0**	134,564	9,824	7.3
Europe	**25,065**	**1,467**	**5.9**	24,766	1,463	5.9
Other International	**20,774**	**1,708**	**8.2**	19,761	1,553	7.9
Loans and advances - non-housing						
Australia	**85,535**	**7,626**	**8.9**	70,672	5,460	7.7
Europe	**54,223**	**4,026**	**7.4**	48,029	3,589	7.5
Other International	**30,133**	**2,576**	**8.5**	23,709	2,276	9.6
Acceptances						
Australia	**51,858**	**4,315**	**8.3**	46,408	3,518	7.6
Europe	**6**	**-**	**-**	12	-	-
Other interest earning assets						
Australia	**4,592**	**576**	**n/a**	3,081	281	n/a
Europe	**1,268**	**72**	**n/a**	1,911	100	n/a
Other International	**2,315**	**120**	**n/a**	3,251	94	n/a
Total average interest earning assets and interest revenue by:						
Australia	**333,759**	**27,429**	**8.2**	281,383	20,549	7.3
Europe	**107,244**	**6,921**	**6.5**	90,079	5,866	6.5
Other International	**65,505**	**5,035**	**7.7**	57,613	4,543	7.9
Total average interest earning assets and interest revenue	**506,508**	**39,385**	**7.8**	429,075	30,958	7.2

[1] *Includes consolidation of securitisation conduits.*

Average assets and interest income

	Year ended Sep 08			Year ended Sep 07		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Average non-interest earning assets						
Investments relating to life insurance business [1]						
Australia	**58,426**			60,464		
Other International	**44**			40		
Other assets	**45,998**			34,805		
Total average non-interest earning assets	**104,468**			95,309		
Provision for doubtful debts						
Australia	**(1,586)**			(1,228)		
Europe	**(632)**			(689)		
Other International	**(329)**			(163)		
Total average assets	**608,429**			522,304		
Percentage of total average interest earning assets applicable to international operations	**34.1%**			34.4%		

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

Average liabilities and interest expense

	Year ended Sep 08			Year ended Sep 07		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Average interest bearing liabilities						
Term deposits and certificates of deposit						
Australia	82,734	5,973	7.2	47,024	2,810	6.0
Europe	34,946	1,725	4.9	28,023	1,415	5.0
Other International	29,793	2,032	6.8	27,786	1,840	6.6
On-demand and savings (short-term) deposits						
Australia	72,869	3,763	5.2	68,671	3,351	4.9
Europe	30,058	939	3.1	30,695	935	3.0
Other International	11,095	436	3.9	10,783	441	4.1
Due to other banks and official institutions						
Australia	17,966	1,150	6.4	14,193	729	5.1
Europe	22,366	973	4.4	14,005	750	5.4
Other International	8,882	350	3.9	11,388	574	5.0
Short-term borrowings						
Australia	19,225	1,168	6.1	21,624	1,125	5.2
Europe	107	5	4.7	115	6	5.2
Other International	16,459	557	3.4	8,659	426	4.9
Long-term borrowings						
Australia	75,925	5,996	7.9	61,735	3,705	6.0
Europe	11,805	700	5.9	5,749	340	5.9
Other International	6,141	291	4.7	4,889	288	5.9
Liability on acceptances						
Australia	22,755	1,466	6.4	34,404	2,164	6.3
Europe	6	-	-	6	-	-
Other interest bearing liabilities						
Australia	277	151	n/a	110	11	n/a
Europe	582	54	n/a	456	8	n/a
Other International	987	558	n/a	689	294	n/a
Total average interest bearing liabilities and interest expense by:						
Australia	291,751	19,667	6.7	247,761	13,895	5.6
Europe	99,870	4,396	4.4	79,049	3,454	4.4
Other International	73,357	4,224	5.8	64,194	3,863	6.0
Total average interest bearing liabilities and interest expense	464,978	28,287	6.1	391,004	21,212	5.4

Average liabilities and interest expense

	Year ended Sep 08			Year ended Sep 07		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Average non-interest bearing liabilities						
Deposits not bearing interest						
Australia	**9,160**			7,905		
Europe	**1,357**			1,952		
Other International	**1,368**			906		
Life insurance policy liabilities						
Australia	**49,610**			50,310		
Other liabilities	**50,853**			41,145		
Total average non-interest bearing	**112,348**			102,218		
Total average liabilities	**577,326**			493,222		

	Year ended Sep 08			Year ended Sep 07		
Average equity						
Ordinary shares	**8,503**			8,201		
Trust Preferred Securities	**975**			975		
Trust Preferred Securities II	**1,014**			1,014		
National Income Securities	**1,945**			1,945		
National Capital Instruments	**397**			397		
BNZ Income Securities	**193**			-		
Contributed equity	**13,027**			12,532		
Reserves	**594**			1,042		
Retained profits	**17,318**			15,200		
Parent entity interest	**30,939**			28,774		
Minority interest in controlled entities	**164**			308		
Total average equity	**31,103**			29,082		
Total average liabilities and equity	**608,429**			522,304		
Percentage of total average interest bearing liabilities applicable to international operations	**37.3%**			36.6%		

5. Capital Adequacy

Life Insurance and Funds Management Activities

Under guidelines issued by APRA, life insurance and funds management activities are excluded from the calculation of risk-weighted assets, and the related controlled entities are deconsolidated for the purposes of calculating capital adequacy. The intangible component of the investment in these controlled entities is deducted from Tier 1 capital, with the balance of the investment deducted 50% from Tier 1 and 50% from Tier 2 capital inder Basel II. Under Basel I, the balance of the investment was deducted 100% from the total of eligible Tier 1 and Tier 2 capital. Additionally, any profits from these activities included in the Group's results are excluded from the determination of Tier 1 capital to the extent that they have not been remitted to the company.

