# Results for announcement to the market

Report for the year ended 30 September 2010

| | | | | | 30 September 2010 $m |
|---|---|---|---|---|---|
| Revenue from ordinary activities [1] | page 98 | down | 1.4% * | to | 17,008 |
| Profit after tax from ordinary activities attributable to owners of the Company | page 98 | up | 63.2% * | to | 4,224 |
| Net profit attributable to owners of the Company [2] | page 98 | up | 63.2% * | to | 4,224 |

* *On prior corresponding period (year ended 30 September 2009).*

[1] *Reported as the sum of the following items from the Group's consolidated income statement; Net interest income, Net life insurance income and Total other income. On a cash earnings basis revenue decreased by 1.6%.*

[2] *Net profit attributable to owners of the Company was up 63.2% to $4,224 million, largely due to a reduction in the charge to provide for bad and doubtful debts, and costs incurred for several long-standing legal and tax proceedings in the previous year.*

| Dividends | Amount per share cents | Franked amount per share % |
|---|---|---|
| Final dividend | 78 | 100 |
| Interim dividend | 74 | 100 |
| Record date for determining entitlements to the final dividend | | 18 November 2010 |

## Highlights [3]

| | | | |
|---|---|---|---|
| Group cash earnings | up | 19.3% | Cash earnings of $4,581 million for the September 2010 year increased by $740 million or 19.3% on the September 2009 year. This reflects a strong performance by Business Banking and MLC & NAB Wealth and lower mark to market losses in SGA. The decrease in bad and doubtful debts charge across the Group has contributed significantly to the increase as economic conditions improved. |
| Cash return on equity (ROE) | up to | 13.2% | Cash ROE increased by 140 basis points. |
| Diluted cash earnings per share | up to | 212.8 | Diluted cash earnings per share increased by 7.7%. |
| Banking cost to income ratio | up | 200 bps | The Group’s banking cost to income ratio was 200 basis points higher for the year at 45.9% and represents the decline in trading revenue as volatility reduced from the high levels in 2009 in Wholesale Banking's Global Markets and Treasury divisions and the rebasing of Personal Banking. |
| Tier 1 capital ratio | down | 5 bps | The Tier 1 capital ratio has decreased to 8.91%. It remains well above the Group's target. |

[3] *All growth rates are calculated on a cash earnings 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 2010 year are references to the twelve months ended 30 September 2010.

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## Review of Divisional Operations and Results



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National Australia Bank

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**www.nabgroup.com**

ASX ANNOUNCEMENT

Wednesday, 27 October 2010

# NAB 2010 Full Year Result
## Progress on strategic priorities delivers solid result

Key Points[1]

- Cash earnings increased by 19.3% to $4.6 billion. Business Banking and MLC & NAB Wealth were key contributors, together with an improvement in the charge to provide for bad and doubtful debts and lower mark-to-market losses.
- Revenue decreased by 1.6% to $16.6 billion. Excluding acquisitions and foreign exchange movements, revenue declined by 1.0% to $16.7 billion. The key drivers were lower revenues from the rebasing of Personal Banking and from Global Markets and Treasury as volatility reduced from the high levels of 2009. These factors were partially offset by improved revenue contributions from MLC & NAB Wealth and the repricing for current market conditions in Business Banking, NZ Banking and UK Banking.
- Asset quality stabilised during the year. The bad and doubtful debt charge was down 40.7% to $2.3 billion.
- Expenses increased by 3.7% to $7.9 billion reflecting on-going efficiencies, offset by targeted investments to drive future growth.
- The Tier 1 ratio at 8.91% remained comfortably ahead of the operational target of over 8%. The Tier 1 ratio was 18bps lower than at 31 March 2010. Beyond business as usual movements, the major contributor was the acquisition of the banking franchise of TierOne Bank in the United States.
- Strong funding and liquidity positions were maintained. The Group raised $28.3 billion in term funding, all without the use of government guarantees.
- Statutory net profit increased by 63.2% to $4.2 billion. Statutory net profit in 2009 was substantially lower as a result of costs incurred in several long-standing legal and tax proceedings and a higher charge for bad and doubtful debts.
- The final dividend is 78 cents per share fully franked. The total dividend for 2010 was 152 cents per share fully franked, an increase of 6 cents.
- This year NAB Group invested more than $60 million in the communities in which it operates, focused on education, financial inclusion and NAB's Reconciliation Action Plan. NAB became carbon neutral in September 2010 and employee volunteering increased by 66% during the year to a total of 20,718 volunteer days.

Overview

"As the economy continues to recover we have enhanced performance and invested to leverage NAB's strengths in business banking and wealth management. We have continued to reposition Personal Banking, worked to enhance our customer and community reputation, maintained a strong balance sheet and managed the Group's international businesses with a focus on shareholder value," NAB CEO Cameron Clyne said today.

[1] 2010 full year results are compared with 2009 full year results unless otherwise stated and include the contribution from acquisitions.

"I am very pleased with NAB's progress in 2010. We have made good gains in customer satisfaction and staff engagement this year. The risks associated with fragile economic conditions and market volatility were also well managed," he said.

"NAB's ongoing strength in Business Banking and MLC & NAB Wealth were key contributors to earnings growth during the year, along with the stabilisation in asset quality.

"Business Banking recorded a strong increase in earnings, reflecting better underlying profit performance, increased lending in the face of negative system growth, and lower bad and doubtful debt charges[2]. It also strengthened its market leading position and continued to actively support businesses across Australia through its relationship banking offering.

"Investment continued in the Customer-led Innovation Strategy to deepen customer relationships, attract new-to-bank customers and enhance customer satisfaction and cross-sell. This investment included the launch of an intensive training program for more than 4,000 bankers.

"MLC & NAB Wealth performed well, with leading retail superannuation and insurance market share, strong net inflows, increased adviser numbers and good underlying cost management. Cost synergies from the integration of Aviva are well ahead of business case expectations and underlying business momentum remains strong.

"JBWere has expanded MLC & NAB Wealth's capabilities into direct equities, broking and research for high net worth customers and 27 new specialist high net worth advisers have joined JBWere in the past 12 months.

"Earnings momentum returned to the Personal Banking franchise in the second half of the year. Rebasing this business on a long-term sustainable basis has been a key part of the effort to build NAB's reputation. While there is more to be done, this early momentum was achieved through the abolition of a range of banking fees, competitive mortgage pricing and streamlining sales and service processes.

"Customer satisfaction continued to improve, net new transaction account openings increased and mortgage and deposit growth were both above system growth levels.

"Wholesale Banking continued to focus on deepening relationships with business and wealth customers through providing them with specialist funding, risk management and investment solutions. A targeted campaign attracted an additional 859 foreign exchange customers.

"NZ Banking delivered a solid result with continued strong cost disciplines in a slowly recovering economy. Innovation remained a hallmark, with NZ Banking opening refreshed retail stores, new business centres, a dedicated small business hub and launching patented anti-fraud credit card technology.

"UK Banking earnings have improved for the full year with higher net interest income as a result of repricing and lower funding costs, and stabilising asset quality. UK Banking has performed well in a tough environment while supporting customers and improving its balance sheet.

"Great Western Bank grew underlying profit organically, which included increased agribusiness lending, and through the bolt-on acquisitions of F&M Bank in Iowa and the banking franchise of TierOne Bank in Nebraska. Cash earnings rose despite a higher charge for bad and doubtful debts.

"Group costs were well managed while investment continued to be made in front line resources and systems, including the NextGen banking platform.

"In 2010 there were tangible improvements for NAB's customers, employees and shareholders. In 2011 the focus will remain on delivering further progress against our strategic agenda," he said.

[2] Underlying profit is before the charge to provide for bad and doubtful debts and income tax expense.

Business Unit Commentary

### Business Banking

Cash earnings increased by 37.1% to $2.2 billion based on strong underlying profit growth and lower bad and doubtful debt charges.

Business Banking remained the industry leader, growing lending market share to 22.5%[3]. Margins have grown through active management of repricing for current market conditions and a sales mix skewed towards higher margin products. Expenses rose by 4.2% due to ongoing investment in front line resources, putting more bankers in more places, partly offset by continuous improvement and efficiency initiatives.

During the year, 209 additional bankers and specialists were hired and seven new business banking centres opened. In conjunction with Personal Banking, a business unit was established to expand the capabilities and services offered to small and emerging businesses, including the launch of a new dedicated call centre.

At a time when business credit system declined by 3.6% [4] Business Banking's average interest earning assets increased by 1.4%. This was the result of increased business and housing lending growth in the SME and specialised business segments, partially offset by the effects of large companies reducing debt levels in the institutional business segment.

### Personal Banking

Personal Banking showed positive earnings momentum in the second half of 2010 with cash earnings up 34.4% on the first half of the year.

For the full year, cash earnings decreased by 15.1% to $743 million, primarily due to initiatives designed to create a more sustainable business and build reputation. These included the abolition of a range of bank fees, a competitive mortgage pricing strategy and investment in front line people.

These factors were partially offset by lower bad and doubtful debts charges and the contribution from the acquisition of Advantedge. Expenses increased by 8.0% but, excluding Advantedge, the increase amounted to only 3.7% which included ongoing investment in sales and service improvements.

Mortgage volume growth was 1.7 times that of the system[5]. Deposits grew by 1.8 times the system[6], an increase of $8.5 billion or 16.5%. The online USaver account was a key contributor. However, competition for deposits remains strong as banks position themselves for the new regulatory environment and seek to reduce their reliance on international wholesale markets.

### MLC & NAB Wealth

Cash earnings before IoRE[7] increased by 32.9% to $549 million. This reflected the contributions of Aviva and JBWere, higher funds under management arising from improved global investment markets, strong net inflows and continued momentum in the insurance business. Lower bad and doubtful debts and strong control of underlying expenses also contributed. Including the acquisition of Aviva, growth in average funds under management was 45.9% and average annual inforce premiums grew by 29.9%.

MLC & NAB Wealth's initiatives to improve trust and transparency in financial planning, particularly in the area of fees versus product commissions, have been reinforced by recent Government reform announcements. All of MLC's advice businesses now operate under a fee-for-advice model for investments and superannuation customers. There has also been a significant increase in advisers interested in joining MLC & NAB Wealth, with 100 new practices agreeing to join in the past 12 months.

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[3] APRA Monthly Banking Statistics August 2010
[4] APRA Monthly Banking Statistics August 2010
[5] RBA Housing Lending Financial System statistics August 2010
[6] APRA Household Deposit Monthly Banking statistics August 2010
[7] Investment earnings on shareholders' retained profits and capital in the life business.

nabInvest, which utilises MLC & NAB Wealth's capabilities to identify quality asset managers, now has equity in seven asset managers. Attractive asset management investments continue to be considered to increase MLC & NAB Wealth's presence in direct asset management, particularly in the areas of global equities, infrastructure and property.

**Wholesale Banking**

Cash earnings decreased by 38.6% to $705 million mainly due to lower revenue in Global Markets and Treasury, as volatility fell from the high levels of 2009. This was partially offset by a lower bad and doubtful debts charge as a result of fewer large specific provisions and more stable asset quality. Expenses increased by 1.8% to $914 million.

The closer relationship with other Group businesses was instrumental in several significant transactions with customers, including funding arrangements for Telstra and Origin Energy. The Specialised Finance business was the lead arranger for several significant infrastructure transactions including Peninsula Link in Victoria, as well as sole arranger on an asset financing solution for the Royal Australian Navy. Asset Servicing increased assets under custody by 10% to $660 billion.

**UK Banking**

UK Banking increased cash earnings by 53.2% to £118 million as economic conditions began to improve. The recovery in earnings stemmed from higher net interest income and lower charges to provide for bad and doubtful debts.

Deposit growth remained strong which contributed to improved funding measures. New lending of £4.7 billion demonstrated continued support for customers, although subdued demand for credit and the focus on reducing commercial property and personal lending portfolios resulted in a flat balance sheet.

The 6.4% increase in operating expenses mainly reflected higher defined benefit pension costs due to lower expected returns from the fund's assets. Excluding the pension fund expense, the increase was 2.2%.

**NZ Banking**

Cash earnings increased by 1.4% to NZ$524 million in line with improved margins and modest growth in housing and personal lending. These were offset by weak demand for business credit. Revenue improved mainly due to repricing for current market conditions and a favourable product mix due to strong growth in the demand for variable rate mortgages. These factors were partially offset by intense competition for deposits and the abolition of a range of bank fees. Leading asset quality indicators showed signs of stabilising.

NZ Banking's strong cost disciplines and continuous improvement culture again delivered flat operating expenses. Investment in the business continued, including the transformation of the retail customer experience into one more like retail shopping than traditional banking, with 26 stores refurbished to date.

BNZ Partners was further enhanced during the year with the integration of Corporate Banking, and ten new Business Partners centres now opened. A dedicated small business hub providing specialised services to this segment was launched during the year.

**Great Western Bank**

Great Western Bank's cash earnings increased by 26.4% to US$67 million, due to several recent acquisitions[8]. In line with efforts to grow the agribusiness loan portfolio, this now represents 17% of the loan portfolio at US$923 million. Lending remained fully deposit funded with a ratio of retail deposits to gross loans and acceptances of 111%.

Asset quality deteriorated as the US recession was felt in the Great Western Bank footprint. The recent acquisitions also drove an increase in revenue of 55.4% and a 26 bps improvement in net interest margin to 4.02%. Expenses increased by 52.2% to US$137 million primarily as a result of the acquisitions.

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[8] The acquisitions were 20 First Community Bank branches in Colorado in June 2009, 10 F&M Bank branches in Iowa in April 2010 and in June 2010 the banking franchise of Nebraska-based TierOne Bank, including 69 branches.

**Specialised Group Assets**
Specialised Group Assets, which actively manages the credit risk and cash earnings volatility of a portfolio of non-franchise assets, improved cash earnings by 54.6% to a loss of $262 million mainly due to lower mark-to-market losses and a reduction in charges for bad and doubtful debts.
Although this demonstrated a strong improvement during the current year, the ongoing performance of the portfolio is highly dependent on the stability of the United Kingdom and United States economies and financial results remain sensitive to market conditions.

## Balance Sheet Commentary

**Capital**
Balance sheet strength remained a key priority for the Group in 2010. At 30 September 2010, the Tier 1 capital ratio was 8.91%.

**Funding and Liquidity**
The global term funding environment remained mostly stable throughout the 2010 year, notwithstanding the European sovereign debt concerns. Credit spreads have remained elevated.
During the year the Group continued to issue longer dated debt to minimise re-financing requirements and raised $28.3 billion in term funding, all without the use of government guarantees. The Group grew its deposit base strongly over 2010.
Strong balance sheet settings have served the bank well in managing through the difficult market conditions. The bank is also relatively well positioned to meet future regulatory change and take emerging balance sheet growth opportunities. Regulatory reform is rapidly evolving and the Group continues to engage extensively in the process.

**Asset Quality**
Asset quality trends stabilised during the year. The bad and doubtful debt charge was $2.3 billion, a decrease of $1.6 billion. The September 2010 half year bad and doubtful debt charge was 48% down from its peak in the September 2009 half. The decrease for the full year was partly due to lower specific provision charges across most business units, particularly in Business Banking, UK Banking, Wholesale Banking and Specialised Group Assets. In addition, the collective provision expense declined substantially as collective provision balances remained at similar levels.


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For more information about the action NAB has taken to become carbon neutral please visit www.nabgroup.com.

**Section 2**

## Highlights

# Group Performance

Cameron Clyne

## Strategic Highlights & Business Developments

The Group's primary objective is to deliver sustainable, satisfactory returns to shareholders. Underlying the Group's activity is a belief in the potential of its customers, communities and employees. This belief motivates it to make a positive impact on its customers and communities and it also underpins a strong and sustainable business for shareholders.

The businesses delivered a solid and sustainable result for the year ended 30 September 2010, despite continued competitive pressures and an increase in average funding costs.

The Group's key priorities are:

- Focusing on the strong Australian franchise whilst maintaining options internationally.
- Improving efficiency, quality and service.
- Maintaining balance sheet strength.
- Leading the industry on reputation.

**Focus on the strong Australian franchise, whilst maintaining options internationally**

The Group continued to invest in the Australian franchise by growing Business Banking, improving the offering in Personal Banking, focusing Wholesale Banking on cross-sell opportunities, and growing the MLC & NAB Wealth business. Internationally, the Group responded to difficult economic conditions and carefully managed positions in New Zealand, the UK and in the US.

The integration of Aviva continued to generate synergies which have exceeded expectations. The former Aviva business has been formally re-branded and now forms part of MLC. The strategic alliance with Goldman Sachs JBWere's private wealth management business in Australia and New Zealand was established in October 2009. The acquisition of Challenger Financial Services Group's mortgage management business has been integrated into Personal Banking under the brand of Advantedge. In addition, Great Western Bank (GWB) completed the integration of the Colorado branches purchased in 2009 and finalised the acquisition of F&M Bank in Iowa and the acquisition of the banking franchise and all deposits and loans of TierOne Bank from the Federal Deposit Insurance Corporation (FDIC). These acquisitions supported GWB's targeted growth in the small and medium enterprise (SME) and agribusiness sectors.

**Improving efficiency, quality and service**

The Group continues to actively manage its costs. The increase in costs from the prior comparative period reflects the Group's support of sustainable business growth.

The Efficiency, Quality and Service (EQS) agenda has continued to focus on reshaping the business to improve efficiency, reduce duplication and enable the Group to improve the service it provides to customers. The accelerated costs of this agenda are incremental to the underlying cost performance of the businesses and are excluded from cash earnings. For the year ended September 2010, $339 million of costs have been accelerated. These, combined with the $254 million 2009 accelerated costs, are expected to deliver $805 million of cumulative incremental benefits in the 2011 year. While the Group will continue to enjoy the benefits of these initiatives, the acceleration of further EQS initiatives ceased on 30 September 2010.

**Maintaining balance sheet strength**

The Group remains responsive to economic conditions and continues to maintain strong balance sheet settings. These settings enable it to manage through difficult market conditions and ensure that it is well positioned for future regulatory change and balance sheet growth.

At 30 September 2010 the Group's Tier 1 capital ratio was 8.91%. Beyond business as usual movements, the largest driver of the decrease in the Tier 1 ratio over the half year was the acquisition of the banking franchise and all deposits and loans of TierOne Bank by GWB.

The Group held $72 billion of liquid assets at 30 September 2010 to maintain flexibility and balance sheet strength. This significantly exceeds the amount specified by regulatory requirements. Term wholesale funding raised during the September 2010 year was $28.3 billion. The weighted average term to maturity of the funds raised in the September year was 5.1 years. The Group's Stable Funding Index was 84% at 30 September 2010 an increase of 6% on 30 September 2009.

**Leading the industry on reputation**

Given the accelerating demands of the customers, communities and employees it serves, the Group is actively building a differentiated position through its culture and reputation. The Group's belief in the potential of its customers and communities, including those within the Group, motivates it to do the right thing, help the customers and communities it serves and realise the potential of its stakeholders.

Stemming from these beliefs is a common set of behaviours that require all in the Group to:

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

These behaviours are integrated with the performance and reward framework, and with the methods of attracting and selecting people to join the organisation. During the year The Academy enhanced its learning and development offerings to employees and provided innovative ways to share knowledge, network and work together. These beliefs and behaviours are the foundation of the Group's corporate responsibility which protects and enhances its reputation and drives long-term shareholder value.

The Group has made significant progress living by its Fair Value philosophy through the abolition and reduction of a number of personal and business banking fees. In addition, since December 2009, NAB has had the most competitive standard variable mortgage rate of the major Australian banks. These initiatives have attracted more customers, improved customer retention and reduced the number of customer complaints. NAB's "More Give, Less Take" approach sends out a clear message that it is committed to customers.

During the year, the Group built on its efforts to support community initiatives. These include microfinance programs, indigenous reconciliation, education and environmental programs. The Schools First awards program continued to provide funding to schools and community groups in Australia. UK Banking maintained its sponsorship of projects to improve numeracy and mathematics skills in the UK. BNZ sponsored the health and development of children under five in New Zealand. In addition, in September 2010 NZ Banking provided a customer assistance package in response to the extensive earthquake damage in the Canterbury region. This package provided customers with emergency credit facilities for rebuilding and repair.

## Financial Highlights

During the year to September 2010 the Group has generated cash earnings of $4,581 million, an increase of 19.3% against the September 2009 year (16.2% excluding acquisitions and foreign exchange rate variances). Strong performances from Business Banking and MLC & NAB Wealth and lower mark to market losses in Specialised Group Assets (SGA). The decrease in the bad and doubtful debts charge across the Group has also contributed significantly as economic conditions improved.

Net operating income decreased by 1.6% when compared to the September 2009 year (decrease of 1.0% excluding acquisitions and foreign exchange). Group revenue has declined largely as a result of the Global Markets and Treasury divisions of Wholesale Banking as volatility reduced from high levels in 2009, the abolition of numerous fees and charges as part of the Fair Value initiatives, higher funding costs as term funding progressively matured and was replaced at higher spreads over benchmark rates and competitive pressure on deposit margins. The decline was partly offset by the alignment of pricing to current risk settings in Business Banking, NZ Banking and UK Banking, lower basis risk costs incurred in UK Banking as the spreads between the base rate and LIBOR rate narrowed, the effect of the $160 million management overlay in SGA relating to conduit assets and derivative transactions taken in the September 2009 year not being repeated and increased volumes principally in mortgage products and the SME segment.