	As at			
		Pro forma		
	30 Sep 08	31 Mar 08	31 Mar 08	30 Sep 07
	Basel II	Basel II	Basel I	Basel I
Reconciliation to shareholder's funds	$m	$m	$m	$m
Contributed equity	**14,731**	12,643	12,643	12,441
Reserves	**549**	525	641	1,071
Retained profits	**17,510**	17,610	17,494	16,059
Minority interest	**56**	27	27	314
Total equity per consolidated balance sheet	**32,846**	30,805	30,805	29,885
Liability-accounted Residual Tier 1 hybrid capital [1]	**1,311**	1,285	1,285	642
Treasury shares	**1,026**	1,134	1,134	1,080
Eligible deferred fee income	**267**	249	249	227
Revaluation reserves	**(107)**	(111)	(111)	(102)
General reserve for credit losses [2]	**-**	-	(116)	(325)
Estimated final dividend	**(1,670)**	(1,583)	(1,583)	(1,540)
Estimated reinvestment under dividend reinvestment plan and bonus share plan	**685**	728	728	172
Deconsolidation of Wealth Management profits (net of dividends)	**(324)**	(70)	(70)	(349)
Profit on sale arising from Wealth Management restructure [3]	**-**	-	-	451
Adjusted total equity for capital purposes	**34,034**	32,437	32,321	30,141
Banking goodwill	**(1,333)**	(1,247)	(1,247)	(565)
Wealth Management goodwill and other intangibles	**(3,895)**	(3,897)	(3,897)	(3,901)
DTA (excluding DTA on the collective provision for doubtful debts) [4]	**(908)**	(309)	(309)	(166)
Non qualifying minority interest	**(2)**	(27)	(27)	(314)
Capitalised expenses [5]	**(198)**	(130)	(130)	(92)
Capitalised software (excluding Wealth Management)	**(956)**	(902)	(902)	(864)
Defined benefit pension surplus	**(423)**	(419)	(419)	(348)
Change in own creditworthiness	**(172)**	(70)	(70)	(10)
Cash flow hedge reserve	**178**	(302)	(302)	(197)
Deductions taken 50% from Tier 1 and 50% from Tier 2				
Investment in non-consolidated controlled entities (net of intangible component)	**(575)**	(538)	-	-
Expected loss in excess of eligible provisions	**(303)**	(466)	-	-
Other securitisation deductions	**(204)**	(357)	-	-
Residual Tier 1 capital in excess of APRA limits - qualifies as Upper Tier 2 capital	**-**	(575)	-	-
Tier 1 capital	**25,243**	23,198	25,018	23,684

	As at			
		Pro forma		
	30 Sep 08	31 Mar 08	31 Mar 08	30 Sep 07
	Basel II	Basel II	Basel I	Basel I
	$m	$m	$m	$m
Collective provision for doubtful debts [6]	**420**	447	1,782	1,432
General reserve for credit losses [2]	**-**	-	116	325
Revaluation reserves	**48**	50	50	46
Perpetual floating rate notes	**312**	272	272	283
Residual Tier 1 capital in excess of APRA limits - qualifies as Upper Tier 2 capital	**-**	575	-	-
Dated subordinated debt	**12,621**	11,373	11,373	11,035
Deductions taken 50% from Tier 1 and 50% from Tier 2				
Investment in non-consolidated controlled entities (net of intangible component)	**(575)**	(538)	-	-
Expected loss in excess of eligible provisions	**(303)**	(466)	-	-
Other securitisation deductions	**(204)**	(357)	-	-
Tier 2 capital	**12,319**	11,356	13,593	13,121
Investment in non-consolidated controlled entities (net of intangible component)	**-**	-	(1,075)	(1,075)
Securitisation - first loss	**-**	-	(227)	(238)
Total capital deductions	**-**	-	(1,302)	(1,313)
Total capital	**37,562**	34,554	37,309	35,492
Risk-weighted assets - credit risk	**310,131**	307,606	379,706	351,410
Risk-weighted assets - market risk	**5,088**	4,712	4,712	3,856
Risk-weighted assets - operational risk	**23,649**	24,080	-	-
Risk-weighted assets - interest rate risk in the banking book	**4,643**	-	-	-
Total risk-weighted assets	**343,511**	336,398	384,418	355,266
Risk adjusted capital ratios				
Tier 1	**7.35%**	6.90%	6.51%	6.67%
Tier 2	**3.59%**	3.38%	3.54%	3.69%
Deductions	**0.00%**	0.00%	(0.34%)	(0.37%)
Total capital	**10.93%**	10.27%	9.71%	9.99%

	As at			
		Pro forma		
	30 Sep 08	31 Mar 08	31 Mar 08	30 Sep 07
	Basel II	Basel II	Basel I	Basel I
Regulatory capital summary	$m	$m	$m	$m
Fundamental Tier 1 capital	**28,012**	26,441	26,325	25,168
Non-innovative residual Tier 1 capital	**2,242**	1,945	1,945	1,945
Innovative residual Tier 1 capital	**3,780**	4,051	4,051	3,028
Residual Tier 1 capital in excess of APRA limits - qualifies as Upper Tier 2 capital	**-**	(575)	-	-
Total residual Tier 1 capital	**6,022**	5,421	5,996	4,973
Tier 1 deductions	**(8,791)**	(8,664)	(7,303)	(6,457)
Tier 1 capital	**25,243**	23,198	25,018	23,684
Tier 2 capital	**12,319**	11,356	13,593	13,121
Other deductions	**-**	-	(1,302)	(1,313)
Total capital	**37,562**	34,554	37,309	35,492

(1) *Residual Tier 1 capital instrument that is classified as debt for accounting purposes but qualifies as Tier 1 capital for regulatory purposes. This includes National Capital Instruments issued in Septebmer 2006, Residual Tier 1 Convertible Notes issued in December 2007 and September 2008, Reidual Tier 1 Stapled Securities issued in September 2008.*

(2) *The general reserve for credit losses is an APRA requirement under Basel I. It is a specific reserve and the collective provision for doubtful debts on a post-tax basis is equal to 0.5% of credit risk-weighted assets. This is an appropriation from retained profits to non distributable reserves. It is a deduction from Tier 1 capital and qualifies as Tier 2 capital. It is no longer a deduction under Basel II.*

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

(4) *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.*

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

(6) *Under Basel II, this only includes the component of the Group's collective provision relating to securitisation exposure and assets where RWAs are calculated under the standardised approach.*

	As at			
		Pro forma		
	30 Sep 08	31 Mar 08	31 Mar 08	30 Sep 07
	Basel II	Basel II	Basel I	Basel I
Adjusted common equity ratio reconciliation	$m	$m	$m	$m
Tier 1 capital	**25,243**	23,198	25,018	23,684
Non-innovative residual Tier 1 capital	**(2,242)**	(1,945)	(1,945)	(1,945)
Innovative residual Tier 1 capital	**(3,780)**	(4,051)	(4,051)	(3,028)
Residual Tier 1 capital in excess of APRA limits (not included in Tier 1 capital)	**-**	575	-	-
Other deductions	**(1,082)**	(1,361)	(1,302)	(1,313)
Adjusted common equity	**18,139**	16,416	17,720	17,398
Total risk-weighted assets	**343,511**	336,398	384,418	355,266
Adjusted common equity ratio	**5.28%**	4.88%	4.61%	4.90%

Wealth Management capital adequacy position

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

Risk adjusted assets and off-balance sheet exposures

	Balance[1] as at		Risk-adjusted balance as at	
		Pro forma		Pro forma
	30 Sep 08	31 Mar 08	30 Sep 08	31 Mar 08
Basel II	$m	$m	$m	$m
Credit risk				
Bank	**96,983**	88,491	**11,482**	8,866
Residential mortgage	**197,704**	183,891	**44,977**	40,129
Corporate	**140,091**	151,671	**97,628**	96,109
Other retail	**2,951**	2,807	**2,966**	2,775
Qualifying revolving retal	**11,515**	11,581	**4,537**	4,600
Corporate SME	**87,854**	104,487	**51,767**	62,193
Specialised lending	**16,999**	14,925	**14,675**	13,942
Standardised	**121,084**	103,230	**68,494**	59,436
Securitisation	**24,987**	19,509	**5,983**	4,750
Other assets	**9,324**	18,543	**7,622**	14,806
Total credit risk-adjusted assets	**709,492**	699,135	**310,131**	307,606
Add:				
Market risk-adjusted assets			**5,088**	4,712
Operational risk-adjusted assets			**23,649**	24,080
Interest rate risk in the banking book risk-adjusted assets			**4,643**	-
Total assessed risk exposure			**343,511**	336,398

(1) *Exposure at Default (EaD) is calculated for a specific facility type, based on the Group's internal data, including estimated conversion factors for off balance sheet exposures. EaD estimates the probable exposure (including principal, fees and interest owed at the time of default) likely to be outstanding should a default occur in the next 12 months.*

6. Earnings per Share

Earnings per Share	Year to Sep 08 Basic	Year to Sep 08 Diluted [1]	Year to Sep 07 Basic	Year to Sep 07 Diluted [1]
Earnings ($m)				
Net profit attributable to members of the Company	**4,536**	**4,536**	4,578	4,578
Distributions on other equity instruments	**(312)**	**(312)**	(283)	(283)
Potential dilutive adjustments				
Interest expense on convertible notes (after tax)	**-**	**1**	-	-
Adjusted earnings	**4,224**	**4,225**	4,295	4,295
Weighted average ordinary shares (no. '000)				
Weighted average ordinary shares	**1,642,935**	**1,642,935**	1,623,858	1,623,858
Treasury shares	**(35,285)**	**(31,006)**	(27,228)	(27,228)
Potential dilutive ordinary shares				
Performance options and performance rights	**-**	**1,046**	-	1,836
Partly paid ordinary shares	**-**	**159**	-	210
Employee share plans	**-**	**6,073**	-	1,717
Convertible notes	**-**	**207**	-	-
Total weighted average ordinary shares	**1,607,650**	**1,619,414**	1,596,630	1,600,393
Earnings per share (cents)	**262.7**	**260.9**	269.0	268.4

(1) During the years ended 30 September 2008 and 30 September 2007, the impact of some convertible notes and exchangable capital units has not been included in the diluted earnings pe share because they were anti-dilutive.