Excluding the impact of foreign exchange, average lending volumes have increased by 3.8% on the September 2009 year. This growth was the result of an increase in housing lending and the acquisition of Advantedge. Business lending volumes have remained relatively steady, reflecting growth in the SME segments, partly offset by lower institutional lending as customers focused on reducing debt levels. Strength in the Australian dollar has reduced average lending volumes by 0.6% in AUD terms.

Operating expenses have increased by 3.7% over the year (up 3.8% excluding acquisitions and foreign exchange). All divisions have again demonstrated strong sustainable underlying cost management, with continuous improvement disciplines now embedded in business cultures. This has been offset by additional investment in the businesses, including the Next Generation Banking IT Platform (NGP) program, and increases in pension costs in the UK.

Encouraging trends have been evident in the September 2010 year with the charge for bad and doubtful debts decreasing by 40.7% (decrease of 35.3% excluding acquisitions and foreign exchange) and stabilising asset quality indicators. These include:

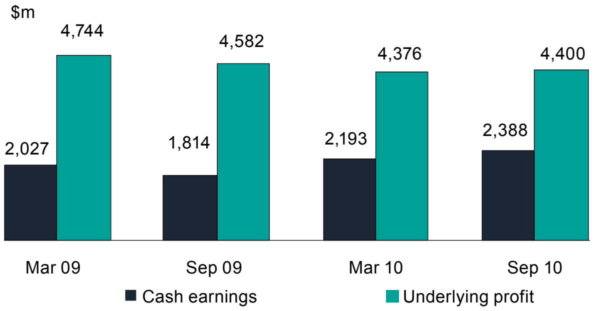
- The ratio of 90+ days past due to gross loans and acceptances has weakened by 4 basis points to 0.53% from 0.49% at September 2009. For the half year to 30 September 2010, this ratio has remained relatively stable, weakening by 1 basis point.
- The ratio of gross impaired assets to gross loans and acceptances has weakened by 9 basis points to 1.35% from 1.26% at September 2009 and has remained stable from March 2010.
- The rate of increase in impaired assets slowed during the September 2010 half, increasing by 3.4% from March 2010 compared to an increase of 6.3% from September 2009 to March 2010.
- The Group's collective provisions to credit risk weighted assets (excluding housing) ratio remained relatively stable from September 2009 at 1.48%, but it has decreased from 1.55% at March 2010.

## Shareholder Returns

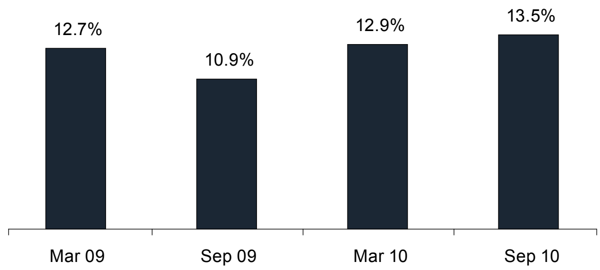
The Group's return on equity has improved by 140 basis points to 13.2% against the September 2009 year, reflecting higher earnings partly offset by higher levels of capital. The final dividend for the year is 78 cents per share. This represents a dividend payout ratio of 70.9% for the year on a cash earnings basis. The dividend payment is 100% franked and will be paid on 17 December 2010. Shares will be quoted ex-dividend on 12 November 2010.

## Key Performance Measures [1]

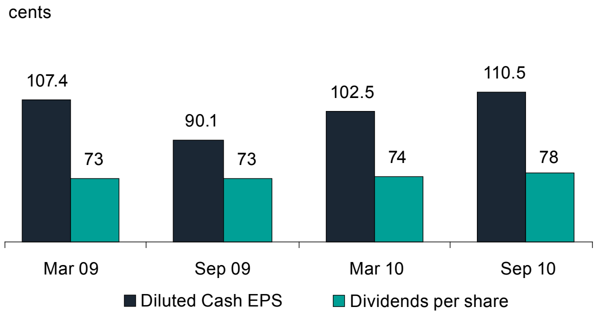
### Cash Earnings and Underlying Profit - half year



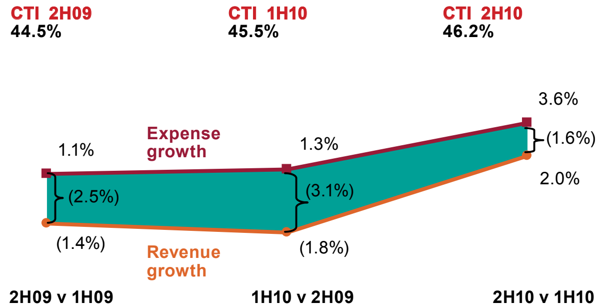

### Cash Return on Equity (ROE) - half year




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




### Half Yearly Jaws and banking CTI momentum [2]




## Group Performance Indicators [1]

| | Year to | | Half Year to | |
|---|---|---|---|---|
| | **Sep 10** | **Sep 09** | **Sep 10** | **Mar 10** |
| **Key Indicators** | | | | |
| Cash earnings per share (cents) | | | | |
| - basic | **214.5** | 198.4 | **111.4** | 103.0 |
| - diluted | **212.8** | 197.5 | **110.5** | 102.5 |
| Cash return on equity (ROE) | **13.2%** | 11.8% | **13.5%** | 12.9% |
| **Profitability, performance and efficiency measures** | | | | |
| Dividend per share (cents) | **152** | 146 | **78** | 74 |
| Dividend payout ratio | **70.9%** | 73.6% | **70.0%** | 71.8% |
| Cash earnings on average assets | **0.69%** | 0.56% | **0.71%** | 0.67% |
| Cash earnings per average FTE ($'000) | **110** | 98 | **110** | 110 |
| Banking cost to income ratio | **45.9%** | 43.9% | **46.2%** | 45.5% |
| Net interest margin: | | | | |
| - Group | **2.25%** | 2.16% | **2.24%** | 2.26% |
| - Business Banking | **2.51%** | 2.35% | **2.50%** | 2.51% |
| - Personal Banking | **2.31%** | 2.57% | **2.28%** | 2.34% |
| - NZ Banking | **2.16%** | 2.06% | **2.24%** | 2.08% |
| - UK Banking | **2.34%** | 2.25% | **2.28%** | 2.40% |
| - Great Western Bank | **4.02%** | 3.76% | **3.99%** | 4.06% |
| **Capital** | | | | |
| Tier 1 ratio | **8.91%** | 8.96% | **8.91%** | 9.09% |
| Total capital ratio | **11.36%** | 11.48% | **11.36%** | 12.07% |
| Risk weighted assets [4] ($bn) | **344.7** | 342.5 | **344.7** | 332.8 |
| **Volumes ($bn)** | | | | |
| Gross loans and acceptances [3] [4] | **448.0** | 436.6 | **448.0** | 434.5 |
| Average interest earning assets | **546.6** | 559.4 | **549.8** | 543.4 |
| Total average assets | **666.1** | 688.7 | **672.2** | 659.9 |
| **Asset quality** | | | | |
| Gross impaired assets to gross loans and acceptances | **1.35%** | 1.26% | **1.35%** | 1.35% |
| Collective provision to credit risk-weighted assets (ex. housing) | **1.48%** | 1.46% | **1.48%** | 1.55% |
| Specific provision to gross impaired assets | **25.2%** | 28.2% | **25.2%** | 27.2% |
| **Other** | | | | |
| Funds under management and administration [5] ($bn) | **116.1** | 85.1 | **116.1** | 114.2 |
| Annual inforce premiums ($m) | **1,406.7** | 968.8 | **1,406.7** | 1,332.9 |
| Full Time Equivalent Employees (FTE) (no.) | **44,551** | 38,953 | **44,551** | 41,677 |
| Full Time Equivalent Employees (FTE) (Average) | **41,633** | 39,277 | **43,283** | 39,988 |

[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] *Spot balance at reporting date.*
[4] *Including acceptances and loans at fair value.*
[5] *Excludes Trustee and Cash Management within MLC & NAB Wealth.*

## Group Results

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | **Sep 10 $m** | Sep 09 $m | Sep 10 v Sep 09% | **Sep 10 $m** | Mar 10 $m | Sep 10 v Mar 10% |
| Net interest income | **12,288** | 12,072 | 1.8 | **6,174** | 6,114 | 1.0 |
| Other operating income | **2,838** | 3,766 | (24.6) | **1,463** | 1,375 | 6.4 |
| MLC net operating income | **1,512** | 1,068 | 41.6 | **764** | 748 | 2.1 |
| **Net operating income** | **16,638** | 16,906 | (1.6) | **8,401** | 8,237 | 2.0 |
| Operating expenses | **(7,862)** | (7,580) | (3.7) | **(4,001)** | (3,861) | (3.6) |
| **Underlying profit** | **8,776** | 9,326 | (5.9) | **4,400** | 4,376 | 0.5 |
| Charge to provide for bad and doubtful debts | **(2,263)** | (3,815) | 40.7 | **(1,033)** | (1,230) | 16.0 |
| **Cash earnings before tax, IoRE, distributions and non-controlling interest** | **6,513** | 5,511 | 18.2 | **3,367** | 3,146 | 7.0 |
| Income tax expense | **(1,777)** | (1,451) | (22.5) | **(893)** | (884) | (1.0) |
| **Cash earnings before IoRE, distributions and non-controlling interest** | **4,736** | 4,060 | 16.7 | **2,474** | 2,262 | 9.4 |
| Net profit - non-controlling interest | **(1)** | - | large | **-** | (1) | large |
| IoRE | **61** | 26 | large | **26** | 35 | (25.7) |
| Distributions | **(215)** | (245) | 12.2 | **(112)** | (103) | (8.7) |
| **Cash earnings** (1) | **4,581** | 3,841 | 19.3 | **2,388** | 2,193 | 8.9 |
| Non-cash earnings items | **(357)** | (1,252) | 71.5 | **(259)** | (98) | large |
| **Net profit attributable to owners of the company** | **4,224** | 2,589 | 63.2 | **2,129** | 2,095 | 1.6 |

(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 Note 11 in Section 6. A Glossary of Terms is in Section 7.*

# Divisional Performance

## Divisional Results

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | **Sep 10 $m** | **Sep 09 $m** | **Sep 10 v Sep 09 %** | **Sep 10 $m** | **Mar 10 $m** | **Sep 10 v Mar 10 %** |
| Business Banking | **2,193** | 1,599 | 37.1 | **1,098** | 1,095 | 0.3 |
| Personal Banking | **743** | 875 | (15.1) | **426** | 317 | 34.4 |
| Wholesale Banking | **705** | 1,148 | (38.6) | **302** | 403 | (25.1) |
| MLC & NAB Wealth | **548** | 411 | 33.3 | **285** | 263 | 8.4 |
| NZ Banking | **416** | 422 | (1.4) | **214** | 202 | 5.9 |
| UK Banking | **204** | 162 | 25.9 | **97** | 107 | (9.3) |
| Specialised Group Assets | **(262)** | (577) | 54.6 | **(45)** | (217) | 79.3 |
| Great Western Bank | **74** | 73 | 1.4 | **41** | 33 | 24.2 |
| Corporate Functions and Other | **114** | (53) | large | **56** | 58 | (3.4) |
| IoRE | **61** | 26 | large | **26** | 35 | (25.7) |
| Distributions | **(215)** | (245) | 12.2 | **(112)** | (103) | (8.7) |
| **Cash earnings** | 4,581 | 3,841 | 19.3 | 2,388 | 2,193 | 8.9 |
| Non-cash earnings items | **(357)** | (1,252) | 71.5 | **(259)** | (98) | large |
| **Net profit attributable to owners of the company** | **4,224** | 2,589 | 63.2 | **2,129** | 2,095 | 1.6 |

## Divisional Performance Indicators

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | **Sep 10** | **Sep 09** | **Sep 10 v Sep 09** | **Sep 10** | **Mar 10** | **Sep 10 v Mar 10** |
| **Business Banking** | | | | | | |
| Cash earnings ($m) | **2,193** | 1,599 | 37.1% | **1,098** | 1,095 | 0.3% |
| Cash earnings on average assets | **1.19%** | 0.88% | 31 bps | **1.18%** | 1.20% | (2 bps) |
| Net interest margin | **2.51%** | 2.35% | 16 bps | **2.50%** | 2.51% | (1 bps) |
| Net operating income ($m) | **5,619** | 5,222 | 7.6% | **2,837** | 2,782 | 2.0% |
| Cost to income ratio | **30.5%** | 31.5% | 100 bps | **30.7%** | 30.3% | (40 bps) |
| **Personal Banking** | | | | | | |
| Cash earnings ($m) | **743** | 875 | (15.1%) | **426** | 317 | 34.4% |
| Cash earnings on average assets | **0.68%** | 0.91% | (23 bps) | **0.75%** | 0.61% | 14 bps |
| Net interest margin | **2.31%** | 2.57% | (26 bps) | **2.28%** | 2.34% | (6 bps) |
| Net operating income ($m) | **3,105** | 3,275 | (5.2%) | **1,589** | 1,516 | 4.8% |
| Cost to income ratio | **54.8%** | 48.1% | (670 bps) | **54.5%** | 55.0% | 50 bps |
| **Wholesale Banking** | | | | | | |
| Cash earnings ($m) | **705** | 1,148 | (38.6%) | **302** | 403 | (25.1%) |
| Return on risk-weighted assets | **2.14%** | 3.08% | (94 bps) | **1.83%** | 2.49% | (66 bps) |
| Net operating income ($m) | **1,928** | 2,844 | (32.2%) | **895** | 1,033 | (13.4%) |
| Cost to income ratio | **47.4%** | 31.6% | (1,580 bps) | **52.2%** | 43.3% | (890 bps) |
| **MLC & NAB Wealth** | | | | | | |
| Cash earnings before IoRE and non-controlling interest ($m) | **549** | 413 | 32.9% | **285** | 264 | 8.0% |
| Investment operating expenses to average FUM | **69 bps** | 66 bps | (3 bps) | **68 bps** | 69 bps | 1 bps |
| Insurance cost to average inforce premium | **20%** | 21% | 100 bps | **17%** | 21% | 400 bps |
| **NZ Banking (NZD)** | | | | | | |
| Cash earnings ($NZm) | **524** | 517 | 1.4% | **269** | 255 | 5.5% |
| Cash earnings on average assets | **0.91%** | 0.91% | 0 bps | **0.93%** | 0.88% | 5 bps |
| Net interest margin | **2.16%** | 2.06% | 10 bps | **2.24%** | 2.08% | 16 bps |
| Net operating income ($NZm) | **1,675** | 1,641 | 2.1% | **861** | 814 | 5.8% |
| Cost to income ratio | **43.7%** | 44.1% | 40 bps | **42.6%** | 44.8% | 220 bps |
| **UK Banking (£)** | | | | | | |
| Cash earnings (£m) | **118** | 77 | 53.2% | **57** | 61 | (6.6%) |
| Cash earnings on average assets | **0.27%** | 0.18% | 9 bps | **0.25%** | 0.28% | (3 bps) |
| Net interest margin | **2.34%** | 2.25% | 9 bps | **2.28%** | 2.40% | (12 bps) |
| Net operating income (£m) | **1,223** | 1,197 | 2.2% | **606** | 617 | (1.8%) |
| Cost to income ratio | **58.2%** | 55.9% | (230 bps) | **59.2%** | 57.2% | (200 bps) |
| **Specialised Group Assets** | | | | | | |
| Cash earnings ($m) | **(262)** | (577) | 54.6% | **(45)** | (217) | 79.3% |
| Net operating income ($m) | **(90)** | (249) | 63.9% | **18** | (108) | large |
| **Great Western Bank (USD)** | | | | | | |
| Cash earnings ($USm) | **67** | 53 | 26.4% | **37** | 30 | 23.3% |
| Cash earnings on average assets [(1)] | **1.16%** | 1.36% | (20 bps) | **1.09%** | 1.28% | (19 bps) |
| Net interest margin | **4.02%** | 3.76% | 26 bps | **3.99%** | 4.06% | (7 bps) |
| Net operating income ($USm) | **286** | 184 | 55.4% | **168** | 118 | 42.4% |
| Cost to income ratio | **47.9%** | 48.9% | 100 bps | **49.4%** | 45.8% | (360 bps) |

(1) *Average assets exclude goodwill.*

**Section 3**

## Review of Operating Environment, Group Operations and Results

## Review of Group Operating Environment

Global economic output has experienced a surprisingly strong recovery since mid-2009, but this has been accompanied by much higher levels of fragility and risk aversion than were seen prior to the financial crisis. This situation largely reflects the financial market turmoil in late 2008 and the severe downturn in the global economy, both of which were of unprecedented magnitude for the post-war period.

There is also a great disparity in business conditions across the main global economies. Growth has re-commenced in the developed countries but it has been heavily reliant on public sector stimulus and movements in inventories. However, sustained economic recovery requires growth in private sector consumption, exports and investment, and these are constrained by household sector de-leveraging, increased savings, high unemployment and widespread idle capacity.

Consequently, while the global growth outlook for both 2010 and 2011 appears reasonable, with a long-term trend estimate around 4%, various parts of the world are faring very differently and encountering quite distinct economic challenges.

The US, for instance, faces the prospect of a sub-par economic recovery with sustained high unemployment, inflation that the US Federal Reserve regards as too low, weak property markets and a falling currency. By contrast, output in the four “BRIC” emerging market economies (Brazil, Russia, India and China) rose by almost 15% between mid-2008 and mid-2010. These big emerging economies have been grappling with an entirely different set of problems: double-digit inflation in India, overly rapid currency appreciation in Brazil and the threat of property market bubbles and economic overheating in China.

Similarly, the export-oriented Asian industrial economies have also seen a sharp rebound in activity, much of their upturn being driven by heightened demand for their products in China. As the BRIC and Asian exporting economies, which account for around a quarter of the global economy, must inevitably face speed limits on their growth, policy has to focus on securing a sustained upturn in private demand in the big developed economies, which are almost half of the world economy.

The evolving geographic pattern and product mix of global growth has been reflected in the economic environments facing the Group’s business units. Economic growth in the emerging market economies is far more commodity intensive than in developed economies. For instance, Chinese economic growth has been characterised by its heavy intensity of metal consumption. Clearly this helps commodity exporters like Australia and New Zealand, both of which are already well integrated into Asian supply chains.

Australia has been a particular beneficiary of the current pattern of global growth with a doubling in commodity prices since mid-2005, taking the terms of trade to levels seldom seen in the last century and injecting large amounts of income into the economy. As the economy suffered comparatively modest falls in employment and capacity utilisation during the global downturn, the Reserve Bank of Australia (RBA) has been removing the stimulus provided by low interest rates much more rapidly than elsewhere in the OECD, as it seeks to curb potential inflationary risks. Housing markets have weakened in many developed economies, but the Australian housing market strengthened by over 20% between late 2008 and mid-2010. The jobless rate rose from around 4% prior to the crisis to peak at 5.75% in 2009, but it is now back around 5.0% and is forecast to be only 4.5% by 2012.

Given that the Chinese Government has been targeting annual economic growth of around 8% to create sufficient new jobs and that it has been willing to take strong measures to achieve that objective, there is scope for commodity demand to remain high for some time. There is considerable uncertainty over how rapidly commodity supply will respond to high prices and so the RBA, anxious to avoid a repetition of the economic difficulties that occurred during previous resource booms, has signalled that further interest rate increases are likely. As parts of the Australian economy, notably dwelling construction and retail sales in the East Coast cities, are less buoyant than the commodity-exporting regions, higher interest rates could further add to the impression that a “two-speed” economy is developing. In aggregate, however, the forecast is for solid growth. After expanding by 1.25% in 2009, the Australian economy is expected to grow by 3.25% in 2010 and 3.75% next year.

There are several parallels between current Australian economic conditions and those in New Zealand. New Zealand commodity prices have also risen strongly, taking the terms of trade in the last few years to levels last seen in the boom of the early 1970s and boosting incomes in the export sector. There is also evidence of a “two-speed” economy in New Zealand with the housing market softening recently, after previously experiencing a modest upturn. Retail spending is also quite soft and some of the recent business surveys have pointed to growth that is moderate and patchy. After falling by 1.75% last year, GDP is expected to rise by 2% in 2010 and then growth should be boosted to around 3.5% in 2011 by the holding of the Rugby World Cup in New Zealand. The Reserve Bank of New Zealand (RBNZ) has already started lifting its policy rates toward neutral but it is expected to take a more gradual approach than the RBA, as the local economy is not operating at such a high rate of resource utilisation.

Growth has also recommenced in the UK economy after its GDP fell by almost 5% in 2009, in a much deeper recession than seen in either Australia or New Zealand. The magnitude of public sector deficits and debts that have arisen in the UK are also much greater and that has resulted in a much more restrictive outlook for fiscal policy than in Australasia. Winding back the budget deficit and stabilising debt will weigh on the economic outlook, but growth is still expected to reach 1.5% this year and be near 2% in 2011. The weaker Sterling exchange rate is expected to boost net exports and eventually stimulate increased investment in the traded goods industries, while the outlook for the housing market and construction remain soft. There is little urgency for the Bank of England to lift its 0.5% interest rate in this environment, despite CPI inflation that is above its 2% target, with attention focused on whether the central bank will reintroduce its program of asset purchases.