Earnings per Share	Half Year to Sep 08 Basic	Half Year to Sep 08 Diluted [1]	Half Year to Mar 08 Basic	Half Year to Mar 08 Diluted [1]
Earnings ($m)				
Net profit attributable to members of the Company	**1,849**	**1,849**	2,687	2,687
Distributions on other equity instruments	**(155)**	**(155)**	(157)	(157)
Adjusted earnings	**1,694**	**1,694**	2,530	2,530
Weighted average ordinary shares (no. '000)				
Weighted average ordinary shares	**1,660,192**	**1,660,192**	1,626,106	1,626,106
Treasury shares	**(41,331)**	**(35,161)**	(33,508)	(29,712)
Potential dilutive ordinary shares				
Performance options and performance rights	**-**	**793**	-	604
Partly paid ordinary shares	**-**	**148**	-	174
Employee share plans	**-**	**6,073**	-	3,148
Total weighted average ordinary shares	**1,618,861**	**1,632,045**	1,592,598	1,600,320
Earnings per share (cents)	**104.6**	**103.8**	158.9	158.1

(1) During the half years ended 30 September 2008 and 31 March 2008, the impact of convertible notes has not been included in the diluted earnings per share because they were anti-dilutive.

	Year to			
	Sep 08		Sep 07	
Cash Earnings per Share	Basic	Diluted	Basic	Diluted
Earnings ($m)				
Cash earnings [2] - ongoing operations	**3,916**	**3,916**	4,386	4,386
Potential dilutive adjustments				
Interest expense on exchangeable capital units (after tax)	**-**	**-**	-	9
Adjusted cash earnings	**3,916**	**3,916**	4,386	4,395
Weighted average ordinary shares (no. '000)				
Weighted average ordinary shares	**1,642,935**	**1,642,935**	1,623,858	1,623,858
Potential dilutive weighted average ordinary shares				
Performance options and performance rights	**-**	**1,046**	-	1,836
Partly paid ordinary shares	**-**	**159**	-	210
Employee share plans	**-**	**6,073**	-	1,717
Exchangeable capital units	**-**	**-**	-	8,991
Total weighted average ordinary shares	**1,642,935**	**1,650,213**	1,623,858	1,636,612
Cash earnings per share (cents)	**238.4**	**237.3**	270.1	268.5

(2) *Refer to Section 6 'Supplementary Information' for a reconciliation of cash earnings to Group net profit.*

	Half Year to			
	Sep 08		Mar 08	
Cash Earnings per Share	Basic	Diluted	Basic	Diluted
Earnings ($m)				
Cash earnings [2] - ongoing operations	**1,679**	**1,679**	2,237	2,237
Adjusted cash earnings	**1,679**	**1,679**	2,237	2,237
Weighted average ordinary shares (no. '000)				
Weighted average ordinary shares	**1,660,192**	**1,660,192**	1,626,106	1,626,106
Potential dilutive weighted average ordinary shares				
Performance options and performance rights	**-**	**793**	-	604
Partly paid ordinary shares	**-**	**148**	-	174
Employee share plans	**-**	**6,073**	-	3,148
Total weighted average ordinary shares	**1,660,192**	**1,667,206**	1,626,106	1,630,032
Cash earnings per share (cents)	**101.1**	**100.7**	137.6	137.2

(2) *Refer to Section 6 'Supplementary Information' for a reconciliation of cash earnings to Group net profit.*

7. Number of Ordinary Shares

	Year to Sep 08 No. '000	Year to Sep 07 No. '000
Ordinary shares, fully paid		
Balance at beginning of period	**1,621,066**	1,609,898
Shares issued		
Dividend reinvestment plan [(1)]	**60,395**	-
Bonus share plan	**2,590**	2,634
Debt conversion to equity	**25,450**	-
Employee share plans	**7,179**	1,339
Executive option plan no. 2	**899**	2,194
Exchangeable capital units converted	**-**	34,199
Paying up of partly paid shares	**48**	117
Shares bought back	**-**	(29,315)
	1,717,627	1,621,066
Ordinary shares, partly paid to 25 cents		
Balance at beginning of period	**273**	390
Paying up of partly paid shares	**(48)**	(117)
	225	273
Total number of ordinary shares on issue at end of period (including treasury shares)	**1,717,852**	1,621,339
Less: treasury shares	**(43,108)**	(27,463)
Total number of ordinary shares on issue at end of period (excluding treasury shares)	**1,674,744**	1,593,876

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

	Half Year to Sep 08 No. '000	Half Year to Mar 08 No. '000
Ordinary shares, fully paid		
Balance at beginning of period	**1,631,770**	1,621,066
Shares issued		
Dividend reinvestment plan	**57,647**	2,748
Bonus share plan	**1,426**	1,164
Debt conversion to equity	**25,450**	-
Employee share plans	**1,286**	5,893
Executive option plan no. 2	**39**	860
Paying up of partly paid shares	**9**	39
	1,717,627	1,631,770
Ordinary shares, partly paid to 25 cents		
Balance at beginning of period	**234**	273
Paying up of partly paid shares	**(9)**	(39)
	225	234
Total number of ordinary shares on issue at end of period (including treasury shares)	**1,717,852**	1,632,004
Less: treasury shares	**(43,108)**	(39,554)
Total number of ordinary shares on issue at end of period (excluding treasury shares)	**1,674,744**	1,592,450