High levels of indebtedness going into the 2008 recession, heightened risk aversion and the weakened outlook for revenues and asset prices have weighed on credit growth across the developed economies.  Despite the variation in their underlying economic conditions, de-leveraging in the business sector has been seen across the US, Euro-zone, Japan, UK, Australia and New Zealand.  Household sector borrowing has fallen heavily in most economies too, with Australian housing credit being one of the best performing components of system credit across all of the developed economies.

There is still little evidence of a rebound in credit demand, although loan officer surveys in some big economies show a greater willingness by banks to extend credit. Given the outlook for only a moderate upturn in private sector activity in the big developed economies, system credit growth is projected to remain subdued in most places.  The exception to this is Australia, where high commodity prices should encourage investment spending, particularly in sectors like mining and infrastructure, and that should support business credit growth.

The downturn in economic activity seen through late 2008 and early 2009 has inevitably had an impact on asset quality.  The percentage of Australian banking system assets classified as impaired rose from 0.2% in 2007 to 1.2% in late 2009 and it has stabilised around that level through the first half of 2010.  However, that is well below the peak seen at the trough of the credit cycle in the early 1990s.  The situation in New Zealand is similar, with the system impaired asset ratio rising from only 0.1% at its lowest in 2007 to 1.25% at the end of 2009.  By contrast, during the recession of the early 1990s the impaired asset ratio exceeded 9% at its peak.

The asset quality position is either different or less clear in other key Group markets.  Asset quality in the UK banking system has deteriorated, with the value of write-offs on Sterling lending more than doubling between the first half of 2007 and the end of 2009, the jobless rate rising from around 5.25% to around 8% and the corporate insolvency rate rising.  However, the extent of deterioration in these measures of asset quality is not as severe as might have been expected given the severity of the downturn.

The situation in the US is quite different, with the delinquent loan ratio standing at around 7.25% in mid-2010, the highest since data has been recorded and above the ratio seen in the recession of the early 1990s.  This situation is driven by the exceptionally high delinquency ratio on home mortgages, as the ratios for the other main categories of lending are below their early 1990s peaks.

The environment in which the Group operates presents a very diverse set of conditions and challenges.  Behind this diversity, all key Group markets are experiencing a heightened awareness of risk, cautious borrowing behaviour and continuing uncertainty.

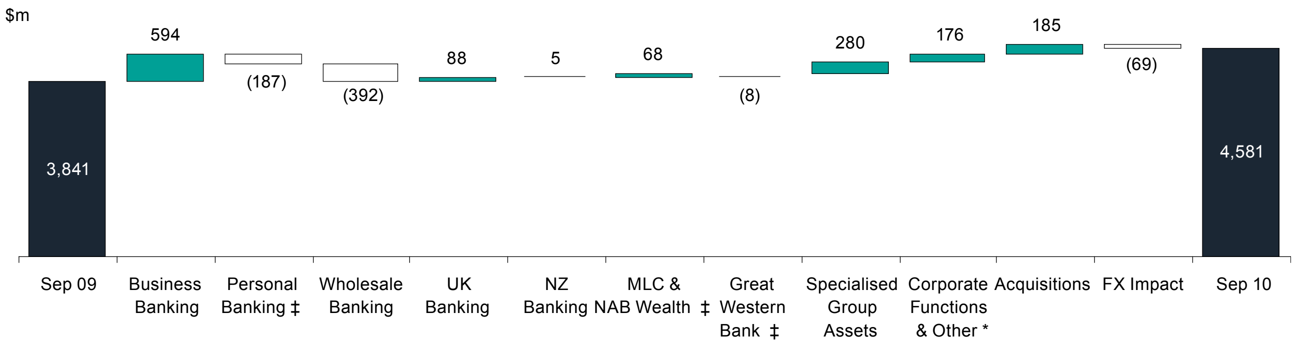
# Review of Group Operations and Results

Mark Joiner

## Group Results

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | **Sep 10 $m** | **Sep 09 $m** | **Sep 10 v Sep 09 %** | **Sep 10 $m** | **Mar 10 $m** | **Sep 10 v Mar 10 %** |
| Net interest income | **12,288** | 12,072 | 1.8 | **6,174** | 6,114 | 1.0 |
| Other operating income | **2,838** | 3,766 | (24.6) | **1,463** | 1,375 | 6.4 |
| MLC net operating income | **1,512** | 1,068 | 41.6 | **764** | 748 | 2.1 |
| **Net operating income** | **16,638** | 16,906 | (1.6) | **8,401** | 8,237 | 2.0 |
| Operating expenses | **(7,862)** | (7,580) | (3.7) | **(4,001)** | (3,861) | (3.6) |
| **Underlying profit** | **8,776** | 9,326 | (5.9) | **4,400** | 4,376 | 0.5 |
| Charge to provide for bad and doubtful debts | **(2,263)** | (3,815) | 40.7 | **(1,033)** | (1,230) | 16.0 |
| **Cash earnings before tax, IoRE, distributions and non-controlling interest** | **6,513** | 5,511 | 18.2 | **3,367** | 3,146 | 7.0 |
| Income tax expense | **(1,777)** | (1,451) | (22.5) | **(893)** | (884) | (1.0) |
| **Cash earnings before IoRE, distributions and non-controlling interest** | **4,736** | 4,060 | 16.7 | **2,474** | 2,262 | 9.4 |
| Net profit - non-controlling interest | **(1)** | - | large | **-** | (1) | large |
| IoRE | **61** | 26 | large | **26** | 35 | (25.7) |
| Distributions | **(215)** | (245) | 12.2 | **(112)** | (103) | (8.7) |
| **Cash earnings** | **4,581** | 3,841 | 19.3 | **2,388** | 2,193 | 8.9 |
| *Non-cash earnings items (after tax):* | | | | | | |
| Distributions | **215** | 245 | (12.2) | **112** | 103 | 8.7 |
| Treasury shares | **106** | (256) | large | **39** | 67 | (41.8) |
| Fair value and hedge ineffectiveness | **(353)** | (79) | large | **(132)** | (221) | 40.3 |
| IoRE discount rate variation | **34** | (4) | large | **43** | (9) | large |
| Efficiency, quality and service initiatives (EQS) | **(237)** | (179) | (32.4) | **(170)** | (67) | large |
| Litigation expense | **(12)** | (110) | 89.1 | **(12)** | - | large |
| Property revaluation | **(4)** | - | large | **(4)** | - | large |
| Provision for tax NZ structured finance transactions | **128** | (542) | large | **-** | 128 | large |
| MLC reinsurance dispute | **(36)** | - | large | **(1)** | (35) | 97.1 |
| ExCaps taxation assessment | **-** | (309) | large | **-** | - | - |
| Amortisation of acquired intangible assets | **(73)** | (6) | large | **(43)** | (30) | (43.3) |
| Due diligence, acquisition and integration costs | **(125)** | (12) | large | **(91)** | (34) | large |
| **Net profit attributable to owners of the Company** | **4,224** | 2,589 | 63.2 | **2,129** | 2,095 | 1.6 |

## Cash Earnings [(1)]




(1) *At constant exchange rates.*

‡ *Excluding acquisitions.*

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



National Australia Bank

## Group Results

Financial Analysis

### September 2010 v September 2009

**Cash earnings** increased by $740 million or 19.3%. Excluding acquisitions and foreign exchange, cash earnings increased by $624 million or 16.2%. This reflects a strong performance by Business Banking and MLC & NAB Wealth and lower mark to market losses in SGA. The decrease in the bad and doubtful debts charge across the Group has contributed significantly to the increase as economic conditions improved.

**Net interest income** has increased by $216 million or 1.8%. Excluding acquisitions and foreign exchange, net interest income increased by $650 million or 5.4%. This reflects the repricing of lending portfolios to align pricing with current risk settings, particularly in UK Banking, Business Banking and NZ Banking, increased volumes in mortgage products and the SME segment (primarily in Australia), and lower basis risk in the UK as the base rate to LIBOR spreads narrowed. This was partly offset by higher funding costs as the term funding portfolio progressively matured and was replaced at higher spreads over benchmark rates. In addition, there were greater competitive pressures on deposit margins.

**Other operating income** decreased by $928 million or 24.6%. Excluding acquisitions and foreign exchange, other operating income decreased by $882 million or 23.4%. This was primarily due to Wholesale Banking's Global Markets and Treasury divisions as volatility reduced from high levels in 2009 and the abolition of certain fees (primarily in Personal Banking) as a part of the Fair Value initiatives. The decrease was reduced by a management overlay of $160 million taken in the September 2009 year not repeated in the current year in respect of conduit related assets and derivative transactions within the Specialised Group Assets (SGA) portfolio.

**MLC net operating income** increased by $444 million or 41.6%. Excluding acquisitions, MLC net operating income increased by $65 million or 6.1%, driven primarily by an increase in funds under management as a result of positive net inflows and investment earnings during the year.

**Operating expenses** increased by $282 million or 3.7%. Excluding acquisitions and foreign exchange, operating expenses increased by $288 million or 3.8%. All businesses have maintained a cost focus within normal business activities, whilst continuing to focus on EQS initiatives to support sustainable business growth.

The Group's **banking cost to income ratio** increased by 200 basis points to 45.9%, primarily reflecting the decline in trading revenue as volatility reduced from high levels in 2009 in Wholesale Banking's Global Markets and Treasury divisions.

The **charge to provide for bad and doubtful debts** decreased by $1,552 million or 40.7%. Excluding acquisitions and foreign exchange, the charge to provide for bad and doubtful debts decreased by $1,346 million or 35.3%. This was driven by a decrease in specific and collective charges as the economic environment improved and enhanced collection capabilities in Personal Banking.

### September 2010 v March 2010

**Cash earnings** increased by $195 million or 8.9%. Excluding foreign exchange, cash earnings increased by $198 million or 9.0%. The increase was mainly as a result of lower mark to market losses in SGA and lower bad and doubtful debt charges.

**Net interest income** has increased by $60 million or 1.0%. Excluding foreign exchange, net interest income increased by $91 million or 1.5%. The increase was primarily due to volume growth in lending products (particularly mortgage products in Australia), and the acquisition of assets of TierOne Bank by GWB during the half. This was partially offset by higher term funding costs and continued pressure on deposit margins.

**Other operating income** increased by $88 million or 6.4%. Excluding foreign exchange, other operating income increased by $95 million or 6.9%. The increase was primarily due to lower mark-to-market losses on the synthetic collateralised debt obligation (SCDO) risk mitigation trades in SGA, partly offset by decreased revenue in Wholesale Banking as a result of lower derivative sales.

**MLC net operating income** increased by $16 million or 2.1% primarily as a result of increased funds under management due to positive net inflows, offset partially by a weaker investment market performance.

**Operating expenses** increased by $140 million or 3.6%. Excluding foreign exchange, operating expenses increased by $162 million or 4.2%. All divisions have delivered a strong cost outcome in their normal business activities, whilst continuing to focus on EQS initiatives, and supporting sustainable business growth. The increase in expenses is primarily related to re-investment in the businesses to generate growth and the acquisition of assets of TierOne Bank by GWB during the half.

The Group's **banking cost to income ratio** increased by 70 basis points to 46.2% primarily as a result of increased expenses reflecting re-investment in the businesses.

The **charge to provide for bad and doubtful debts** decreased by $197 million or 16.0%. Excluding foreign exchange, the charge to provide for bad and doubtful debts decreased by $184 million or 15.0%. This decrease was mainly as a result of stabilised economic conditions.

### Impact of Foreign Exchange Rates Movements

Excluding the foreign exchange rate movements cash earnings increased by $809 million or 21.1% on the September 2009 year and increased by $198 million or 9.0% on the March 2010 half year. Foreign exchange movements have had an adverse impact on both the September 2010 full year ($69 million) and the September 2010 half year ($3 million) result.

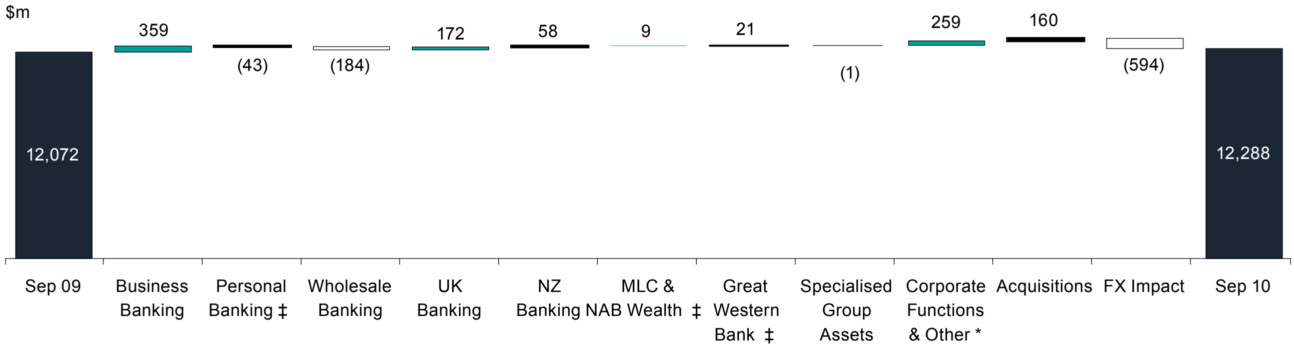
See page 161 to 162 for the September 2010 and March 2010 divisional performance summaries excluding acquisitions and foreign exchange rate movements.

## Net Interest Income

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | **Sep 10** | **Sep 09** | **Sep 10 v Sep 09 %** | **Sep 10** | **Mar 10** | **Sep 10 v Mar 10 %** |
| Net interest income ($m) | **12,288** | 12,072 | 1.8% | **6,174** | 6,114 | 1.0% |
| Average interest earning assets ($bn) | **546.6** | 559.4 | (2.3%) | **549.8** | 543.4 | 1.2% |
| Net interest margin (%) | **2.25** | 2.16 | 9 bps | **2.24** | 2.26 | (2 bps) |
| **Composition of Net Interest Income** | | | | | | |
| Banking | **10,921** | 10,385 | 5.2% | **5,528** | 5,393 | 2.5% |
| Wholesale Banking | **1,189** | 1,467 | (19.0%) | **573** | 616 | (7.0%) |
| Specialised Group Assets | **178** | 220 | (19.1%) | **73** | 105 | (30.5%) |
| **Net interest income** | **12,288** | 12,072 | 1.8% | **6,174** | 6,114 | 1.0% |

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

**Net Interest Income - Contribution to Net Increase [(1)]**




[(1)] *At constant exchange rates.*
‡ *Excluding acquisitions.*
* *Corporate Functions and Other includes Group Funding, Group Business Services, other supporting units and Asia Banking.*

### September 2010 v September 2009

*Net interest income* increased by $216 million or 1.8% ($650 million or 5.4% excluding acquisitions and foreign exchange).

**Banking net interest income** increased by $536 million or 5.2% ($835 million or 8.0% excluding acquisitions and foreign exchange). The contributing factors were:

- Repricing of the lending portfolio in line with current market conditions primarily in Business Banking and UK Banking.
- Growth in lending in the SME and specialised business segments in Business Banking and increased mortgage volumes in Personal Banking.
- Reduced exposure to basis risk due to more products being priced off LIBOR in UK Banking coupled with the narrowing of spreads.
- A decrease in short-term funding costs across the business units as spreads eased.
- Lower liquidity costs due to more favourable market conditions in the latter part of the 2010 financial year.

The increase was partially offset by:

- Term funding costs further elevated, putting added pressure on net margins. The term funding costs have increased by $506 million to $1,130 million for the financial year ended September 2010.
- Continued pressure on deposits as competition for deposits has intensified.
- Lower earnings on equity have been driven by the fall in global interest rates. As equity is invested over periods of longer than one year, returns have continued to fall, notwithstanding recent Australian interest rate rises. Equity and earnings on that equity are allocated to the business units. Surplus equity and earnings on that surplus are reflected in Group Funding.

**Wholesale Banking's** net interest income decreased by $278 million or 19.0% ($184 million or 12.5% excluding foreign exchange) mainly due to a contraction in spreads and reduced sub-benchmark funding opportunities.

### September 2010 v March 2010

*Net interest income* increased by $60 million or 1.0% over the half (an increase of $91 million or 1.5% excluding foreign exchange).

**Banking net interest income** increased by $135 million or 2.5%. Excluding foreign exchange, net interest income increased $159 million or 2.9%, mainly attributable to repricing for risk and sustained growth in mortgage volumes, partially offset by continued pressure on deposits in a highly competitive market.

**Wholesale Banking's** net interest income decreased by $43 million or 7.0% (a decrease of $38 million or 6.2% excluding foreign exchange). The decrease was due to reduced spreads in short term funding markets.

## Average Interest Earning Assets

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 $m | Mar 10 $m | Sep 10 v Mar 10 % |
| Loans and advances - housing | **213,069** | 200,532 | 6.3 | **218,730** | 207,408 | 5.5 |
| Loans and advances - non-housing | **172,250** | 185,189 | (7.0) | **172,828** | 171,672 | 0.7 |
| Acceptances | **52,957** | 55,307 | (4.2) | **51,665** | 54,249 | (4.8) |
| Due from other banks | **40,168** | 42,819 | (6.2) | **36,341** | 43,995 | (17.4) |
| Marketable debt securities | **48,127** | 56,618 | (15.0) | **50,480** | 45,774 | 10.3 |
| Other interest earning assets | **20,013** | 18,892 | 5.9 | **19,764** | 20,262 | (2.5) |
| **Total average interest earning assets** | **546,584** | 559,357 | (2.3) | **549,808** | 543,360 | 1.2 |

### September 2010 v September 2009

**Average interest earning assets** declined by $12.8 billion or 2.3% on the September 2009 year. Excluding the impact of foreign exchange and acquisitions, average interest earning assets increased by $12.3 billion or 2.3% mainly due to growth in lending. The increase in lending was largely attributable to growth in housing lending across the divisions of the Group. Non-housing lending remained steady, reflecting growth in SME and specialised businesses, offset by a reduction in institutional lending.

**Housing lending** increased by $13.0 billion or 6.7%, excluding the impact of foreign exchange and acquisitions, mainly due to:

- An increase of $7.4 billion or 8.4% in Personal Banking and an increase of $3.0 billion or 5.8% in Business Banking, driven by the competitive pricing strategy resulting in above system growth.
- An increase of $0.8 billion or 3.9% in NZ Banking. Whilst system growth in housing lending remained subdued, the business maintained its market share.
- An increase of $1.0 billion or 4.7% in UK Banking due to improved sales in the Retail business.

**Non-housing lending** and acceptances declined by $2.7 billion or 1.2%, excluding the impact of foreign exchange and acquisitions. This was mainly due to:

- An increase of $0.6 billion or 0.5% in Business Banking, which reflected growth in the SME and specialised business segments, partly offset by lower lending volumes in the institutional segment, as customers de-leveraged their balance sheets.
- A decline of $1.0 billion or 7.8% in Wholesale Banking mainly due to reduced market demand for funds.
- A decline of $1.6 billion or 4.5% in UK Banking, reflecting the strategy to reduce exposure to commercial property and unsecured personal lending. The decline in lending was also due to subdued customer demand for credit.
- A decline of $0.8 billion or 9.2% in Specialised Group Assets (SGA) mainly due to repayment and reduction of assets as the business is being managed down.

**Due from other banks**, **marketable debt securities** and **other interest earning assets** increased in total by $2.0 billion, excluding the impact of foreign exchange and acquisitions, mainly due to the rise in liquid asset holdings.

### September 2010 v March 2010

**Average interest earning assets** increased by $6.4 billion or 1.2% on the March 2010 half year. Excluding the impact of foreign exchange, volumes increased by $10.2 billion or 1.9%. This increase was mainly due to:

- An increase of $12.0 billion or 5.8% in **housing lending** which was largely due to strong home lending growth as the strategic pricing strategy gained momentum in Personal Banking and Business Banking. Growth was also achieved in UK Banking and NZ Banking. System growth in the NZ housing market remained subdued, whilst the business maintained its market share.
- **Non-housing lending** and acceptances were unchanged reflecting growth in Business Banking and Great Western Bank (GWB) partly offset by declines in Wholesale Banking, UK Banking, NZ Banking and SGA. Growth in Business Banking reflected an increase in lending to the SME and specialised business segments, partly offset by a decline in institutional lending. Growth in GWB reflected the continued momentum of organic growth in lending and the acquisition of assets of TierOne during the September half year. Lower lending in Wholesale Banking, UK Banking and NZ Banking businesses reflected subdued customer demand. The decline in SGA was mainly due to the repayment and reduction of loans as the business is being managed down.
- The total for **due from other banks, marketable debt securities** and **other interest earning assets**, excluding the impact of foreign exchange, declined by $1.8 billion. This was mainly due to a decline in balances due to other banks, reflecting the Group's strategy to pursue customer deposits.