8. Exchange Rates

	Income Statement - average				Balance Sheet - spot		
	Year to		Half Year to		As at		
	Sep 08	Sep 07	Sep 08	Mar 08	Sep 08	Mar 08	Sep 07
British Pounds	**0.4602**	0.4105	**0.4740**	0.4465	**0.4443**	0.4604	0.4366
Euros	**0.6031**	0.6075	**0.5969**	0.6093	**0.5581**	0.5810	0.6228
United States Dollars	**0.9069**	0.8088	**0.9161**	0.8978	**0.8019**	0.9175	0.8820
New Zealand Dollars	**1.1934**	1.1343	**1.2308**	1.1561	**1.1931**	1.1555	1.1669

9. Australian Life Company Margins

Sources of Operating Profit from Australian Life Companies life insurance funds	Year to Sep 08 $m	Sep 07 $m	Sep 08 v Sep 07 %	Half Year to Sep 08 $m	Mar 08 $m	Sep 08 v Mar 08 %
Life company - planned profit margins	**279**	238	17.2	**146**	133	9.8
Life company - experience profit	**21**	45	(53.3)	**(8)**	29	large
Capitalised (losses)/ reversal of losses	**-**	5	large	**-**	-	-
Life company operating margins [(1)]	**300**	288	4.2	**138**	162	(14.8)
IoRE (after tax) [(2)]	**49**	20	large	**37**	12	large
Net profit of life insurance funds after minority interest	**349**	308	13.3	**175**	174	0.6

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

(2) *Includes investment earnings on shareholders' retained profits and capital from life businesses after minority interest of $24m (Sep 07 $64m; HY Sep 08 $16m; HY Mar 08 $8m) and IoRE discount rate variation of $25m (Sep 07 ($44M); HY Sep 08 $21m; HY Mar 08 $4m); IoRE attributable to non life insurance funds of ($37m) (Sep 07 ($25m); HY Sep 08 ($20m); HY Mar 08 ($17m)) is excluded.*

10. ASX Appendix 4E

11. Reconciliation between Statutory Net Profit after Tax and Cash Earnings

Year ended 30 September 2008	Statutory Profit $m	Net profit - Minority Interest[1] $m	MLC Adj.[1] $m	Distri-butions $m	Treasury Shares $m	Fair Value and Hedge Ineffec. $m	IoRE Disc. Rate $m	Visa IPO $m	Economic Cycle Adj. $m	New Business Initiatives $m	GWB Integration Costs $m	Disposed Operations[2] $m	Cash Earnings - Ongoing $m
Net interest income	11,098	-	33	-	-	-	-	-	-	-	-	11	**11,142**
Net life insurance income	(1,817)	1,427	871	-	(445)	-	(36)	-	-	-	-	-	**-**
Other operating income	3,849	-	(666)	-	-	119	-	(242)	-	-	-	(45)	**3,015**
MLC net operating income	-	-	1,257	-	-	-	-	-	-	-	-	-	**1,257**
Net operating income	13,130	1,427	1,495	-	(445)	119	(36)	(242)	-	-	-	(34)	**15,414**
Operating expenses	(7,280)	-	(142)	-	-	-	-	-	-	106	10	30	**(7,276)**
Operating profit pre charge to provide for doubtful debts	5,850	1,427	1,353	-	(445)	119	(36)	(242)	-	106	10	(4)	**8,138**
Charge to provide for doubtful debts	(2,703)	-	-	-	-	-	-	-	214	-	-	-	**(2,489)**
Operating Profit before tax	3,147	1,427	1,353	-	(445)	119	(36)	(242)	214	106	10	(4)	**5,649**
Income tax expense	(39)	-	(1,339)	-	70	(30)	11	17	(64)	(32)	(3)	1	**(1,408)**
Operating Profit before distributions and minority interest	3,108	1,427	14	-	(375)	89	(25)	(225)	150	74	7	(3)	**4,241**
Net profit - minority interest	1,428	(1,427)	-	-	-	-	-	-	-	-	-	-	**1**
IoRE (after tax)	-	-	(14)	-	-	-	-	-	-	-	-	-	**(14)**
Distributions	-	-	-	(312)	-	-	-	-	-	-	-	-	**(312)**
Net profit attributable to members of the Company	4,536	-	-	(312)	(375)	89	(25)	(225)	150	74	7	(3)	**3,916**

(1) *In order to align the statutory and management results for the MLC business the following significant reclassifications have been made between disclosure lines:*
- *Life operating expenses and other operating income included in the net life insurance income have been reclassified to operating expenses and MLC net operating income lines respectively.*
- *MLC non-life volume related expenses have been reclassified from operating expenses to MLC net operating income. In addition, non-life other operating income has also been reclassified to MLC net operating income.*
- *Tax on the unit linked business has been reclassified to net life insurance income from the income tax expense line to offset with the tax included in change in policy liabilities.*
- *The policyholder portion of the traditional business has been eliminated.*
- *Income on retained earnings has been reclassified from net life insurance income and income tax to a separate disclosure item.*

(2) *Represents the Group's Commercial Fleet business, which was disposed on 5 March 2008.*

11. Reconciliation between Statutory Net Profit after Tax and Cash Earnings

Year ended 30 September 2007	Statutory Profit $m	Net profit - Minority Interest[(1)] $m	MLC Adj.[(1)] $m	Distri-butions $m	Treasury Shares $m	Fair Value and Hedge Ineffec. $m	IoRE Disc. Rate $m	Excaps Gains/ Losses $m	Disposed Operations [(2)] $m	Cash Earnings - Ongoing $m
Net interest income	9,746	-	(2)	-	-	-	-	-	21	**9,765**
Net life insurance income	1,758	(994)	(958)	-	131	-	63	-	-	**-**
Other operating income	4,525	-	(761)	-	-	(226)	-	79	(98)	**3,519**
MLC net operating income	-	-	1,286	-	-	-	-	-	-	**1,286**
Net operating income	16,029	(994)	(435)	-	131	(226)	63	79	(77)	**14,570**
Operating expenses	(7,412)	-	(82)	-	-	-	-	-	66	**(7,428)**
Operating profit pre charge to provide for doubtful debts	8,617	(994)	(517)	-	131	(226)	63	79	(11)	**7,142**
Charge to provide for doubtful debts	(790)	-	-	-	-	-	-	-	-	**(790)**
Operating Profit before tax	7,827	(994)	(517)	-	131	(226)	63	79	(11)	**6,352**
Income tax expense	(2,255)	-	478	-	(8)	72	(19)	7	3	**(1,722)**
Operating Profit before distributions and minority interest	5,572	(994)	(39)	-	123	(154)	44	86	(8)	**4,630**
Net profit - minority interest	(994)	994	-	-	-	-	-	-	-	**-**
IoRE (after tax)	-	-	39	-	-	-	-	-	-	**39**
Distributions	-	-	-	(283)	-	-	-	-	-	**(283)**
Net profit attributable to members of the Company	4,578	-	-	(283)	123	(154)	44	86	(8)	**4,386**

(1) *In order to align the statutory and management results for the MLC business the following significant reclassifications have been made between disclosure lines:*
- *Life operating expenses and other operating income included in the net life insurance income have been reclassified to operating expenses and MLC net operating income lines respectively.*
- *MLC non-life volume related expenses have been reclassified from operating expenses to MLC net operating income. In addition, non-life other operating income has also been reclassified to MLC net operating income.*
- *Tax on the unit linked business has been reclassified to net life insurance income from the income tax expense line to offset with the tax included in change in policy liabilities.*
- *The policyholder portion of the traditional business has been eliminated.*
- *Income on retained earnings has been reclassified from net life insurance income and income tax to a separate disclosure item.*

(2) *Represents the Group's Commercial Fleet business, which was disposed on 5 March 2008.*

11. Reconciliation between Statutory Net Profit after Tax and Cash Earnings

Half year ended 30 September 2008	Statutory Profit $m	Net profit - Minority Interest[1] $m	MLC Adj.[1] $m	Distri-butions $m	Treasury Shares $m	Fair Value and Hedge Ineffec. $m	IoRE Disc. Rate $m	Visa IPO $m	Economic Cycle Adj. $m	New Business Initiatives $m	GWB Integration Costs $m	Disposed Operations[2] $m	Cash Earnings - Ongoing $m
Net interest income	5,820	-	18	-	-	-	-	-	-	-	-	1	**5,839**
Net life insurance income	(797)	582	412	-	(168)	-	(29)	-	-	-	-	-	**-**
Other operating income	1,444	-	(327)	-	-	208	-	-	-	-	-	-	**1,325**
MLC net operating income	-	-	611	-	-	-	-	-	-	-	-	-	**611**
Net operating income	6,467	582	714	-	(168)	208	(29)	-	-	-	-	1	**7,775**
Operating expenses	(3,614)	-	(71)	-	-	-	-	-	-	-	10	(3)	**(3,678)**
Operating profit pre charge to provide for doubtful debts	2,853	582	643	-	(168)	208	(29)	-	-	-	10	(2)	**4,097**
Charge to provide for doubtful debts	(1,763)	-	-	-	-	-	-	-	-	-	-	-	**(1,763)**
Operating Profit before tax	1,090	582	643	-	(168)	208	(29)	-	-	-	10	(2)	**2,334**
Income tax expense	175	-	(638)	-	23	(64)	9	-	-	-	(3)	1	**(497)**
Operating Profit before distributions and minority interest	1,265	582	5	-	(145)	144	(20)	-	-	-	7	(1)	**1,837**
Net profit - minority interest	584	(582)	-	-	-	-	-	-	-	-	-	-	**2**
IoRE (after tax)	-	-	(5)	-	-	-	-	-	-	-	-	-	**(5)**
Distributions	-	-	-	(155)	-	-	-	-	-	-	-	-	**(155)**
Net profit attributable to members of the Company	1,849	-	-	(155)	(145)	144	(20)	-	-	-	7	(1)	**1,679**

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- *Tax on the unit linked business has been reclassified to net life insurance income from the income tax expense line to offset with the tax included in change in policy liabilities.*
- *The policyholder portion of the traditional business has been eliminated.*
- *Income on retained earnings has been reclassified from net life insurance income and income tax to a separate disclosure item.*

(2) *Represents the Group's Commercial Fleet business, which was disposed on 5 March 2008.*