## Average Interest Bearing Liabilities

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 $m | Mar 10 $m | Sep 10 v Mar 10 % |
| Retail deposits [1] | **204,594** | 192,239 | 6.4 | **208,435** | 200,753 | 3.8 |
| Non-retail deposits and other borrowings | **140,597** | 153,711 | (8.5) | **135,741** | 145,453 | (6.7) |
| Due to other banks | **38,467** | 51,224 | (24.9) | **39,893** | 37,041 | 7.7 |
| Liability on acceptances | **15,422** | 17,053 | (9.6) | **14,518** | 16,326 | (11.1) |
| Bonds, notes and subordinated debt | **95,683** | 109,464 | (12.6) | **97,914** | 93,452 | 4.8 |
| Other interest-bearing liabilities | **2,727** | 1,816 | 50.2 | **2,681** | 2,773 | (3.3) |
| **Total average interest bearing liabilities** | **497,490** | 525,507 | (5.3) | **499,182** | 495,798 | 0.7 |

(1) *Retail deposits exclude deposits not bearing interest.*

### September 2010 v September 2009

**Average interest bearing liabilities** declined by $28.0 billion or 5.3% on the September 2009 year. Excluding the impact of foreign exchange and acquisitions, average interest bearing liabilities increased by $1.9 billion or 0.4%, and this was movement was driven by:

- An increase in retail deposits of $21.4 billion or 11.8%, reflecting the continued focus on improving deposit raising capability and reducing the reliance on short-term wholesale funding to fund business needs.
- A decline of $11.2 billion or 10.5% in bonds, notes and subordinated debt, reflecting the movement in the foreign currency translation of foreign-denominated debt in Australia. This was partly offset by net debt issuances to strengthen the balance sheet structure and lengthen the term of the Group's funding.
- A decline of $6.4 billion or 14.3% in due to other banks, which was mainly in wholesale deposits, and reflects the Group's strategic focus to pursue retail deposits.

The increase in **retail deposits**, excluding the impact of foreign exchange and acquisitions, was mainly due to:

- An increase of $6.0 billion or 9.1% in Business Banking, driven by a strategic focus on deposits and reducing the reliance on wholesale funding to meet business needs.
- An increase of $7.4 billion or 15.8% in Personal Banking, due to strong growth in UBank which has been driven by the launch of its online savings account, USaver, in August 2009. This product has been a key contributor to Personal Banking's growth in household deposits, which was 1.8x system in 2010.
- An increase of $1.9 billion or 9.4% in NZ Banking as the business achieved growth in the highly competitive market.
- An increase of $4.2 billion or 12.4% in UK Banking, due to the strong performance in attracting retail deposits.
- An increase of $1.5 billion or 45.1% in Asia Banking due to the strong growth in term deposit products.

**Non-retail deposits and other borrowings** declined by $1.1 billion or 0.8%, excluding the impact of foreign exchange and acquisitions, and this was due to:

- A decline of $2.8 billion or 2.4% in Wholesale Banking reflecting the lower levels of short-term funding requirements of other NAB businesses as a result of successful deposit raisings across the Group.
- An increase of $2.7 billion or 40.2% in UK Banking reflecting an increasing demand for certificates of deposit.
- A reduction of $1.1 billion or 44.6% in SGA due to the run off of business assets.

**Liability on acceptances** declined by $1.6 billion or 9.6%, excluding the impact of foreign exchange and acquisitions, and this was mainly due to a decline in acceptance assets in Business Banking as customers transitioned to other products.

**Other interest bearing liabilities** increased by $1.3 billion or 87.8%, excluding the impact of foreign exchange and acquisitions, mainly due to two issuances which were undertaken in September 2009.

### September 2010 v March 2010

**Average interest bearing liabilities** increased by $3.4 billion or 0.7%. Excluding the impact of foreign exchange, average interest bearing liabilities increased by $6.2 billion or 1.3%. This increase was due to:

- An increase of $8.6 billion or 4.3% in **retail deposits** due to a continued focus to raise deposits as a source of funding for business needs. The increase in deposits was mainly due to growth in Personal Banking, UK Banking and GWB. Personal Banking growth was achieved in the proprietary network and UBank. UK Banking growth reflected a continued momentum in iFS and a robust performance by the proprietary network. GWB continued the momentum of organic growth in customer deposits.
- A decline of $8.5 billion or 5.9% in **non-retail deposits and other borrowings**. An increase in retail deposits has resulted in a reduced need to raise non-retail deposits and other borrowings to fund business needs.
- An increase of $3.3 billion or 9.0% in due to other banks reflecting the availability of low cost funding in the latter part of the September 2010 half.
- A decline of $1.8 billion or 11.1% in **liability on acceptances** mainly due to the reduction in acceptance assets in Business Banking.
- An increase of $4.7 billion or 5.0% in **bonds, notes and subordinated debt**. This increase primarily reflected net debt issuances to strengthen the balance sheet structure and lengthen the term of the Group's funding.

## Net Interest Margin

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | Sep 10 % | Sep 09 % | Sep 10 v Sep 09 | Sep 10 % | Mar 10 % | Sep 10 v Mar 10 |
| Business Banking | **2.51** | 2.35 | 16 bps | **2.50** | 2.51 | (1 bps) |
| Personal Banking | **2.31** | 2.57 | (26 bps) | **2.28** | 2.34 | (6 bps) |
| NZ Banking | **2.16** | 2.06 | 10 bps | **2.24** | 2.08 | 16 bps |
| UK Banking | **2.34** | 2.25 | 9 bps | **2.28** | 2.40 | (12 bps) |
| Great Western Bank | **4.02** | 3.76 | 26 bps | **3.99** | 4.06 | (7 bps) |
| **Group net interest margin** | **2.25** | 2.16 | 9 bps | **2.24** | 2.26 | (2 bps) |

### Net interest margin - contribution by business units


### September 2010 v September 2009

The Group's *net interest margin* increased by 9 basis points during the year to September 2010. The increase was attributable to repricing for current market conditions in Business Banking and UK Banking lending portfolios, lower short-term funding costs as spreads contracted, partially offset by higher term funding and deposit costs.

Key contributions to the Group net interest margin movements were:

- A 5 basis point increase from Business Banking, attributable to expanded margins in lending due to repricing for current market conditions, together with growth in higher margin products.
- A 3 basis point decrease from Personal Banking, due to an increase in funding and deposit costs and growth in traditionally lower margin mortgage products.
- A 1 basis point increase from UK Banking driven by repricing initiatives and reduced exposure to basis risk, partially offset by higher funding costs, lower deposit margins and lower earnings on capital.
- A 1 basis point increase from NZ Banking driven by a favourable lending product mix as a result of the growth in higher margin mortgage products and repricing initiatives.
- A 3 basis point increase from Wholesale Banking reflective of an improvement in the mix due to a reduction in low yielding liquid assets.

### September 2010 v March 2010

The Group's *net interest margin* has decreased by 2 basis points over the March 2010 half. Key contributions to the Group net interest margin movements were:

- A 1 basis point decrease from Personal Banking, due to higher funding and deposit costs, as well as product mix as a result of growth in mortgage products.
- A 2 basis point decrease in UK Banking attributable to sustained pressure on deposit margins, lower earnings on capital and margin dilution from the increase in low yielding liquid assets.
- A 1 basis point increase in NZ Banking, reflecting repricing for risk and a favourable mix resulting from growth in higher margin mortgage products.

## Other Operating Income

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | **Sep 10 $m** | **Sep 09 $m** | **Sep 10 v Sep 09 %** | **Sep 10 $m** | **Mar 10 $m** | **Sep 10 v Mar 10 %** |
| Fees and commissions | **2,587** | 2,888 | (10.4) | **1,284** | 1,303 | (1.5) |
| Trading income | **100** | 828 | (87.9) | **100** | - | large |
| Other | **151** | 50 | large | **79** | 72 | 9.7 |
| **Other operating income** | **2,838** | 3,766 | (24.6) | **1,463** | 1,375 | 6.4 |
| | | | | | | |
| **Composition of Trading Income** | | | | | | |
| Wholesale Banking | **493** | 1,325 | (62.8) | **242** | 251 | (3.6) |
| Specialised Group Assets | **(299)** | (535) | 44.1 | **(69)** | (230) | 70.0 |
| Group Treasury | **(96)** | 13 | large | **(39)** | (57) | 31.6 |
| Other | **2** | 25 | (92.0) | **(34)** | 36 | large |
| **Trading income** | **100** | 828 | (87.9) | **100** | - | large |

### Other Operating Income - Contribution to Net Decrease [1]


*(1) At constant exchange rates.*
*‡ Excluding acquisitions.*
** Corporate Functions and Other includes Group Funding, Group Business Services, other supporting units and Asia Banking.*

### September 2010 v September 2009

**Other operating income** decreased by $928 million or 24.6% ($882 million or 23.4% excluding acquisitions and foreign exchange) from September 2009.

**Fees and commissions** decreased by $301 million or 10.4% ($226 million or 7.8% excluding acquisitions and foreign exchange). This is mainly due to the abolition of numerous fees and charges as part of the Fair Value initiatives, which contributed $233 million of the decline across Personal Bank, Business Bank and NZ Banking.

**Trading income** decreased by $728 million or 87.9% ($730 million or 88.2% excluding foreign exchange).

*Wholesale Banking's* contribution to trading income decreased by $832 million or 62.8% ($815 million or 61.5% excluding foreign exchange). This decrease mainly was driven by reduced volatility compared to the high levels experienced in 2009.

*Specialised Group Assets'* contribution to trading income improved by $236 million or 44.1% ($204 million or 38.1% excluding foreign exchange). The increase was attributable to:

- A management overlay of $160 million taken in the September 2009 year in respect of conduit related assets and derivative transactions to reflect the uncertainty created by the economic conditions.
- Lower credit valuation adjustments on the derivative transactions.

*Group Treasury's* contribution to trading income decreased by $109 million ($87 million excluding foreign exchange). The decrease was driven by lower earnings due to fewer revenue hedges within the current year.

**Other income** increased by $101 million ($95 million excluding acquisitions and foreign exchange) primarily as a result of certain impairments in the prior period, relating to the property finance investment portfolio in Wholesale Banking.

### September 2010 v March 2010

**Other operating income** increased by $88 million or 6.4% ($95 million or 6.9% excluding foreign exchange) from March 2010.

**Fees and commissions** decreased by $19 million or 1.5% ($11 million or 0.8% excluding foreign exchange). This was attributable to a reduction in swap fees in Group Funding of $44 million, driven by a decrease in the number of deals issued over the half to September 2010. The result was partially offset by:

- Higher fees and income of $13 million in UK Banking.
- An increase in annual credit card fees and higher home loan package fees within Personal Banking.

**Trading income** increased by $100 million ($100 million excluding foreign exchange).

*Wholesale Banking's* [1] contribution to trading income decreased by $79 million ($78 million or 3.2% excluding foreign exchange). This decrease was mainly due to lower derivative sales.

*Specialised Group Assets'* contribution increased by $161 million or 70.0% ($160 million excluding foreign exchange). The increase was due to favourable fair value movements of $95 million attributable to the SCDO risk mitigation trades as credit spreads narrowed and lower counterparty credit valuation adjustments on derivative transactions ($52 million).

*Group Treasury's* contribution to trading income increased by $18 million or 31.6% ($16 million or 29.6% excluding foreign exchange), due to favourable hedging positions over the second half.

*(1) Excluding internal funding transactions.*

## MLC Net Operating Income

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 $m | Mar 10 $m | Sep 08 v Mar 08 % |
| Investments net operating income | 1,008 | 679 | 48.5 | 514 | 494 | 4.0 |
| Insurance net operating income | 504 | 389 | 29.6 | 250 | 254 | (1.6) |
| **MLC net operating income** | 1,512 | 1,068 | 41.6 | 764 | 748 | 2.1 |

### September 2010 v September 2009

**Investments net operating income** increased by $329 million or 48.5% against September 2009. Excluding acquisitions, investment net operating income increased by $43 million or 6.3%. The primary driver of this underlying increase is the growth in funds under management.

Funds under management increased by $31 billion or 36.5% over the year to September 2010, driven by the Aviva acquisition ($18.4 billion), investment earnings of $2.8 billion following an improvement in investment market returns during the March 2010 half, (partly offset by a weaker investment market performance in the September 2010 half), and positive net inflows of $7.2 billion primarily as a result of increased wholesale business.

**Insurance net operating income** increased by $115 million or 29.6%. Excluding acquisitions, insurance net operating income increased by $22 million or 5.7%, largely driven by an increase in average inforce premiums. Earnings on assets backing the Insurance portfolio improved, reflecting the impact of interest rate movements on government and semi-government bond yields.

### September 2010 v March 2010

**Investments net operating income** increased by $20 million or 4.0% against March 2010 mainly driven by higher funds under management.

Funds under management increased by $1.9 billion or 1.6% over the September 2010 half, driven largely by net inflows of $2.6 billion as a result of strong wholesale netflows for JANA and nabInvest, partly offset by a reversal of investment earnings.

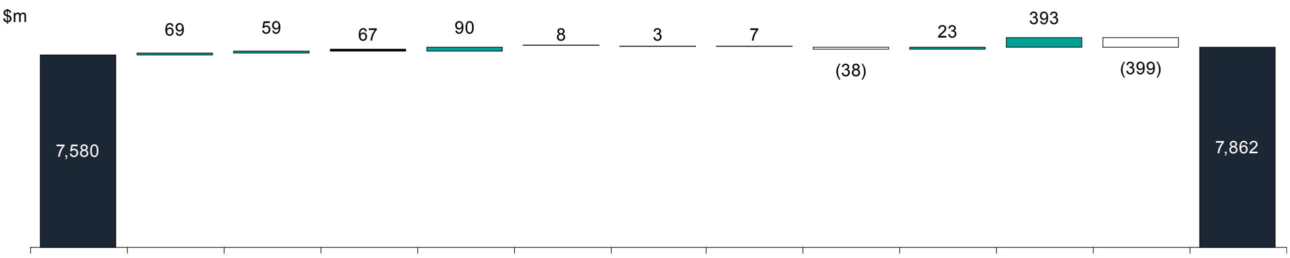
**Insurance net operating income** decreased by $4 million or 1.6% due to unfavourable claims experience for individual lump sum products, largely offset by favourable claims experience for group and individual disability products. Also contributing to the decrease was a change in business mix which included a greater proportion of level premium business being written.

## Operating Expenses

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 $m | Mar 10 $m | Sep 10 v Mar 10 % |
| Personnel expenses | 3,996 | 3,937 | (1.5) | 2,041 | 1,955 | (4.4) |
| Occupancy related expenses | 695 | 662 | (5.0) | 328 | 367 | 10.6 |
| General expenses | 2,184 | 2,293 | 4.8 | 1,129 | 1,055 | (7.0) |
| MLC operating expenses (1) | 987 | 688 | (43.5) | 503 | 484 | (3.9) |
| **Total operating expenses** | 7,862 | 7,580 | (3.7) | 4,001 | 3,861 | (3.6) |

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

### Operating Expenses - Contribution to Net Increase (1)




(1) *At constant exchange rates.*
‡ *Excluding acquisitions.*
* *Corporate Functions and Other includes Group Funding, Group Business Services, other supporting units and Asia Banking.*

### September 2010 v September 2009

**Operating expenses** increased by $282 million or 3.7% against September 2009. Excluding foreign exchange and acquisitions, operating expenses increased by $288 million or 3.8%. The Group continues to tightly manage expenses through its efficiency, quality and service (EQS) initiatives, whilst supporting sustainable business growth.

**Personnel expenses** increased by $59 million or 1.5%. Excluding foreign exchange and acquisitions, personnel expenses increased by $194 million or 4.9%. This was primarily due to salaries and wages relating to additional resources to support revenue growth initiatives including increased activity relating to the Next Generation Banking IT Platform (NGP) of $46 million. The costs associated with the defined benefit pension scheme in UK Banking also increased due to lower expected returns from the pension scheme's assets, together with a lower discount rate being applied to the scheme's liabilities ($59 million). This was partially offset by savings from EQS initiatives.

**Occupancy related expenses** increased by $33 million or 5.0%. Excluding foreign exchange and acquisitions, occupancy expenses increased by $74 million or 11.2%, mainly from increased FTE growth and new kiosks and branches in Personal Banking, an uplift in property occupancy costs in UK Banking, and increased refurbishment and depreciation costs in Wholesale Banking.

**General expenses** decreased by $109 million or 4.8%. Excluding foreign exchange and acquisitions, general expenses decreased by $10 million or 0.4% mainly due to a continued focus on strong expense control across the Group, partially offset by increased activity related to NGP.

**MLC operating expenses** increased by $299 million or 43.5%. Excluding acquisitions, MLC operating expenses increased by $30 million or 4.4% driven by increased strategic initiatives offset by disciplined cost management.

### September 2010 v March 2010

**Operating expenses** increased by $140 million or 3.6% against March 2010. Excluding foreign exchange, operating expenses increased by $162 million or 4.2%.

**Personnel expenses** increased by $86 million or 4.4%. Excluding foreign exchange, personnel expenses increased by $96 million or 4.9% primarily due to additional resources to support revenue growth activities in the Group. The TierOne assets and F&M acquisitions in GWB had an impact of $9 million. Increased activity in the NGP also increased personnel expenses by $7 million.

**Occupancy related expenses** decreased by $39 million or 10.6%. Excluding foreign exchange, occupancy expenses decreased by $35 million or 9.5% mainly due to the timing of occupancy costs in UK Banking and Personal Banking.

**General expenses** increased by $74 million or 7.0%. Excluding foreign exchange, general expenses increased by $82 million or 7.8% mainly due to increased project activity relating to the NGP, and the acquisition of the banking franchise of TierOne by GWB during the half.

**MLC operating expenses** increased by $19 million or 3.9% mainly due to increased strategic initiatives offset by disciplined cost management.

## Taxation

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 $m | Mar 10 $m | Sep 10 v Mar 10 % |
| **Income tax expense ($m)** | **1,777** | 1,451 | (22.5%) | **893** | 884 | (1.0%) |
| **Effective tax rate (%)** | **27.3** | 26.3 | (100 bps) | **26.5** | 28.1 | 160 bps |

### September 2010 v September 2009

**Income tax expense** for the year was $326 million or 22.5% higher than the September 2009 year, mainly due to an increase in cash earnings before tax. Excluding the effects of foreign exchange, the income tax expense for the year was $347 million or 23.9% higher than the September 2009 year.

The **effective income tax rate** for the September 2010 year of 27.3% has increased from the effective income tax rate of the September 2009 year of 26.3%. Excluding the effects of foreign exchange, the effective income tax rate for the September 2010 year was 27.1%.

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

### September 2010 v March 2010

**Income tax expense** for the September 2010 half was $9 million or 1.0% higher than the March 2010 half, mainly due to an increase in cash earnings before tax. Excluding the effects of foreign exchange, the income tax expense for the year was $10 million or 1.1% higher than the March 2010 year.

The **effective income tax rate** for the September 2010 half of 26.5% has decreased from the effective income tax rate of the March 2010 half of 28.1%. Excluding the effects of foreign exchange, the effective income tax rate for the September 2010 half was 26.5%.

## Non-cash Earnings Items

### Efficiency, Quality & Service Initiatives

| | Expense | | | Net Incremental Benefits [1] | | |
|---|---|---|---|---|---|---|
| | Year to Sep 09 | Year to Sep 10 | Total Expense | Year to Sep 09 | Year to Sep 10 | Year to Sep 11 |
| Division | $m | $m | $m | $m | $m | $m |
| Business Banking | 39 | 70 | **109** | 13 | 77 | 232 |
| Personal Banking | 59 | 111 | **170** | 32 | 134 | 286 |
| Wholesale Banking | 10 | 28 | **38** | 3 | 18 | 35 |
| MLC & NAB Wealth | 25 | 19 | **44** | 8 | 18 | 28 |
| NZ Banking | 11 | 31 | **42** | 5 | 28 | 33 |
| UK Banking | 64 | 34 | **98** | 31 | 87 | 106 |
| Specialised Group Assets | 14 | - | **14** | 7 | 18 | 20 |
| Corporate Functions and Other | 32 | 46 | **78** | 5 | 39 | 65 |
| **Total** | 254 | 339 | **593** | 104 | 419 | 805 |

[1] *Net incremental benefits (including revenue and expense benefits) are measured against the September 2008 full year.*

The Group announced as part of its 12 March 2009 strategy update that specified Efficiency, Quality and Service (EQS) initiatives would be accelerated in response to the economic downturn to bring forward efficiency gains that would otherwise have been realised in subsequent periods.

The cost of these initiatives has been recorded outside of cash earnings.

Key initiatives through the period have been:

- **Business Banking:** Initiatives totalling $70 million aim to deepen the relationship banking model and improve the focus on customers and sales effectiveness. Initiatives also included centralising, standardising and improving the efficiency of the back office and support functions.
- **Personal Banking:** The EQS investment has continued to be focused on restoring the core of the business, investing in streamlining roles and removing administration from the network and restoring operational efficiency to key processes including mortgages, credit cards and collections.
- **Wholesale Banking:** Initiative spend of $28 million for the year largely relates to the ongoing improvement in the efficiency of support and technology functions to enable collaboration and align systems and processes with the franchise focused agenda.
- **MLC and NAB Wealth:** Investment is focused on a new private wealth investment platform, designed to support trading services, portfolio services, margin lending and cash management. The platform is multi-brand, configurable, and designed to deliver a differentiated client experience for different channels and segments and will support the JBWere business.
- **NZ Banking:** The transformation of BNZ's retail franchise has gathered momentum in 2010. The retail bank branch distribution model is being reshaped to optimise the delivery channels and create new revenue opportunities. In addition, support functions are being centralised, improving the standardisation of processes and enabling resources to be directed towards revenue generating activities.
- **UK Banking:** The business has continued to invest in its efficiency program across a range of front and back office activities, focussing on alignment of the service model with customer needs. This included the initiation of a strategic partnership for document distribution and digitisation, and a transformational program to upgrade and expand the ATM network.
- **Specialised Group Assets:** Initiatives were concluded in the prior period, and the reshaped business now operates in line with revised levels to manage down the non-franchise corporate lending and securitisation businesses in the UK and US.
- **Corporate Functions:** $46 million has been invested in EQS program initiatives, simplifying the technology operating model, processes and consolidating operating sites as part of the Group's convergence activities.

### Fair Value and Hedge Ineffectiveness

The definition of items excluded from cash earnings attributable to fair value movements and hedge ineffectiveness is consistent with the prior year. Volatility from the transactions excluded from cash earnings will be income neutral over the full term of the transaction. However, volatility over the life of the transaction is expected.

Adverse fair value movements and hedge ineffectiveness of $501 million ($353 million after tax) has increased by $386 million ($274 million after tax) over the prior year.

The adverse movement was largely attributable to changes in interest rates and an increase in the value of the Australian dollar. The following movements have occurred:

- Adverse fair value movements relating to *Trading derivatives for risk management purposes* decreased by $214 million over the prior year. This decrease was primarily due to adverse fair value movements on swaps used to hedge interest rate risk being lower than in the prior year as declines in interest rates were less pronounced than those experienced in 2009, particularly in the UK.
- Adverse fair value movements relating to *Assets, liabilities and derivatives designated in hedge relationships* increased by $257 million over the prior year. This increase was largely due to fair value movements on economic hedges for long term foreign denominated funding being greater than in the prior year due to the strengthening of the Australian dollar through 2010 and movements in basis spreads between Australian and foreign interest rates.
- Favourable fair value movements relating to *Assets and liabilities designated at fair value* decreased by $343 million over the prior year. This decrease was largely driven by declines in interest rates, primarily in the UK, which were less pronounced than in 2009, together with increases in collective provisions.

## Treasury Shares

For statutory reporting purposes, the Group is required to eliminate the effect upon net profit of the Group's life insurance businesses holding investments in National Australia Bank Limited shares. The effects eliminated include unrealised mark to market movements arising from changes in the share price, dividend income, and realised profits and losses arising from share sales. In the September 2010 year there was a total adjustment to net profit of $133 million ($106 million after tax) attributable to these adjustments.

## IoRE Discount Rate Variation

The IoRE discount rate variation represents the profit impact of the change in value of policy liabilities resulting from a movement in the real risk free discount rate. The weighted average real risk free discount rate applied to policy liabilities has decreased from 3.39% at September 2009 to 2.58% at September 2010 resulting in a pre-tax gain of $48 million ($34 million after tax).

## NZ Structured Finance Transactions

At 30 September 2009, BNZ had provided for tax on its structured finance tax case of $542 million. This provision was created after the New Zealand Inland Revenue Department (IRD) successfully challenged six structured finance transactions undertaken by BNZ. The provisions raised covered the full potential primary tax liability, plus interest. The IRD was also in dispute with other New Zealand banks in relation to similar transactions.

On 23 December 2009, all the New Zealand banks settled with the IRD for 80% of the primary tax in dispute. Normal interest charges were applied, but no penalties were imposed. The parties have agreed that all matters relating to the transactions are now concluded.

As a result of this settlement, BNZ has released the unused portion of the provision previously made.

## MLC Reinsurance Dispute

The Australian Tax Office (ATO) issued amended assessments for $77 million tax as part of its review of a reinsurance arrangement entered into by MLC Lifetime Company Limited ("MLC Lifetime") in the 1998 tax year. Objections lodged against the amended assessments were determined unfavourably by the ATO.

MLC Lifetime has now reached a settlement with the ATO in relation to the reinsurance dispute and the proceedings commenced in the Federal Court have been discontinued.

## Due Diligence, Acquisition and Integration Costs

These costs represent expenses associated with integrating acquisitions within the NAB operating model and reporting platforms as well as costs associated with acquisition transactions.

The Aviva acquisition was completed on 1 October 2009. The integration of Aviva's insurance operations, its discretionary investment platform Navigator and Business Super is tracking ahead of expectations, with cost synergies above the acquisition business case. The total integration costs recognised for the September 2010 year amounted to $69 million.

The strategic alliance with Goldman Sachs JBWere (GSJBW) was completed on 1 November 2009 after MLC & NAB Wealth acquired 80.1% of GSJBW's private wealth management business in Australia and New Zealand, which was branded JBWere. The total integration costs recognised for the September 2010 year were $47 million.

The Challenger Mortgage Management acquisition, now branded Advantedge, was completed on 30 October 2009. The total integration costs recognised for the September 2010 year were $17 million.

The GWB integration costs of $17 million for the September 2010 year represents the remaining expenses incurred in aligning GWB with NAB and the integration of TierOne assets, Colorado and F&M Bank.

Due diligence costs of $31 million were incurred during the year.

| | Year ended | | Half year ended | |
|---|---|---|---|---|
| | **Sep 10 $m** | **Sep 09 $m** | **Sep 10 $m** | **Mar 10 $m** |
| Aviva | **69** | - | **51** | 18 |
| JBWere | **47** | - | **28** | 19 |
| Advantedge | **17** | - | **10** | 7 |
| Great Western Bank | **17** | 18 | **13** | 4 |
| Due diligence costs | **31** | - | **31** | - |
| **Total** | **181** | 18 | **133** | 48 |

## Amortisation of acquired intangibles

The amortisation of acquired intangibles represents the amortisation of intangible assets acquired through the acquisition of GWB, Aviva, JBWere and Advantedge.

## Property Revaluation

Property revaluation represent increments and decrements arising from unrealised revaluations of the Group's owned properties which are required to be recognised for statutory reporting purposes in the income statement.

## Distributions

Distributions relating to hybrid equity instruments are treated an expense for cash earnings purposes and as a distribution from equity for statutory reporting purposes. The hybrid equity instruments are National Income Securities, Trust Preferred Securities, Trust Preferred Securities II and National Capital Instruments.

## Summary Balance Sheet

| | As at | | | | |
|---|---|---|---|---|---|
| | 30 Sep 10 $m | 31 Mar 10 $m | 30 Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 v Mar 10 % |
| **Assets** | | | | | |
| Cash and liquid assets | **26,072** | 23,819 | 25,834 | 0.9 | 9.5 |
| Due from other banks | **37,679** | 38,631 | 33,265 | 13.3 | (2.5) |
| Trading securities | **25,821** | 24,219 | 22,219 | 16.2 | 6.6 |
| Investments - available for sale | **14,572** | 7,529 | 7,933 | 83.7 | 93.5 |
| Investments - held to maturity | **13,789** | 13,609 | 17,529 | (21.3) | 1.3 |
| Marketable debt securities | **54,182** | 45,357 | 47,681 | 13.6 | 19.5 |
| Investments relating to life insurance business | **64,560** | 61,990 | 54,254 | 19.0 | 4.1 |
| Loans and advances at fair value | **36,700** | 30,909 | 29,567 | 24.1 | 18.7 |
| Other assets at fair value | **709** | 854 | 1,963 | (63.9) | (17.0) |
| Other financial assets at fair value | **37,409** | 31,763 | 31,530 | 18.6 | 17.8 |
| Loans and advances including acceptances | **404,513** | 396,579 | 399,809 | 1.2 | 2.0 |
| Goodwill and other intangible assets | **7,077** | 6,939 | 6,243 | 13.4 | 2.0 |
| Other assets | **54,460** | 45,282 | 55,504 | (1.9) | 20.3 |
| **Total assets** | **685,952** | 650,360 | 654,120 | 4.9 | 5.5 |
| **Liabilities** | | | | | |
| Due to other banks | **37,612** | 43,735 | 36,148 | 4.1 | (14.0) |
| Deposits at fair value | **10,212** | 9,523 | 10,365 | (1.5) | 7.2 |
| Other liabilities at fair value | **9,675** | 10,043 | 10,946 | (11.6) | (3.7) |
| Other financial liabilities at fair value | **19,887** | 19,566 | 21,311 | (6.7) | 1.6 |
| Deposits and other borrowings | **353,232** | 332,497 | 336,188 | 5.1 | 6.2 |
| Liability on acceptances | **12,549** | 15,771 | 16,891 | (25.7) | (20.4) |
| Life policy liabilities | **54,354** | 53,058 | 47,314 | 14.9 | 2.4 |
| Bonds, notes and subordinated debt | **93,203** | 86,079 | 90,792 | 2.7 | 8.3 |
| Other liabilities | **76,161** | 61,455 | 67,641 | 12.6 | 23.9 |
| **Total liabilities** | **646,998** | 612,161 | 616,285 | 5.0 | 5.7 |
| **Net assets** | **38,954** | 38,199 | 37,835 | 3.0 | 2.0 |
| **Equity** | | | | | |
| Equity (parent entity interest) | **38,940** | 38,177 | 37,815 | 3.0 | 2.0 |
| Non-controlling interest in controlled entities | **14** | 22 | 20 | (30.0) | (36.4) |
| **Total equity** | **38,954** | 38,199 | 37,835 | 3.0 | 2.0 |

**Total assets** increased by 5.5% from March 2010 and by 4.9% from September 2009. Excluding the impact of foreign exchange and acquisitions, total assets increased by 5.9% from March 2010 and by 6.2% from September 2009. The increase from September 2009 was due to:

- An increase of $18.0 billion or 18.0% in the total reported in *Cash and liquid assets, Balances due from other banks and Marketable debt securities.* This reflects the Group's desire to maintain strong balance sheet settings.
- An increase of $8.1 billion or 27.6% in *Other financial assets at fair value* reflecting the popularity of this form of lending due to the flexibility in tailoring loans to meet the individual needs of customers.
- An increase of $6.0 billion or 1.5% in *Loans and advances including acceptances*, which was attributable to growth in housing lending, partly offset by a decline in non-housing lending.
- An increase of $5.7 billion or 10.5% in *investments relating to life insurance business* which was attributable to improved global equity and property markets.
- The increase of $9.5 billion or 21.1% in *Other assets* from March 2010 was primarily attributable to growth in derivative related balances due to increased levels of market volatility in relation to currency and interest rates during the second half.

**Total liabilities** increased by 5.7% from March 2010 and by 5.0% from September 2009. Excluding the impact of foreign exchange and acquisitions, total liabilities increased by 6.1% from March 2010 and by 7.5% from September 2009. The increase from September 2009 was mainly due to:

- An increase of $28.4 billion or 8.5% in *Deposits and other borrowings* driven by growth in deposits from customers.
- A total increase of $5.7 billion in *Life policy liabilities* and *External unitholders' liability* (included in Other liabilities).
- An increase of $3.4 billion or 3.8% in *Bonds, notes and subordinated debt*, which reflected the net issuances of debt to replace matured and maturing debt.
- An increase of $11.1 billion or 17.1% in *Other liabilities*, primarily attributable to derivatives. The growth in derivative related balances was largely attributable to significant market volatility in relation to currency and interest rates in the September half year.
- The decline of $5.9 billion or 13.5% in balances *Due to other banks* from March 2010 was mainly in wholesale deposits and this reflects the Group's strategy to pursue retail deposits.

**Total equity** increased by 2.0% from March 2010 and by 3.0% from September 2009, reflecting current year earnings and issue of shares through the Group's dividend reinvestment plan, partly offset by the payment of dividends and an unfavourable movement in the foreign currency translation reserve.

## Lending

| | As at | | | | |
|---|---|---|---|---|---|
| | 30 Sep 10 $m | 31 Mar 10 $m | 30 Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 v Mar 10 % |
| **Housing** | | | | | |
| Business Banking | **56,648** | 54,587 | 52,819 | 7.2 | 3.8 |
| Personal Banking | **109,539** | 99,242 | 90,454 | 21.1 | 10.4 |
| Wholesale Banking | **689** | 783 | 478 | 44.1 | (12.0) |
| MLC & NAB Wealth | **15,121** | 14,448 | 14,065 | 7.5 | 4.7 |
| NZ Banking | **20,101** | 20,108 | 20,989 | (4.2) | (0.0) |
| UK Banking | **20,941** | 20,581 | 22,483 | (6.9) | 1.7 |
| Great Western Bank | **772** | 259 | 292 | large | large |
| Corporate Functions and Other | **1,089** | 1,006 | 958 | 13.7 | 8.3 |
| Total housing | **224,900** | 211,014 | 202,538 | 11.0 | 6.6 |
| **Non-housing** | | | | | |
| Business Banking | **132,293** | 131,405 | 131,983 | 0.2 | 0.7 |
| Personal Banking | **8,666** | 8,783 | 8,583 | 1.0 | (1.3) |
| Wholesale Banking | **12,773** | 12,412 | 13,932 | (8.3) | 2.9 |
| MLC & NAB Wealth | **2,765** | 2,594 | 2,453 | 12.7 | 6.6 |
| NZ Banking | **21,941** | 22,457 | 24,414 | (10.1) | (2.3) |
| UK Banking | **32,730** | 33,409 | 38,191 | (14.3) | (2.0) |
| Specialised Group Assets | **6,352** | 7,559 | 9,267 | (31.5) | (16.0) |
| Great Western Bank | **4,833** | 3,661 | 3,598 | 34.3 | 32.0 |
| Corporate Functions and Other | **728** | 1,182 | 1,611 | (54.8) | (38.4) |
| Total non-housing | **223,081** | 223,462 | 234,032 | (4.7) | (0.2) |
| **Gross loans and advances including acceptances** | **447,981** | 434,476 | 436,570 | 2.6 | 3.1 |
| *Represented by:* | | | | | |
| Loans at fair value | **36,700** | 30,909 | 29,567 | 24.1 | 18.7 |
| Loans at amortised cost | **361,603** | 350,868 | 351,968 | 2.7 | 3.1 |
| Acceptances | **49,678** | 52,699 | 55,035 | (9.7) | (5.7) |
| **Gross loans and advances including acceptances** | **447,981** | 434,476 | 436,570 | 2.6 | 3.1 |

### September 2010 v September 2009

**Lending** (gross loans and advances including acceptances) increased by $11.4 billion or 2.6% from September 2009. Excluding the impact of exchange rate movements and acquisitions, lending increased by $15.1 billion or 3.5%. This increase was due to growth in housing lending, which reflected improved momentum in the business, partly offset by a decline in non-housing lending, which reflected reduced customer demand, the de-leveraging of large corporate balance sheets and the managing down of lending in Specialised Group Assets (SGA).

**Housing lending** increased by $19.5 billion or 9.8% excluding the impact of foreign exchange rate movements and acquisitions. This increase was due to the following factors:

- Personal Banking lending increased by $12.8 billion or 14.2% and lending in Business Banking increased by $3.8 billion or 7.3%. Growth was above system for the full year, reflecting the competitive pricing strategy.
- NZ Banking lending increased by $0.6 billion or 3.2%. Whilst system growth in housing lending remained subdued, the business maintained its market share.
- UK Banking lending increased by $0.7 billion or 3.7% and this reflected mortgage growth in the retail network.

**Non-housing lending** declined by $4.4 billion or 2.0% excluding the impact of exchange rate movements and acquisitions, mainly due to:

- Business Banking volumes were relatively unchanged in a period of system decline. Growth was achieved in the SME and specialised business segments, offset by lower lending volumes in the institutional segment, as customers repaid debt and de-leveraged their balance sheets.
- UK Banking volumes declined by $1.6 billion or 4.6% mainly due to the bank's efforts to reduce exposure to commercial property and unsecured personal lending and the subdued demand for credit.
- SGA volumes declined by $1.9 billion or 23.2% mainly due to the repayment and reduction of loans as the business is managed down.
- Great Western Bank (GWB) volumes increased by $0.4 billion or 12.5% driven by strong organic growth in agricultural lending.

### September 2010 v March 2010

**Lending** increased by $13.5 billion or 3.1% from March 2010. Excluding the impact of exchange rate movements, lending increased by $15.1 billion or 3.5% from March 2010. This was due to:

- **Housing lending** increasing by $14.4 billion or 6.9%. Growth was achieved in Personal Banking and Business Banking. There was modest growth in housing lending in UK Banking and NZ banking, reflecting subdued customer demand.
- **Non-housing lending** was steady mainly due to growth in Business Banking and GWB, partially offset by a reduction in lending in SGA and UK Banking. The increase in Business Banking reflected growth in the SME and specialised business segments, partly offset by lower volumes in the institutional segment. The increase in GWB reflected growth in SME lending and the acquisition of assets of TierOne Bank. The decline in SGA was due to repayment and reduction of loans as the business is being managed down. Lower lending in UK Banking was due to subdued market conditions.

## Marketable Debt Securities

Marketable debt securities comprise *Trading securities*, *Available for sale investments* and *Held to maturity investments*. Marketable debt securities increased by $6.5 billion or 13.6% from September 2009, and increased by $8.8 billion or 19.5% from March 2010. The increase in marketable debt securities was mainly due to a higher level of available for sale (AFS) investments and trading securities. The growth in AFS investments and trading securities was mainly due to elevated holdings of liquid assets. The rise in AFS investments was also driven by a new initiative to hold increased residential mortgage backed securities in Wholesale Banking.

## Investments Relating to Life Insurance Business and Life Policy Liabilities

The increases in *investments relating to life insurance business*, *Life policy liabilities* and *External unitholders' liability* (included in other liabilities) were attributable to the improvement in global equity and property markets and the favourable impact this has had on returns made on policyholder contributions and higher applications than redemptions resulting in an increase in funds under management. Excluding the acquisition of Aviva, from September 2009 there has been an increase in investments relating to the life insurance business, which has also resulted in a similar increase in life policy liabilities and external unitholders' liability.

## Goodwill and Other Intangible Assets

*Goodwill* increased by $364 million or 7.0% from September 2009 and declined by $8 million or 0.2% from March 2010. The increase in goodwill from September 2009 reflected $439 million from the acquisitions of Advantedge, Aviva, JBWere, and assets of TierOne Bank, partly offset by a decline of $75 million due to the effect of foreign exchange.

*Intangible assets* comprise capitalised software and other intangible assets. Other intangible assets increased by $470 million from September 2009 and by $146 million from March 2010. The increase was mainly due to $552 million identifiable intangible assets recognised on the acquisitions of Advantedge, Aviva, JBWere and assets of TierOne Bank relating to brands, core deposit intangibles and contracts in force.

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

- In Australia, investment of $106 million during the year in software related to the Next Generation Banking IT Platform (NGP).
- The addition of Navigator and RiskFirst software which were acquired as part of the acquisition of Aviva Australia.
- UK Banking continued investment in projects which enhance the customer proposition, including continued development of the automated end-to-end Business Lending process to enhance its functionality and the launch of a new MasterCard Debit Card. In addition, investments continue to be made to support regulatory and compliance initiatives.
- Wholesale Banking continued focus on efficiency and revenue generating projects, including the continued development of software platforms for Global Markets and Treasury, investment in systems to improve credit risk management information, and investment in Asset Servicing platforms. In addition, investments were made in compliance and operational risk initiatives.

The movement in capitalised software is as follows:

| | Year ended | | Half year ended | |
|---|---|---|---|---|
| | **Sep 10 $m** | **Sep 09 $m** | **Sep 10 $m** | **Mar 10 $m** |
| Balance at beginning of period | **934** | 963 | **922** | 934 |
| Additions from business combinations | **44** | - | **-** | 44 |
| Additions | **330** | 361 | **208** | 122 |
| Disposals and write-offs | **(8)** | (68) | **1** | (9) |
| Amortisation | **(266)** | (262) | **(133)** | (133) |
| Foreign currency translation adjustments | **(36)** | (60) | **-** | (36) |
| **Capitalised software** | **998** | 934 | **998** | 922 |

## Deposits and Other Borrowings

| | As at | | | | |
|---|---|---|---|---|---|
| | 30 Sep 10 $m | 31 Mar 10 $m | 30 Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 v Mar 10 % |
| **Retail deposits** | | | | | |
| Business Banking | **78,881** | 78,786 | 75,071 | 5.1 | 0.1 |
| Personal Banking | **64,737** | 59,925 | 57,197 | 13.1 | 8.0 |
| MLC & NAB Wealth | **9,410** | 9,399 | 9,284 | 1.4 | 0.1 |
| NZ Banking | **22,204** | 21,798 | 22,185 | 0.1 | 1.9 |
| UK Banking | **38,528** | 37,693 | 40,313 | (4.4) | 2.2 |
| Great Western Bank | **6,651** | 4,538 | 4,550 | 46.2 | 46.6 |
| Corporate Functions and Other | **5,087** | 4,386 | 4,501 | 13.0 | 16.0 |
| Total retail deposits | **225,498** | 216,525 | 213,101 | 5.8 | 4.1 |
| **Non-retail deposits and other borrowings** | | | | | |
| Business Banking | **5,821** | 5,666 | 4,725 | 23.2 | 2.7 |
| Wholesale Banking | **117,612** | 104,135 | 112,928 | 4.1 | 12.9 |
| NZ Banking | **5,609** | 4,430 | 5,015 | 11.8 | 26.6 |
| UK Banking | **8,170** | 8,947 | 8,392 | (2.6) | (8.7) |
| Specialised Group Assets | **340** | 1,570 | 1,721 | (80.2) | (78.3) |
| Corporate Functions and Other | **394** | 747 | 671 | (41.3) | (47.3) |
| Total non-retail deposits and other borrowings | **137,946** | 125,495 | 133,452 | 3.4 | 9.9 |
| **Deposits and other borrowings [(1)]** | **363,444** | 342,020 | 346,553 | 4.9 | 6.3 |
| *Represented by:* | | | | | |
| Deposits and other borrowings at fair value | **10,212** | 9,523 | 10,365 | (1.5) | 7.2 |
| Deposits and other borrowings at cost | **353,232** | 332,497 | 336,188 | 5.1 | 6.2 |
| **Deposits and other borrowings** | **363,444** | 342,020 | 346,553 | 4.9 | 6.3 |

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

### September 2010 v September 2009

**Total deposits and other borrowings** have increased by $16.9 billion or 4.9% from September 2009. Excluding the impact of foreign exchange and acquisitions, volumes increased by $28.4 billion or 8.5%.