11. Reconciliation between Statutory Net Profit after Tax and Cash Earnings

Half year ended 31 March 2008	Statutory Profit $m	Net profit - Minority Interest[1] $m	MLC Adj.[1] $m	Distri-butions $m	Treasury Shares $m	Fair Value and Hedge Ineffec. $m	IoRE Disc. Rate $m	Visa IPO $m	Economic Cycle Adj. $m	New Business Initiatives $m	GWB Integration Costs $m	Disposed Operations[2] $m	Cash Earnings - Ongoing $m
Net interest income	5,278	-	15	-	-	-	-	-	-	-	-	10	**5,303**
Net life insurance income	(1,020)	845	459	-	(277)	-	(7)	-	-	-	-	-	**-**
Other operating income	2,405	-	(339)	-	-	(89)	-	(242)	-	-	-	(45)	**1,690**
MLC net operating income	-	-	646	-	-	-	-	-	-	-	-	-	**646**
Net operating income	6,663	845	781	-	(277)	(89)	(7)	(242)	-	-	-	(35)	**7,639**
Operating expenses	(3,666)	-	(71)	-	-	-	-	-	-	106	-	33	**(3,598)**
Operating profit pre charge to provide for doubtful debts	2,997	845	710	-	(277)	(89)	(7)	(242)	-	106	-	(2)	**4,041**
Charge to provide for doubtful debts	(940)	-	-	-	-	-	-	-	214	-	-	-	**(726)**
Operating Profit before tax	2,057	845	710	-	(277)	(89)	(7)	(242)	214	106	-	(2)	**3,315**
Income tax expense	(214)	-	(701)	-	47	34	2	17	(64)	(32)	-	-	**(911)**
Operating Profit before distributions and minority interest	1,843	845	9	-	(230)	(55)	(5)	(225)	150	74	-	(2)	**2,404**
Net profit - minority interest	844	(845)	-	-	-	-	-	-	-	-	-	-	**(1)**
IoRE (after tax)	-	-	(9)	-	-	-	-	-	-	-	-	-	**(9)**
Distributions	-	-	-	(157)	-	-	-	-	-	-	-	-	**(157)**
Net profit attributable to members of the Company	2,687	-	-	(157)	(230)	(55)	(5)	(225)	150	74	-	(2)	**2,237**

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- Tax on the unit linked business has been reclassified to net life insurance income from the income tax expense line to offset with the tax included in change in policy liabilities.
- The policyholder portion of the traditional business has been eliminated.
- Income on retained earnings has been reclassified from net life insurance income and income tax to a separate disclosure item.

(2) *Represents the Group's Commercial Fleet business, which was disposed on 5 March 2008.*

Section 7

Glossary of Terms

Glossary of Terms

Term	Description
ABCP	Asset-backed commercial paper.
ABS	Asset-backed securities.
ABS CDO - Super-senior note holder	CDO of ABS where a conduit has invested in the most senior note.
ABS CDO - Junior note holder	CDO of ABS where a conduit has invested in a note which is subordinated to other note(s).
Adjusted common equity (ACE) Ratio	Tier 1 capital, as defined by APRA, less residual tier 1 instruments, the tangible component of the investment in non-consolidated controlled entities, and any other items deducted from total capital, divided by risk weighted assets. This measures the core equity capital available to support banking operations.
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.
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: - Retail, business and agri-business banking operations operating in the Australia Region, UK Region, NZ Region and Great Western Bank. - Institutional Banking, Corporate Finance, Markets and Structuring and Investments business within nabCapital. - Treasury and support functions operating in the Regions and within Central Functions.
Cash earnings	Is a non-GAAP key performance measure and financial target used by the Group. Dividends paid by the Company are based on after-tax cash earnings. It is also a key performance measure used by the investment community, as well as by those Australian peers of the Group with a similar business portfolio. It does not refer to, or in any way purport to represent the cash flows, funding or liquidity position of the Group. It does not refer to any amount represented on a Cash flow statement. Cash earnings is defined as: Net profit attributable to members of the company *Less:* Distributions Treasury shares Fair value and hedge ineffectiveness IoRE discount rate variation GWB Integration costs Revaluation gains/(losses) on exchangeable capital units Net profit/(loss) on sale of controlled entities Fair value gains/losses on economic hedge of the proceeds on sale of controlled entities Significant items *Add:* Impairment of goodwill
Cash earnings on average equity	Calculated as cash earnings – ongoing divided by average shareholders' equity, excluding minority interests and other equity instruments and adjusted for treasury shares and exchangeable capital units valuation adjustments.
Cash earnings - ongoing	Cash earnings adjusted for disposed operations. The disposed operations results are excluded to assist in the interpretation of the Group's result as it facilitates a like-for-like comparison.
Cash earnings per share - basic	Calculated as cash earnings – ongoing divided by the weighted average number of shares adjusted to include treasury shares.