**Retail deposits:**

Excluding foreign exchange impact and acquisitions, retail deposits increased by $17.0 billion or 8.3% from September 2009. Growth was the result of a continued focus on increasing retail deposits as a source of funding to meet business needs:

- *Business Banking* grew deposits by $3.8 billion or 5.1% in line with its strategy to reduce its reliance on wholesale funding to fund business needs.
- *Personal Banking* grew deposits by $7.5 billion or 13.1%, underpinned by solid growth in UBank and the proprietary network.
- *NZ Banking* increased deposits by $1.7 billion or 8.4%, reflecting a focus on strengthening customer funding and reducing the reliance on wholesale funding to meet business needs, and to meet new regulatory requirements.
- *UK Banking* increased deposits by $2.3 billion or 6.4% primarily due to continued momentum in iFS and a robust performance by the proprietary network.
- *Corporate Functions and Other* increased deposits by $1.0 billion or 24.2% due to strong growth in term deposits in Asia Banking.

**Non-retail deposits and other borrowings:**

Excluding the impact of foreign exchange and acquisitions, non-retail deposits and other borrowings increased by $11.4 billion or 9.0% mainly due to an increase in Wholesale Banking of $10.5 billion or 9.8%. The increase in Wholesale Banking was the result of growth in customer deposits, mainly term deposits.

### September 2010 v March 2010

**Total deposits and other borrowings** have increased by $21.4 billion or 6.3% since March 2010. Excluding the impact of foreign exchange, volumes increased by $23.8 billion or 7.0%, reflecting:

- An increase of $10.1 billion or 4.7% in retail deposits due to the continued focus on increasing deposits as a source of funding for business needs.
- An increase of $13.7 billion or 11.1% in non-retail deposits and other borrowings driven by growth in Wholesale Banking of $14.5 billion or 14.1%. The increase in Wholesale Banking was mainly due to growth in term deposits from customers.

## Bonds, Notes and Subordinated Debt

**Bonds, notes and subordinated debt** increased by $2.4 billion or 2.7% from September 2009 and by $7.1 billion or 8.3% from March 2010. This increase was due to net issuances of $9.0 billion to replace matured and maturing debt partly offset by a decline of $6.6 billion due to the movement in the foreign currency translation of foreign denominated debt in Australia.

Further detail and discussion on the Group's funding mix and management of its funding base, are included in Section 3, Capital Management and Funding.

## Asset Quality

Asset quality trends continued to stabilise during the September 2010 half year. The total charge to provide for bad and doubtful debts was moderately lower when compared to the March 2010 half year and well down from the peak in the September 2009 half year.

### Bad and Doubtful Debt Charge

| | Year to | | Half Year to | |
|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 $m | Mar 10 $m |
| Specific charge to provide for bad and doubtful debts | 2,235 | 2,975 | 1,152 | 1,083 |
| Collective charge/(write back) to provide for bad and doubtful debts | 1 | 788 | (134) | 135 |
| **Total charge to provide for bad and doubtful debts - loans and advances at amortised cost** | 2,236 | 3,763 | 1,018 | 1,218 |
| Total charge on investments - held to maturity | 555 | 52 | 54 | 501 |
| **Total charge to provide for bad and doubtful debts - statutory basis** | 2,791 | 3,815 | 1,072 | 1,719 |
| Recovery of SCDO risk mitigation trades | (528) | - | (39) | (489) |
| **Total charge to provide for bad and doubtful debts - cash earnings** | 2,263 | 3,815 | 1,033 | 1,230 |

| | Year to | | Half Year to | |
|---|---|---|---|---|
| | Sep 10 | Sep 09 | Sep 10 | Mar 10 |
| Bad and doubtful debts charge to gross loans and acceptances (annualised) | 0.51% | 0.87% | 0.51% | 0.57% |
| Net write-offs to gross loans and acceptances (annualised) | 0.50% | 0.48% | 0.50% | 0.47% |

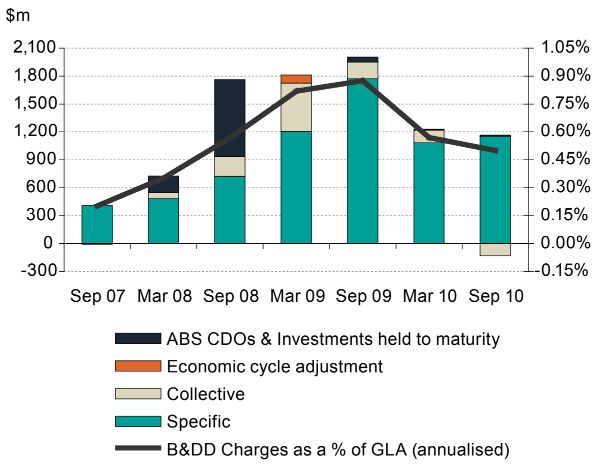
**The total charge for bad and doubtful debts** for the September 2010 year was $2,263 million, which is a decrease of $1,552 million when compared to the prior financial year.

The bad and doubtful debt charge for the September 2010 half year was $1,033 million, a decrease of $197 million or 16% when compared to the March 2010 half year. When compared to the September 2009 half year, the September 2010 half year bad and doubtful debt charges have fallen by $971 million or 48%.

The decline in the total charge for bad and doubtful debts for the September 2010 year was partly due to lower specific provision charges across most business units, particularly in Business Banking, UK Banking, Wholesale Banking and SGA. In addition, the negligible collective provision bad and doubtful debt charge of $1 million for the September 2010 year is reflective of steadying trends in asset quality.

During the March 2010 half year, assets that form part of the Synthetic Collateralised Debt Obligation (SCDO) exposures incurred losses of $528 million as a result of credit events within their respective portfolios. The SCDO hedges worked as intended, with the Group recovering these realised loss amounts from the hedge counterparty. There were no new credit events on the SCDO portfolio during the September 2010 half year.

#### Half Yearly Total Bad and Doubtful Debt Charge - Cash Earnings




The ratio of the total charge for bad and doubtful debts to gross loans and acceptances for the September 2010 year showed a decline of 36 basis points to 0.51% when compared to the September 2009 year and reflects the improved economic environment.

## Provisioning Coverage

| Provisions for doubtful debts | 30 Sep 10 $m | 31 Mar 10 $m | 30 Sep 09 $m |
|---|---|---|---|
| | As at | | |
| Collective provision on loans at amortised cost | **2,865** | 3,012 | 2,948 |
| Collective provision on loans at fair value | **356** | 222 | 247 |
| Collective provision on derivatives at fair value | **349** | 376 | 358 |
| Collective provision for doubtful debts | **3,570** | 3,610 | 3,553 |
| Specific provision on loans at amortised cost | **1,409** | 1,479 | 1,453 |
| Specific provision on loans at fair value | **115** | 111 | 98 |
| Specific provision for doubtful debts | **1,524** | 1,590 | 1,551 |
| **Total provision for doubtful debts (1)** | **5,094** | 5,200 | 5,104 |

(1) *Not included in total provisions for doubtful debts are provisions on investments - held to maturity of $181 million (March 2010 $175 million, September 2009 $170 million).*

| | 30 Sep 10 | 31 Mar 10 | 30 Sep 09 |
|---|---|---|---|
| | As at | | |
| Total provision to gross loans and acceptances | **1.14%** | 1.20% | 1.17% |
| Specific provision to gross impaired assets | **25.2%** | 27.2% | 28.2% |
| Collective provision to credit risk-weighted assets (excluding housing) | **1.48%** | 1.55% | 1.46% |

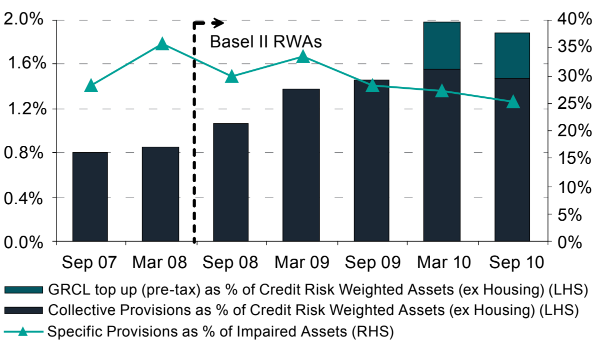
Since September 2009, reflecting stabilising asset quality, the Group's total provisions have remained relatively steady. During the September 2010 year, the Group's total provisions decreased slightly to $5,094 million, down $10 million when compared to September 2009, and a $106 million reduction from March 2010.

The Group's collective provisions to credit risk weighted assets (excluding housing) ratio has remained relatively stable at 1.48% at September 2010 when compared to September 2009. The reduction from the March 2010 ratio of 1.55% is predominately due to the increase in the credit risk weighted assets by $10.9 billion to $312.3 billion at September 2010. Credit risk weighted assets increased in part due to some factors not directly related to collective provisions, namely further supervisory slotting of commercial property and the acquisition of TierOne Bank assets recorded at fair value.

The general reserve for credit losses ("GRCL") decreased from $738 million at March 2010 to $698 million ($960 million on pre-tax basis) at September 2010.

When this reserve is included in the Group's ratio of collective provisions to credit risk weighted assets (excluding housing) the ratio increases from 1.48% to 1.88%. The ratio of specific provisions to impaired assets has decreased moderately to 25.2% during the September 2010 half year.

### Provision Coverage



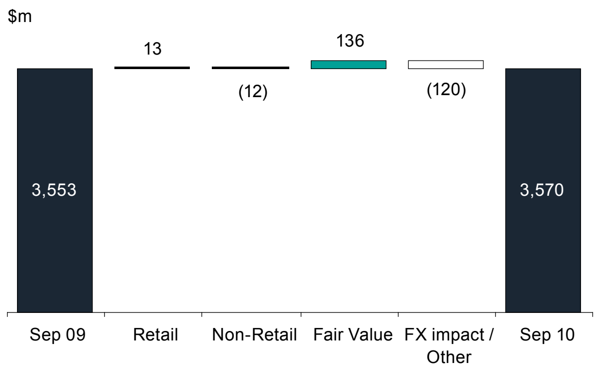

## Specific Provisions

During the September 2010 year, the specific provision balance (including specific provisions on impaired assets at fair value) decreased marginally to $1,524 million, when compared to $1,551 million at September 2009. This was primarily due to the lower specific provision charge of $2,235 million, offset by $2,247 million of net write-offs.

## Collective Provisions

Including the credit risk adjustment on assets at fair value, total collective provision balances were stable during the September 2010 year, increasing by $17 million. This movement has been summarised as follows:

### Collective Provision Attribution Analysis




### Retail

Collective provision on the retail portfolio has increased by $13 million since September 2009 mainly due to mortgage portfolio growth in Australia, which includes the acquisition of the Advantedge portfolio.

This increase was partly offset by a decrease in collective provision on personal loans, whilst collective provisions on credit cards remained steady.

### Non-Retail

Collective provision on the non-retail portfolio has decreased by $12 million since September 2009. There has been a slow-down in the downgrading of customer credit ratings, together with write-backs in the collective provision mainly due to the migration of some customers to impaired status.

### Loans at Fair Value and Derivatives

Collective provision on loans at fair value and derivatives has increased by $136 million since September 2009 reflecting both a more conservative coverage and a growing portfolio. Provisions on derivatives have remained relatively stable.

### Economic Cycle Adjustment

There has been no change to the economic cycle adjustment since September 2009 which remains at $300 million.

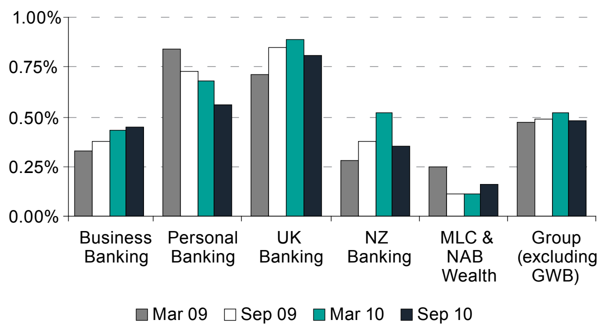
## Asset Quality

| | As at | | |
|---|---|---|---|
| | **30 Sep 10** | **31 Mar 10** | **30 Sep 09** |
| 90+ days past due loans ($m) | **2,366** | 2,246 | 2,134 |
| Gross impaired assets ($m) | **6,048** | 5,849 | 5,500 |
| **90+ days past due and gross impaired assets ($m)** | **8,414** | 8,095 | 7,634 |

| | As at | | |
|---|---|---|---|
| | **30 Sep 10** | **31 Mar 10** | **30 Sep 09** |
| 90+ days past due loans to gross loans and acceptances | **0.53%** | 0.52% | 0.49% |
| Gross impaired assets to gross loans and acceptances | **1.35%** | 1.35% | 1.26% |
| 90+ days past due and gross impaired assets to gross loans and acceptances | **1.88%** | 1.86% | 1.75% |

## Non-Impaired Assets 90+ Days Past Due

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




The Group ratio of non-impaired 90+ days past due (90+ DPD) loans to gross loans and acceptances increased by 4 basis points from September 2009 to 0.53% at September 2010 and is 1 basis point higher when compared to March 2010. This increase was primarily due to the acquisition of TierOne Bank assets in the USA in June 2010. These loans[1] are covered by a loss sharing agreement with the Federal Deposit Insurance Corporation (FDIC). Excluding TierOne Bank, the ratio of 90+ DPD loans to gross loans and acceptances was 0.48% at September 2010, which is 4 basis points lower than March 2010.

**Business Banking** 90+ DPD loans were relatively stable, with a 2 basis point increase to 0.45% from March 2010.

**Personal Banking** 90+ DPD loans continued to decrease during the September 2010 half year, mainly due to the reduction in mortgage lending defaults despite solid mortgage lending growth. The ratio of 90+ DPD loans fell from March 2010 by 13 basis points to 0.56%.

**UK Banking** has experienced a fall in the volume of 90+DPD loans, despite the challenging economic conditions. The ratio of 90+ DPD to gross loans and acceptances at September 2010 was 0.81%, a decline of 8 basis points when compared to the ratio at March 2010.

**NZ Banking** 90+ DPD to gross loans and acceptances decreased by 17 basis points from March 2010 to 0.35% at September 2010. As the economy continued to recover from the recession, both mortgage lending and business lending arrears experienced a reasonable improvement during the September 2010 half year.

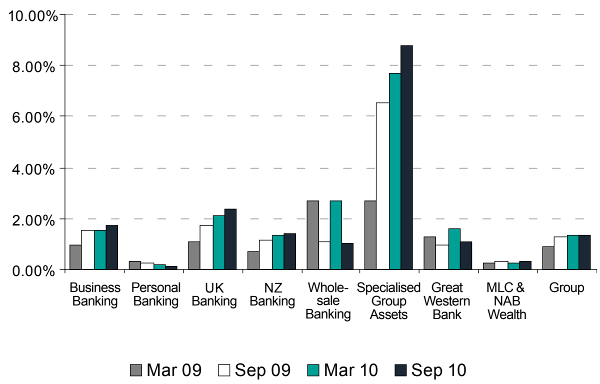
**GWB** as a result of the acquisition of TierOne Bank in June 2010, had 90+ DPD loans of $228 million as at September 2010. The FDIC absorbs 80% of credit losses arising on the loan portfolio[1] and related assets through this acquisition. Consequently, the GWB 90+ DPD to gross loans and acceptances was 4.07% at September 2010. Excluding TierOne Bank, the volume of 90+ DPD loans at September 2010 are negligible.

**Wholesale Banking and SGA** have no 90+ DPD loans.

*[1] There is an agreement with the Federal Deposit Insurance Corporation (FDIC) under which the FDIC absorbs 80% of credit losses arising on the loan portfolio and related assets acquired from TierOne Bank, excluding approximately US$127 million in agricultural loans and US$44 million in consumer loans, as at June 2010.*

## Impaired Assets

### Gross Impaired Assets as % of Gross Loans and Acceptances - ex Investments held to maturity




The ratio of gross impaired assets to gross loans and acceptances (impaired asset ratio) increased by 9 basis points from September 2009 to 1.35% as at September 2010, and is stable from March 2010. The rate of increase in total impaired assets has slowed considerably during the September 2010 year, increasing by $548 million compared to an increase of $3,351 million during the prior financial year.

For **Business Banking**, the impaired asset ratio increased by 16 basis points from March 2010 to 1.70%, mainly due to the impairment of a small number of large clients operating in the property and agribusiness sectors.

**Personal Banking** asset quality improved and this was evident in the reduction of the impaired asset ratio, which fell by 7 basis points from March 2010 to 0.14% at September 2010, mainly due to improved underwriting strategies and investments in collections capabilities.

The **UK Banking** impaired asset ratio continued to increase, up 25 basis points during the half to 2.34% at September 2010, due to difficult market conditions. The impaired mortgage rate for UK Banking remains low at 0.35% of housing loans, which is an increase of 13 basis points when compared to September 2009.

The **NZ Banking** impaired asset ratio increased by 6 basis points from March 2010 to 1.40% as at September 2010.

The **Wholesale Banking** impaired asset ratio decreased by 167 basis points to 1.04% during the September 2010 half year.

**SGA** gross impaired asset volumes declined during the half year to September 2010, although the impaired asset ratio increased by 108 basis points to 8.78% due to the decrease in gross loans and acceptances. The majority of these impairments are concentrated in the property and leverage finance sectors in the UK.

**GWB** impaired asset volumes remained steady when compared to March 2010. The impaired asset ratio has fallen to 1.12% at September 2010 as the result of growth in gross loans and acceptances from the TierOne Bank acquisition. There has been no increase in impaired assets as a result of the acquisition of TierOne Bank, as assets acquired are covered by the FDIC loan loss sharing agreement[(1)] and have not been impaired.

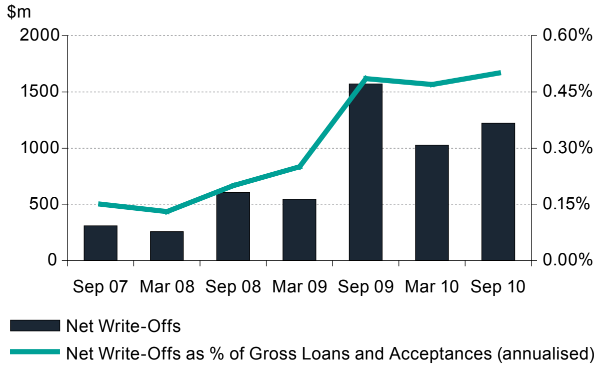
## Net Write-Offs

Net write-offs increased modestly from $1,026 million for the March 2010 half year to $1,221 million for the September 2010 half year, however are well down from the September 2009 half year. As the global economy improves, the Group continues to manage bad debt write-offs. The ratio of net write-offs as a proportion of gross loans and acceptances has remained relatively stable at 0.50% when compared to the September 2009 and March 2010 half years.

Asset quality for the Group's retail lending portfolio steadily improved during the September 2010 year. The gross 12 months rolling write-off rate for the Group's total retail portfolio improved by 5 basis points from September 2009 to 0.27% at September 2010, with annualised mortgage write-offs low at 0.06%.

The total provisions to net write-offs ratio is 227% as at September 2010, which is slightly lower than the September 2009 level.

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

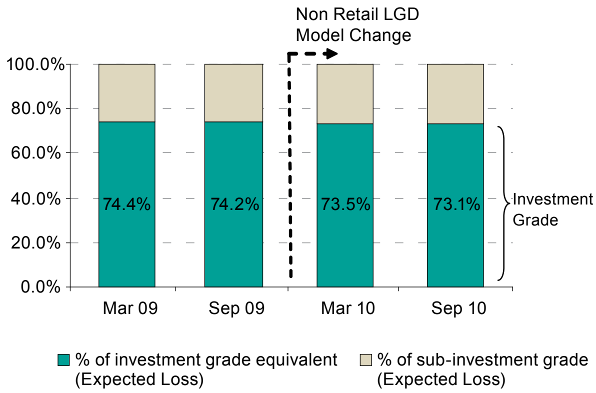



## Trends in the Ratings of Non-retail Exposures

On the basis of Expected Loss (EL) methodology[(2)], the volume of non-retail investment grade equivalent (AAA to BBB-) exposures for the Group, excluding defaulted assets, declined from 74.2% at September 2009 to 73.1% at September 2010.

This mainly represents changes during the half year to March 2010 to the Loss Given Default model for Business Banking to reflect more recent experience.

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

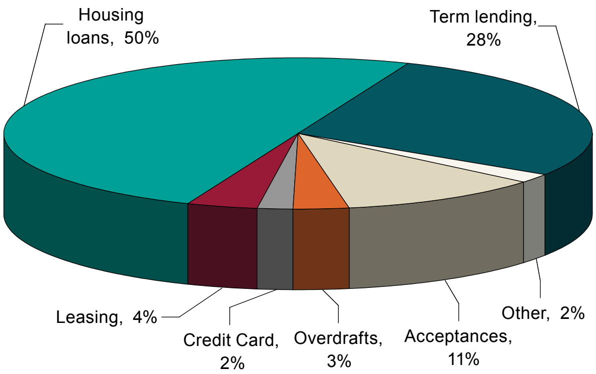



(2) *Expected Loss is the product of Probability of Default x Exposure at Default x Loss Given Default. The calculation excludes defaulted assets.*

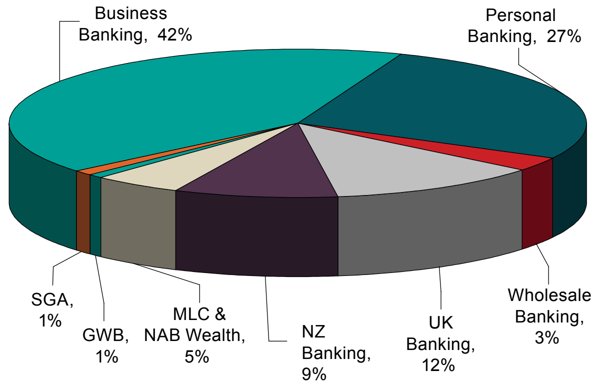
## Portfolio Composition

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

**Group Gross Loans and Acceptances by Product**




**Group Gross Loans and Acceptances by Division**




## Commercial Property Portfolio

The Group's commercial property portfolio totals $62.2 billion[3], which has decreased by $8.4 billion since March 2010. This portfolio represents 13.9% of the Group's total gross loans and acceptances, mainly reflecting the Group's relative size in Australian Business Banking and a targeted iFS growth strategy in the UK Region.

[3] *Measured as balances outstanding at September 2010 per APRA Commercial Property definition ARF230.*

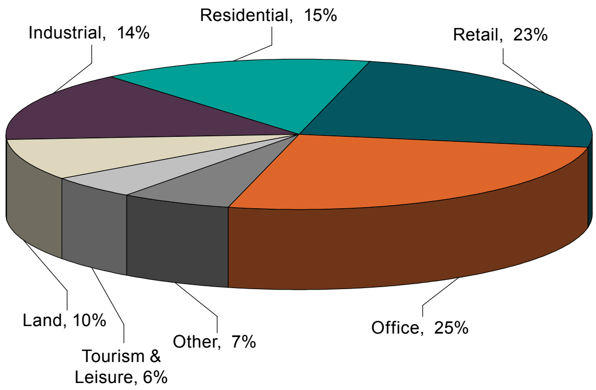
The **Business Banking** commercial property portfolio reported for March 2010 has reduced by $5.8 billion to $42.8 billion as at September 2010. Of this reduction, $3.3 billion relates to refining data in line with APRA definitions. Commercial property now represents 12.8% of gross loans and acceptances in the Australian geography.

The **UK Banking** commercial property portfolio totals £6.6 billion as at September 2010, comprising 20.1% of the business unit's gross loans and acceptances. This represents a £0.4 billion reduction since March 2010. The asset quality of the commercial property portfolio, particularly development loans, continued to be challenged by the UK economic conditions.

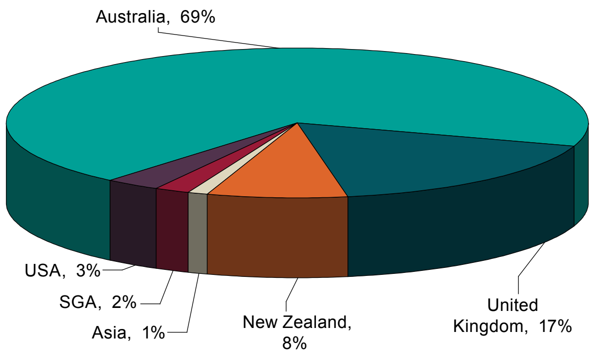
The NZ Banking commercial property portfolio reported for March 2010 has reduced by NZ$1.1 billion to NZ$6.9 billion at September 2010. Of this reduction, approximately half relates to refining data in line with APRA definitions. Commercial property now represents 12.5% of gross loans and acceptances in NZ Banking.

The **SGA** commercial property portfolio of $1.1 billion remains largely unchanged since March 2010.

**Group Commercial Property by Type**




**Group Commercial Property by Geography**



## Cash Earnings per Share

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | Sep 10 cents | Sep 09 cents | Sep 10 v Sep 09 % | Sep 10 cents | Mar 10 cents | Sep 10 v Mar 10 % |
| **Cash Earnings per Share** | | | | | | |
| Basic | **214.5** | 198.4 | 8.1 | **111.4** | 103.0 | 8.2 |
| Diluted | **212.8** | 197.5 | 7.7 | **110.5** | 102.5 | 7.8 |

### September 2010 v September 2009

Basic cash **earnings per share** increased by 16.1 cents or 8.1% and diluted cash earnings per share increased by 15.3 cents or 7.7% on the September 2009 year. This reflects the increase in cash earnings, partially offset by an increase in the weighted average number of ordinary shares.

### September 2010 v March 2010

Basic cash **earnings per share** increased by 8.4 cents or 8.2% and diluted cash earnings per share increased by 8.0 cents or 7.8% on the March 2010 half year. This reflects the increase in cash earnings, partially offset by an increase in the weighted number of ordinary shares.

## Capital Management and Funding

### Balance Sheet Management Overview

Market conditions were more settled during the year, although European sovereign debt concerns caused some market volatility, particularly during April and May 2010. The generally stable conditions were an indication that the market has continued to build confidence from the lows of late 2008 and early 2009.

The Group remains vigilant around economic and market conditions and continues to ensure the balance sheet remains strong.

Strong balance sheet settings will allow the Group to navigate through difficult market conditions and to be well positioned for future regulatory change and balance sheet growth.

### Regulatory Reform

The Group is closely monitoring the regulatory reform agenda as it evolves and will adjust our balance sheet settings as required, taking into account transition periods. The major elements of reform are the December 2009 Capital and Liquidity proposals released by the Basel Committee on Banking Supervision ("BCBS"), along with subsequent follow-up consultative documents that have provided additional detail. The fully calibrated and finalised package of capital and liquidity reforms are expected to be delivered by the BCBS by the end of 2010.

The following proposals are expected as baseline components of the capital reforms:

| | Core Tier 1 % | Tier 1 % | Total Capital % |
|---|---|---|---|
| Regulatory minimum | 4.5 | 6.0 | 8.0 |
| Capital conservation buffer | 2.5 | 2.5 | 2.5 |
| **Total** | 7.0 | 8.5 | 10.5 |

- The Basel Core Tier 1 minimum has been increased from 2% to 4.5% after adjustments consistent with the expectation for higher levels of better quality capital.
- A capital conservation buffer of 2.5% (comprising of common equity) will be implemented. Discretionary distributions may be restricted below this threshold which will seek to limit discretionary distributions should Core Tier 1 fall below 7%.
- A counter cyclical capital buffer of between 0 and 2.5% designed to reduce capital pro-cyclicality will be implemented when credit growth is deemed to be inappropriately above norms.
- A leverage ratio of 3% will be implemented in 2018 after a period of market observation and calibration.

Major components of liquidity reforms include a Liquidity Coverage Ratio which is targeted for 2015 and a Net Stable Funding Ratio for 2018. These will be introduced after a period of market observation and calibration.

A number of areas of the Basel reform proposals remain unclear and further detail is expected by the end of the year. APRA is expected to release draft prudential standards in the second half of 2011 followed by broad industry consultation.

Other reforms of note include APRA's proposals for Conglomerate Supervision and the review of capital standards for General and Life Insurers. APRA intends to issue a Quantitative Impact Study ("QIS") for both proposals which will provide additional information on the expected impact. The results will assist in the finalisation of the standards that are due to be released in 2011 with effect from 2012.

### Capital Management

The Group's capital management strategy is focused on adequacy, efficiency and flexibility. The capital adequacy objective focuses on holding capital in excess of the internal risk-based assessments, meeting regulatory requirements, maintaining capital consistent with the Group's target credit rating and ensuring investors' expectations are met.

The Board approved Tier 1 target has been recalibrated from above 7% to above 8%. A target of above 8% reflects the Group's desire to maintain strong balance sheet settings and is consistent with investor risk appetite and the global regulatory direction. The Group continues to operate at a comfortable buffer to the Board target.

The Group remains committed to maintaining the efficiency of the capital base as existing hybrid securities are scheduled for redemption or conversion to equity as the balance sheet grows. Before new hybrid issuance will take place regulatory reform and transitional arrangements require further clarification.

Clydesdale Bank and BNZ, our major banking subsidiaries are adequately capitalised and are in excess of regulatory requirements.

## Capital ratios

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

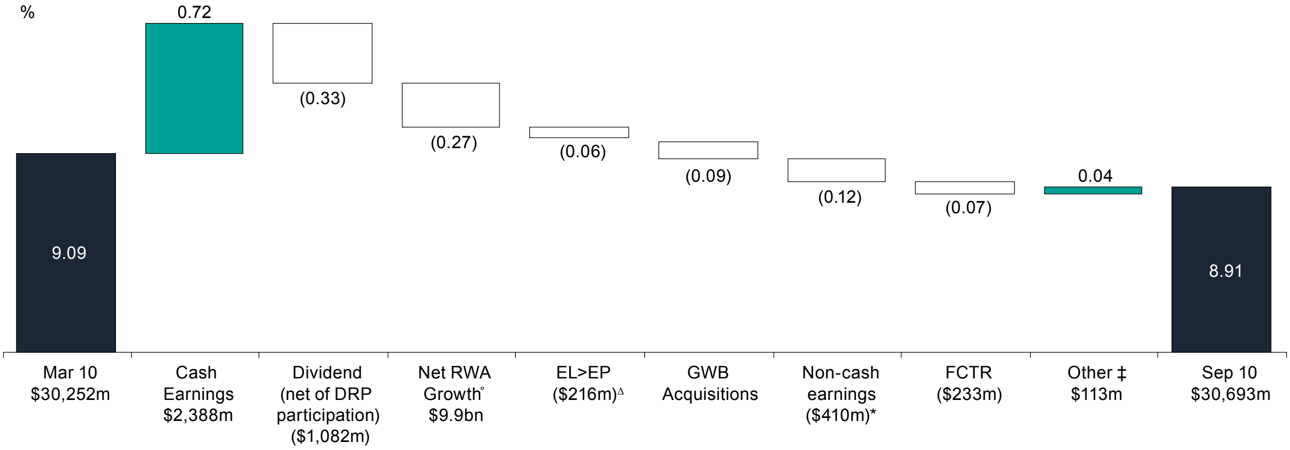
| | Target Ratio [1] % | As at 30 Sep 10 % | As at 31 Mar 10 % | As at 30 Sep 09 % | Sep 10 v Sep 09 | Sep 10 v Mar 10 |
|---|---|---|---|---|---|---|
| Core Tier 1 ratio [2] | | **6.80** | 6.91 | 6.81 | (1 bps) | (11 bps) |
| Tier 1 ratio | above 8.00% | **8.91** | 9.09 | 8.96 | (5 bps) | (18 bps) |
| Total capital ratio | | **11.36** | 12.07 | 11.48 | (12 bps) | (71 bps) |

*(1) The Board target Tier 1 ratio has been revised from above 7.0% to above 8.0%*

*(2) Core Tier 1 ratio equals Total Tier 1 Capital less Tier 1 Hybrids*

| | As at 30 Sep 10 $m | As at 31 Mar 10 $m | As at 30 Sep 09 $m | Sep 10 v Sep 09% | Sep 10 v Mar 10% |
|---|---|---|---|---|---|
| Risk-weighted assets - credit risk | **312,345** | 301,473 | 311,975 | 0.1 | 3.6 |
| Risk-weighted assets - market risk | **3,079** | 3,305 | 3,415 | (9.8) | (6.8) |
| Risk-weighted assets - operational risk | **22,234** | 22,402 | 22,972 | (3.2) | (0.7) |
| Risk-weighted assets - interest rate risk in the banking book | **7,000** | 5,653 | 4,160 | 68.3 | 23.8 |
| **Total risk-weighted assets** | **344,658** | 332,833 | 342,522 | 0.6 | 3.6 |

## Movement in Tier 1 Ratio




° *Net RWA growth excludes GWB acquisitions ($2.0bn).*
* *Non-cash earnings affect on Tier 1 after adjusting for Distributions and Treasury Shares.*
‡ *Other consists primarily of Wealth Management adjustment (1bp) and other immaterial movements.*
∆ *EL>EP is expected loss in excess of eligible provisions.*

**Capital Movements since March 2010**

The Group's Tier 1 ratio of 8.91% at 30 September 2010 is consistent with the Group's objective of maintaining a strong capital position.

The key movements in capital in the September half were:
- Earnings less dividend net of DRP participation 39bps.
- Unfavourable non cash earnings (12bps).
- An increase in expected loss, relative to eligible provisions (6bps).
- GWB acquisition (9bps).
- A decrease in the foreign currency translation reserve driven by the strengthening of the Australian dollar (7bps). This represents an offset to the FX impact of RWA movements.

Total RWAs increased by $11.9 billion over the half primarily due to volume growth, concentrated in the Australian businesses.

### Tier 1 Capital Initiatives

On 24 September 2008, the Group issued AUD$300 million of stapled securities. NAB further amended the terms of the stapled securities on 25 August 2010. The stapled securities are perpetual capital instruments each paying a non-cumulative distribution at a rate of 2.0% over the 30-day bank bill swap rate ("BBSW"). Subject to APRA's approval, the Stapled Securities will be redeemable by NAB on the occurrence of various events or on about 24 September 2012, or every monthly distribution thereafter. In the event that the securities are not redeemed, they will convert into a variable number of National Australia Bank Limited ordinary shares on or about 24 September 2012, subject to the satisfaction of conversion conditions.

On 24 September 2008, the Group issued AUD$300 million of Convertible Notes. NAB further amended the terms of the Convertible Notes on 25 August 2010. The Convertible Notes pay a non-cumulative distribution at a rate of 2.0% over the 30-day BBSW. On 24 September 2012, subject to APRA approval, the notes will be redeemable by NAB on the occurrence of various events or on about 24 September 2012, or every monthly distribution thereafter. The notes are convertible at the holder's option into a variable number of National Australia Bank Limited ordinary shares from 24 September 2012.

Any conversion will have no impact on the Tier 1 capital ratio but will increase core Tier 1.

### Dividend and Dividend Reinvestment Plan (DRP)

The Group periodically adjusts the DRP to reflect the capital position and outlook. The full year dividend has been increased by 4 cents to 78 cents and the DRP settings have been adjusted to provide a 1.5% discount with no participation limit. The final DRP estimate has been increased to an amount equal to 35% of the final dividend to reflect assumed DRP participation.

### UK Defined Pension Schemes

The Group's UK operations operate a defined benefit pension scheme. During the September half, the scheme's deficit decreased to £312 million from £354 million at March 2010. The impact on Tier 1 Capital was negligible. The pension position is affected by three key factors:
- movement in the discount rate used to calculate the liability net present value.
- movement in the long-term inflation assumption.
- movement in the value of the investment portfolio.

### Pillar 3 Disclosures

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

## Funding

Global Term Wholesale Funding Markets showed relative signs of stability over the September 2010 year, notwithstanding periods of heightened volatility mainly attributable to the European sovereign debt crisis in April and May. Credit spreads have moderated from the same period in 2009, but still remain well above pre-crisis levels. Since July 2009, the Group has exclusively focused on unguaranteed issuance.

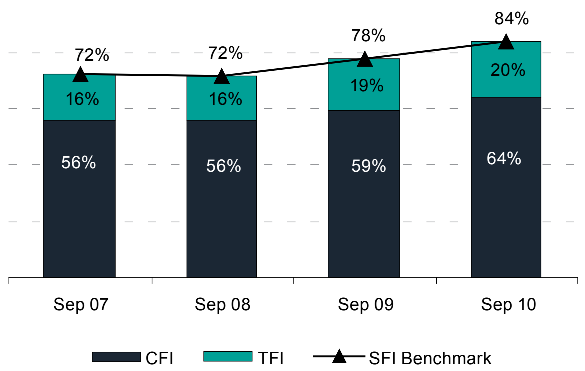
During the September 2010 year, the Group raised $28.3 billion in term funding ($25.0 billion of which was raised by National Australia Bank Ltd).

### Funding Indices

The Group employs a range of internal Board approved measures to set its risk appetite and to gauge the strength of its balance sheet funding. A key measure used is the Stable Funding Index (SFI) which is made up of the Term Funding Index (TFI) plus a Customer Funding Index (CFI). The TFI is defined as term wholesale funding with a remaining maturity greater than 12 months, divided by Core Assets. It represents the portion of the Group's core lending assets that are funded by term wholesale funding with a remaining maturity greater than 1 year. Similarly, the CFI is a measure of customer deposits divided by Core Assets, and represents the proportion of the Group's core lending assets that are funded by customer deposits. The external securitisation of balance sheet assets affects these funding indices by reducing Core Assets.

The Group's emphasis on deposit funding, coupled with term funding and a stable core asset position, has resulted in the Group's SFI improving from 78% to 84% during the year to 30 September 2010. This positions the balance sheet well for future growth.

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




### Customer Funding

The Group has continued to grow its customer deposit base strongly over 2010 with a focus on quality and sustainability. This growth has occurred against a backdrop of greater competition for customer deposits, which has led to substantially higher funding costs.

### Term Wholesale Funding

In total, the Group raised $28.3 billion of term wholesale funding during the September 2010 year, all of which was in unguaranteed format. National Australia Bank Ltd has raised $25.0 billion (including $1.6 billion of subordinated debt), BNZ has raised $2.8 billion (including $0.3 billion of covered bonds) and National Wealth Management Holdings has raised $0.5 billion.

The Group continues to focus on longer dated debt issuance to minimise re-financing risk. The weighted average maturity of term wholesale funding raised over the 2010 financial year was approximately 5.1 years to first call, compared to 4.2 years in the prior financial year. The weighted average remaining maturity of the Group's senior and subordinated term funding is 2.9 years (3.6 years for TFI qualifying - includes greater than 12 months remaining term to maturity, excludes less than 12 months- senior and subordinated debt). The average cost of senior debt issued by National Australia Bank Ltd (and swapped back to Australian dollars) during the 2010 financial year was approximately 132 basis points over the Bank Bill Swap Rate (BBSW), compared to an average cost of 153 basis points over BBSW (including the government guarantee fee) in the 2009 financial year. The cost of subordinated term funds raised by National Australia Bank Ltd (and swapped back to Australian dollars) during the year to 30 September 2010 was approximately 225 basis points over the BBSW. The average cost of the National Australia Bank Ltd term funding portfolio over the 2010 financial year was 107 basis points over BBSW, compared to an average cost of 77 basis points over BBSW in the 2009 financial year.

Public securitisation markets are beginning to show some improvement and, although they were not utilised during 2010, the Group remains committed to exploring opportunities to enhance and add diversity to its funding sources.

The Australian Government Wholesale Funding Guarantee was withdrawn to new issuance on 31 March 2010, while similarly, the NZ Government Wholesale Funding Guarantee Facility was withdrawn to new issuance on 30 April 2010. The Group issued a total of $22 billion of Government guaranteed term funding to the end of financial year 2009. Of this, 4% matures in 2011, 44% in 2012 and the remainder by 2014.

### Short-term Wholesale Funding

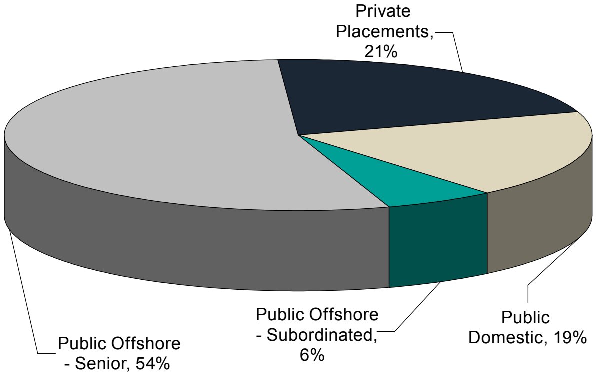
The Group continued to access international and domestic wholesale markets over the year. The focus has been on maintaining the longer average duration of the short-term book in an effort to support its liquidity position.