Term	Description
Cash earnings per share - diluted	Cash earnings – ongoing, adjusted for interest expense on exchangeable capital units, divided by the weighted average number of ordinary shares, adjusted to include treasury shares and exchangeable capital units.
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	Include loans and advances to customers and banks (including leases and acceptances) net of securitised assets; fixed assets and investments held to maturity,
Cost to Income Ratio	Represents banking operating expenses (before inter-segment eliminations) as a percentage of total banking operating revenue (before inter-segment eliminations).
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, TDs, Central Bank Deposits).
Customer Funding Index (CFI)	Customer Deposits divided by Core Assets.
Disposed operations	Are operations that will not form part of the continuing Group. These include operations sold and those that have been announced to the market that have yet to reach completion. This may differ from the treatment for statutory accounting purposes but facilitates a like-for-like comparison.
Distributions	Payments to holders of other equity instruments issues such as National Income Securities, Trust Preferred Securities, Trust Preferred Securities II and National Capital Instruments. Distributions are subtracted from net profit to reflect the amount that is attributable to ordinary shareholders.
Dividend Payout Ratio	Dividends paid on ordinary shares divided by cash earnings per share.
Earnings Per Share	Calculated in accordance with the requirements of AASB 133 "Earnings per Share."
Fair value and hedge ineffectiveness	Represents volatility attributable to the Group's application of the fair value option, ineffectiveness from designated hedge accounting relationships and economic hedges of significant approved funding activities where hedge accounting has not been applied.
Fair value gains/losses on economic hedge of the proceeds on sale of controlled entities	Represents the fair value movement on derivatives taken out to protect against foreign exchange rate movements on the proceeds of the sale of controlled entities.
FSF	Financial Stability Forum.
Full time equivalent employees (FTEs)	Include all permanent full time staff, part time staff equivalents and external contractors employed by third party agencies.
GWB integration costs	GWB Integration costs include costs of integration and the amortisation of intangible assets recognised upon acquisition.

Term	Description
Impaired Assets	Consist of: - retail loans (excluding credit card loans and portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue; - non retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest; and - impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are also classified as impaired assets when they become 180 days past due (if not written off).
Impairment of goodwill	Is an impairment expense recognised on the application of an impairment test. As it relates to an intangible asset, and financial statement users generally do not regard impairment of goodwill as being useful information in analysing investments, management believes it is prudent to isolate this amount from the underlying operating result.
Insurance	Includes the provision of personal insurance by MLC.
Investments	Includes funds managed in the provision of investment and superannuation solutions by MLC.
IoRE	Investment earnings (net of tax) on shareholders retained profits and capital from life businesses, net of capital funding costs (IoRE) is comprised of three things: - investment earnings on surplus assets which are held in the Statutory Funds to meet capital adequacy requirements under the Life Act. - interest on insurance VARC (Value of Acquisition Expense Recovery Component) net of reinsurance costs. VARC is defined as the current termination value less policy liabilities, and represents the value of acquisition costs recoverable from future premiums. Interest on VARC represents the unwinding of the discount rate on VARC. - less the borrowing costs of any capital funding initiatives.
IoRE discount rate variation	Is the movement in Investment Earnings on Shareholders' Retained Profits (IoRE) attributable to the impact of changes in long term discount rates.
Leveraged loans CLOs	CLOs backed by pools of broadly syndicated commercial bank loans.
LMI	Lenders Mortgage Insurance.
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 members of the company	Represents the Group's statutory profit after tax and reflects the amount of net profit that is attributable to ordinary shareholders.
Net profit attributable to minority interest	Reflects the allocation of profit to minority interests in the Group, and is adjusted from net profit to reflect the amount of net profit that is attributable to ordinary shareholders.
Net Tangible Assets per Share	Net assets excluding intangible assets, minority interests, preference shares and other equity instruments divided by ordinary shares on issue at the end of the period.
Non-conforming residential mortgage	In Australia and UK, residential mortgage loans that are advanced to borrowers who do not generally meet prime lending guidelines and LMI eligibility.
Non-LMI prime residential mortgage	Prime residential mortgages but without LMI cover.
Non-impaired assets 90+ days past due	Non-impaired assets 90+ days past due consist of well-secured assets that are more than 90 days past due and portfolio-managed facilities that are not well secured and between 90 and 180 days past due.

Term	Description
Prime residential mortgages	In Australia, residential mortgage loans advanced by traditional residential mortgage lenders and eligible to be covered by an LMI policy.
Revaluation gains/(losses) on exchangeable capital units (ExCaps)	The Group's exposure to foreign exchange risk is eliminated through the existence of certain conversion features that convert the ExCaps to equity at pre-determined exchange rates. There are no remaining ExCaps on issue at the end of the period.
Risk weighted assets	On and off balance sheet assets of the Bank are allocated a risk weighting based on the amount of capital required to support the asset. 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.
Significant items	Those items included on the face of the statutory Income Statement when it is necessary to explain the elements of financial performance. Factors to consider include materiality and the nature and function of the components of income and expenses.
Special Purpose Entity (SPE)	An entity created to accomplish a narrow well-defined objective (eg securitisation of financial assets)> An SPE may take the forma of a corporation, trust, partnership or unincorporated entity. SPEs are often created with legal arrangements that impose strict limits on the activities of the SPE.
Stable Funding Index (SFI)	Term Funding Index (TFI) plus Customer Funding Index (CFI).
Sub-prime residential mortgages	In USA, residential mortgage loans advanced to borrowers unable to qualify under traditional lending criteria due to poor credit history or debt payment capacity.
Subscription loans	Investment loans to equity investment funds.
Term Funding Index (TFI)	Term Wholesale Funding (with a remaining maturity to first call date greater than 12 months) divided by Core Assets.
Tier 1 ratio	Tier 1 capital as defined by APRA divided by risk weighted assets.
Tier 2 ratio	Tier 2 capital as defined by APRA divided by risk weighted assets.
Treasury shares	Relates to the movement in treasury share assets (direct investments in National Australia Bank Limited) caused by the movement in the share price and/or volume along with dividend income.
Weighted Average Number of Shares	Calculated in accordance with the requirements of AASB 133 'Earnings per Share.'