### Liquid Asset Portfolio

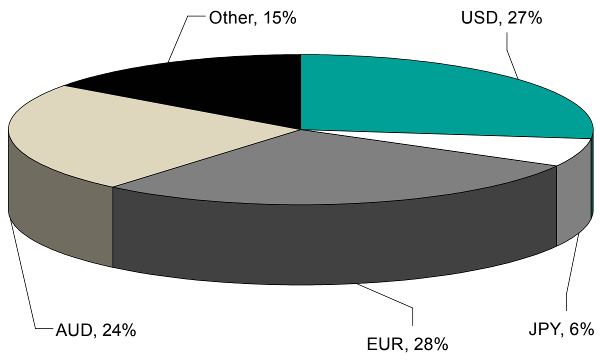
The Group maintains liquid asset portfolios in the various countries in which it operates. In addition to those required by local regulators, the Group is holding securities to support its liquidity position. Total liquid assets held at 30 September 2010 were $72 billion compared to $71 billion at 30 September 2009, well above pre-crisis levels. The composition of liquid assets held include Government securities $37 billion, Bank securities $12 billion, Corporate and Other securities $17 billion, Cash and Central Bank Deposits $6 billion. Liquidity holdings will be reassessed as the effects of proposed regulatory changes become clearer.

In addition to the liquid assets above, the Group is holding internal securitisation pools of residential mortgage backed securities (RMBS) as a source of contingent liquidity to further support its liquid asset holdings.

### Full year 2010 Wholesale Funding by Deal Type ($28.3 billion)




### Full year 2010 Wholesale Funding Currency ($28.3billion)




## Ratings

The Group's current long-term debt ratings are: National Australia Bank Ltd AA/Aa1/AA (S&P/Moody's/Fitch); BNZ AA/Aa2/AA; Clydesdale Bank PLC A+/A1/AA-; and National Wealth Management Holdings Ltd AA- (S&P).

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

## Full Time Equivalent Employees

| | As at | | | | |
|---|---|---|---|---|---|
| | **30 Sep 10** | **31 Mar 10** | **30 Sep 09** | **Sep 10 v Sep 09%** | **Sep 10 v Mar 10%** |
| Business Banking | **5,482** | 5,259 | 5,055 | (8.4) | (4.2) |
| Personal Banking | **8,945** | 8,434 | 7,663 | (16.7) | (6.1) |
| Wholesale Banking | **3,145** | 3,049 | 3,043 | (3.4) | (3.1) |
| MLC & NAB Wealth (1) | **5,714** | 5,541 | 3,991 | (43.2) | (3.1) |
| NZ Banking | **4,407** | 4,243 | 4,257 | (3.5) | (3.9) |
| UK Banking | **8,355** | 8,239 | 8,295 | (0.7) | (1.4) |
| Specialised Group Assets | **47** | 48 | 88 | 46.6 | 2.1 |
| Great Western Bank | **1,596** | 960 | 987 | (61.7) | (66.3) |
| Corporate Functions and Other | | | | | |
| Group Business Services | **4,983** | 4,145 | 3,968 | (25.6) | (20.2) |
| Other (2) | **1,877** | 1,759 | 1,606 | (16.9) | (6.7) |
| **Total full time equivalent employees (FTEs)** | **44,551** | 41,677 | 38,953 | (14.4) | (6.9) |
| **Total FTEs ex acquisitions** | **42,324** | 39,951 | 38,953 | (8.7) | (5.9) |
| **Average half year FTEs** | **43,283** | 39,988 | 38,958 | (11.1) | (8.2) |

(1) *FTEs for March 2010 have been restated to include integration FTEs whose costs are represented outside of cash earnings.*

(2) *Other includes Group Funding, other supporting units and Asia Banking.*

### September 2010 v September 2009

Total FTEs have increased by 5,598 on the September 2009 year. The movement by each business is as follows:

- Business Banking increased FTEs by 427 mainly due to increased investment activities to support lending growth.
- Personal Banking FTEs grew by 1,282 driven by the Advantedge acquisition (492 FTEs), network investment across various sales channels, increase in collections personnel and increased call centre staff to improve quality of service and customer satisfaction. This was partially offset by a decrease in FTEs due to simplification of branch staff roles.
- Wholesale Banking's FTEs increased by 102 primarily due to continued investment to support the franchise focus strategy.
- NZ Banking increased FTEs by 150 for the creation of new Finance Centres under the iFS model and to expand the retail network program as a result of the nationwide branch renovation initiative.
- MLC & NAB Wealth increased FTEs by 1,723 mainly due to the acquisition of Aviva and JBWere.
- Great Western Bank increased FTEs by 609 largely as a result of the acquisition of TierOne.
- Group Business Services FTEs increased by 1,015 predominantly due to increased activity relating to the Next Generation Banking IT Platform (NGP).
- Other supporting units increased FTEs by 271. This was mainly in the Risk area to strengthen its operational risk, compliance and assurance activities and in supporting projects and growth activities in Finance and Governance.

### September 2010 v March 2010

Total FTEs have increased by 2,874 on the March 2010 half year:

- Business Banking increased FTEs by 223 mainly due to investment activities to support lending growth.
- Personal Banking grew FTEs by 511 mainly as a result of network investment across various sales channels, an increase in nabBroker due to business growth, the need for more Collections personnel in line with the strategy to effectively manage bad and doubtful debts, and additional call centre staff to improve the quality of service and customer satisfaction.
- UK Banking increased FTEs by 116 mainly due to the creation of new positions to support growth and risk management strategies. This was partially offset by EQS initiatives.
- NZ Banking increased FTEs by 164 to expand the retail network program as a result of the nationwide branch renovation initiative.
- MLC & NAB Wealth grew by 173 mainly due to higher project activity and higher number of planners as a result of business growth.
- Great Western Bank increased FTEs by 636 primarily as a result of the acquisition of TierOne.
- Group Business Services increased FTEs by 838 predominantly due to increased activity relating to NGP.
- Other supporting units increased FTEs by 118. This was mainly due to Risk strengthening its operational risk, compliance and assurance activities and required support for project and growth activities in Finance and Governance.

## Investment Spend

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 $m | Mar 10 $m | Sep 10 v Mar 10 % |
| Infrastructure | **461** | 249 | 85.1 | **283** | 178 | 59.0 |
| Compliance / Operational Risk | **103** | 113 | (8.8) | **60** | 43 | 39.5 |
| Efficiency and Sustainable Revenue | **352** | 402 | (12.4) | **194** | 158 | 22.8 |
| Other | **39** | 50 | (22.0) | **19** | 20 | (5.0) |
| **Total** | **955** | 814 | 17.3 | **556** | 399 | 39.3 |

Investment spend increased by $141 million or 17.3% on the September 2009 year and increased by $157 million or 39.3% on the March 2010 half. The Group remains committed to investing in initiatives that support its strategic objectives.

Investment in *infrastructure* projects have increased by $212 million or 85.1% since September 2009, reflecting the continued focus on improving the quality, consistency and capabilities of the organisation to significantly enhance the customer experience. This increase was mainly driven by the Group's NGP investment and the transformation and convergence of key technology and operational infrastructure. NGP is an enterprise-led, business enabled initiative that will support the transformation of the Australian businesses, replacing many of the Bank's legacy applications and processes.

Spend on *compliance and operational risk* has decreased by $10 million or 8.8% since September 2009. The Group continually monitors the regulatory and risk environment to ensure that all necessary requirements are met. Initiatives include activities to support the Basel II accord, the Payment Services Directive and Consumer Credit Directives and the Customer Complaint Resolution project.

Investment in *efficiency and sustainable* revenue has decreased by $50 million or 12.4% since September 2009. The Group continues to identify opportunities to better serve its customers. Initiatives include the roll out of the simplified end-to-end business lending platform and the new Debit MasterCard in UK Banking. Business Banking activities include the expansion of frontline resources. Personal Banking activities include refurbishment and expansion of the physical network including the roll out of NAB kiosks.

## Other Matters

### Corporate Responsibility

The Group's Corporate Responsibility (CR) approach is centred on commitments to three core stakeholders: customers, employees and society. These commitments are fundamental to ensuring long term business success. The Group's CR approach is underpinned by the beliefs and behaviours of the NAB organisation that commit it to doing the right thing and helping customers, employees and communities to realise their potential.

The highlights of NAB's CR performance are set out below. (Full corporate responsibility reporting and disclosures are available on the Group website.)

- NAB was identified as a sustainability leader in the 2010 Dow Jones Sustainability Index and included as a constituent company in the FTSE4Good Index Series. These indices are global industry benchmarks for sustainability performance and influence billions of dollars of investment.
- In 2010 NAB was also awarded Money Magazine's Socially Responsible Bank of the Year.

**Initiatives to Support Customer**

- As a part of offering **fair value** for customers, Personal Banking and Business Banking have abolished a range of fees, limited interest rate rises and improved processes to assist in providing clear advice. This work has been recognised in NAB's receipt of the CHOICE Award for 'Best Low-Fee Bank Account' and the Canstar Cannex Excellence Award for Banking Leadership.
- Business Banking continued to support its customers during the year in challenging market conditions and an environment where some competitors reduced their lending.
- Over 15,400 **microfinance** loans have been written by NAB since the programs began in 2004. The program is now supported by a commitment of $130 million in loans. The uptake of NAB's microfinance loans more than doubled in 2010, with over 5,000 loans written for Australians on low incomes or who have little access to affordable business credit.
- MLC & NAB Wealth completed the transition of its advice businesses to a fee-for-advice model.
- NAB established a Customer Council in Australia, chaired by Group CEO Cameron Clyne, to discuss customer complaints in detail and look at how NAB can address common concerns.
- Wholesale Banking formed a reputation risk committee as a formal forum for discussing reputation and ethical issues.

**Initiatives to Support Employees**

- Achieved an 85% response rate on the **Group-wide employee survey** and results show improvement in employee engagement and enablement, which are now on a par with the financial services norm. These results showed that employees strongly believe that NAB does the right thing by its employees.
- In 2010 NAB was cited as an Employer of Choice for Women from Equal Opportunity for Women in the Workplace Agency (EOWA) for the fourth year in a row. NAB was the only major Australian bank to be cited.
- The Academy - NAB's learning and capability development centre for employees, has continued to grow, with three new sites opening this year as well as new programs, courses, tools and technologies aimed at the development of staff.

**Initiatives to Support Communities**

- The Group **invested $61.9 million in communities**, or 0.95% of cash earnings before tax, slightly below our target of 1%.
- Across the Group, **20,718 volunteer days** were contributed to the community during the year, an increase of 66% from the September 2009 year.
- The Group became **carbon neutral** in September 2010 - the first Australian bank to achieve this milestone. For more information, please refer to www.nabgroup.com.
- NAB has appointed a **Head of Environmental Risk** to further enhance capability in managing lending exposure to risk associated with climate change and other environmental issues. It has also appointed a **Head of Environmental Treasury Solutions** to build the organisations capability in servicing carbon markets.
- NAB was awarded the **2010 Climate Alliance Board Leadership of the Year Award**.
- NAB achieved the highest score of any Australian company and was rated among the top 12 companies globally in the **2010 Carbon Disclosure Project Leadership Index**, which rates companies on their disclosure of climate change data.
- NAB has granted over $5 million in award funding to school-community partnerships in 2010 under the **Schools First program**. NAB has committed $15 million to Schools First awards and over 860 of NAB staff have volunteered with the program. In its first two years, more than 20 per cent of Australian schools have applied for funding and there have been 196 award winners.
- The launch of NAB's second **Reconciliation Action Plan** took place in December 2009. The key areas of focus continue to be financial inclusion, employment opportunities and cultural awareness. Highlights for the year include work to assist the Traditional Credit Union expand its branch network, the establishment of an Indigenous Money Mentors program, and the Indigenous Employment Program, which recruited 72 Indigenous employees across Australia.
- NAB is now the largest accredited **Fairtrade** workplace in Australia and BNZ is the largest in New Zealand.
- NAB was awarded the **Socially Responsible Procurement Award** from the Chartered Institute of Purchasing and Supply Australia.

Section 4

## Review of Divisional Operations and Results

## Divisional Performance Summary

| Year ended 30 September 2010 | Business Banking $m | Personal Banking $m | Wholesale Banking $m | MLC & NAB Wealth $m | NZ Banking $m | UK Banking $m | Specialised Group Assets $m | GWB $m | Corporate Functions & Other [1] $m | Eliminations $m | Group Cash Earnings $m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 4,664 | 2,501 | 1,189 | 295 | 978 | 1,665 | 178 | 245 | 573 | - | 12,288 |
| Fees and commissions | 821 | 593 | 234 | 34 | 305 | 459 | 24 | 54 | 63 | - | 2,587 |
| Trading income | 64 | 3 | 493 | 1 | (73) | 3 | (299) | - | (92) | - | 100 |
| Other | 70 | 8 | 12 | (1) | 119 | (10) | 7 | 18 | 45 | (117) | 151 |
| Other operating income | 955 | 604 | 739 | 34 | 351 | 452 | (268) | 72 | 16 | (117) | 2,838 |
| MLC net operating income | - | - | - | 1,512 | - | - | - | - | - | - | 1,512 |
| Net operating income | 5,619 | 3,105 | 1,928 | 1,841 | 1,329 | 2,117 | (90) | 317 | 589 | (117) | 16,638 |
| Operating expenses | (1,714) | (1,700) | (914) | (1,114) | (581) | (1,232) | (51) | (152) | (521) | 117 | (7,862) |
| Underlying profit | 3,905 | 1,405 | 1,014 | 727 | 748 | 885 | (141) | 165 | 68 | - | 8,776 |
| Specific charge to provide for doubtful debts | (867) | (328) | (116) | (4) | (109) | (578) | (197) | (36) | - | - | (2,235) |
| Collective charge to provide for doubtful debts | 76 | (19) | 71 | (5) | (39) | (23) | (44) | (18) | - | - | (1) |
| Charge on investments held to maturity | - | - | - | - | - | - | (27) | - | - | - | (27) |
| Charge to provide for doubtful debts | (791) | (347) | (45) | (9) | (148) | (601) | (268) | (54) | - | - | (2,263) |
| Cash earnings before tax, IoRE, distributions and non-controlling interest | 3,114 | 1,058 | 969 | 718 | 600 | 284 | (409) | 111 | 68 | - | 6,513 |
| Income tax expense | (921) | (315) | (264) | (169) | (184) | (80) | 147 | (37) | 46 | - | (1,777) |
| **Cash earnings before IoRE, distributions and non-controlling interest** | 2,193 | 743 | 705 | 549 | 416 | 204 | (262) | 74 | 114 | - | 4,736 |
| Net profit - non-controlling interest | - | - | - | (1) | - | - | - | - | - | - | (1) |
| IoRE | - | - | - | 61 | - | - | - | - | - | - | 61 |
| Distributions | - | - | - | - | - | - | - | - | - | (215) | (215) |
| **Cash earnings** | 2,193 | 743 | 705 | 609 | 416 | 204 | (262) | 74 | 114 | (215) | 4,581 |
| **Key balance sheet items** | | | | | | | | | | | **Total** |
| Gross loans and acceptances (Average) ($bn) | 186.6 | 108.4 | 13.1 | 17.1 | 43.6 | 56.9 | 7.9 | 4.6 | 2.5 | - | 440.7 |
| Retail deposits (Average) ($bn) | 77.6 | 60.0 | - | 9.3 | 22.4 | 40.0 | - | 5.4 | 4.9 | - | 219.6 |
| Total risk-weighted assets (spot) ($bn) | 144.9 | 38.6 | 32.9 | 6.7 | 29.1 | 55.3 | 20.5 | 6.4 | 10.3 | - | 344.7 |

*[1] Corporate Functions & Other includes Group Funding, Group Business Services, other supporting units and Asia Banking.*

*Note: The Divisional Performance Summary excluding acquisitions is on pages 159 to 162.*

## Divisional Performance Summary

| Year ended 30 September 2009 | Business Banking $m | Personal Banking $m | Wholesale Banking $m | MLC & NAB Wealth $m | NZ Banking $m | UK Banking $m | Specialised Group Assets $m | GWB $m | Corporate Functions & Other [1] $m | Eliminations $m | Group Cash Earnings $m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 4,305 | 2,468 | 1,467 | 286 | 947 | 1,866 | 220 | 196 | 317 | - | 12,072 |
| Fees and commissions | 772 | 761 | 249 | 50 | 333 | 615 | 46 | 48 | 14 | - | 2,888 |
| Trading income | 110 | 2 | 1,325 | (3) | (76) | (6) | (535) | - | 11 | - | 828 |
| Other | 35 | 44 | (197) | 11 | 134 | 60 | 20 | 8 | 32 | (97) | 50 |
| Other operating income | 917 | 807 | 1,377 | 58 | 391 | 669 | (469) | 56 | 57 | (97) | 3,766 |
| MLC net operating income | - | - | - | 1,068 | - | - | - | - | - | - | 1,068 |
| Net operating income | 5,222 | 3,275 | 2,844 | 1,412 | 1,338 | 2,535 | (249) | 252 | 374 | (97) | 16,906 |
| Operating expenses | (1,645) | (1,574) | (898) | (842) | (589) | (1,417) | (95) | (122) | (495) | 97 | (7,580) |
| Underlying profit | 3,577 | 1,701 | 1,946 | 570 | 749 | 1,118 | (344) | 130 | (121) | - | 9,326 |
| Specific charge to provide for doubtful debts | (1,049) | (361) | (262) | (17) | (141) | (784) | (337) | (24) | - | - | (2,975) |
| Collective charge to provide for doubtful debts | (267) | (121) | (83) | (1) | (13) | (108) | (99) | 5 | (101) | - | (788) |
| Charge on investments held to maturity | - | - | - | - | - | - | (52) | - | - | - | (52) |
| Charge to provide for doubtful debts | (1,316) | (482) | (345) | (18) | (154) | (892) | (488) | (19) | (101) | - | (3,815) |
| Cash earnings before tax, IoRE, distributions and non-controlling interest | 2,261 | 1,219 | 1,601 | 552 | 595 | 226 | (832) | 111 | (222) | - | 5,511 |
| Income tax expense | (662) | (344) | (455) | (139) | (173) | (64) | 255 | (38) | 169 | - | (1,451) |
| **Cash earnings before IoRE, distributions and non-controlling interest** | 1,599 | 875 | 1,146 | 413 | 422 | 162 | (577) | 73 | (53) | - | 4,060 |
| Net profit - non-controlling interest | - | - | 2 | (2) | - | - | - | - | - | - | - |
| IoRE | - | - | - | 26 | - | - | - | - | - | - | 26 |
| Distributions | - | - | - | - | - | - | - | - | - | (245) | (245) |
| **Cash earnings** | 1,599 | 875 | 1,148 | 437 | 422 | 162 | (577) | 73 | (53) | (245) | 3,841 |

| **Key balance sheet items** | | | | | | | | | | | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross loans and acceptances (Average) ($bn) | 183.3 | 96.1 | 14.7 | 16.7 | 43.8 | 70.5 | 10.9 | 4.0 | 3.5 | - | 443.5 |
| Retail deposits (Average) ($bn) | 70.8 | 51.5 | - | 9.0 | 21.0 | 44.1 | - | 4.5 | 4.0 | - | 204.9 |
| Total risk-weighted assets (spot) ($bn) | 136.4 | 33.6 | 37.3 | 7.0 | 32.1 | 58.3 | 25.3 | 4.5 | 8.0 | - | 342.5 |

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

*Note: The Divisional Performance Summary excluding acquisitions is on pages 159 to 162.*

## Divisional Performance Summary

| Half year ended 30 September 2010 | Business Banking $m | Personal Banking $m | Wholesale Banking $m | MLC & NAB Wealth $m | NZ Banking $m | UK Banking $m | Specialised Group Assets $m | GWB $m | Corporate Functions & Other [1] $m | Eliminations $m | Group Cash Earnings $m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 2,352 | 1,286 | 573 | 153 | 506 | 801 | 73 | 145 | 285 | - | 6,174 |
| Fees and commissions | 409 | 299 | 112 | 16 | 154 | 237 | 12 | 34 | 11 | - | 1,284 |
| Trading income | 31 | 3 | 242 | 1 | (72) | 2 | (69) | - | (38) | - | 100 |
| Other | 45 | 1 | (32) | (1) | 96 | (10) | 2 | 9 | 25 | (56) | 79 |
| Other operating income | 485 | 303 | 322 | 16 | 178 | 229 | (55) | 43 | (2) | (56) | 1,463 |
| MLC net operating income | - | - | - | 764 | - | - | - | - | - | - | 764 |
| Net operating income | 2,837 | 1,589 | 895 | 933 | 684 | 1,030 | 18 | 188 | 283 | (56) | 8,401 |
| Operating expenses | (871) | (866) | (467) | (573) | (292) | (610) | (24) | (93) | (261) | 56 | (4,001) |
| Underlying profit | 1,966 | 723 | 428 | 360 | 392 | 420 | (6) | 95 | 22 | - | 4,400 |
| Specific Provision | (495) | (160) | (43) | (1) | (66) | (287) | (83) | (17) | - | - | (1,152) |
| Collective Provision | 85 | 44 | 27 | (3) | (12) | 8 | 3 | (17) | (1) | - | 134 |
| Held to Maturity | - | - | - | - | - | - | (15) | - | - | - | (15) |
| Charge to provide for doubtful debts | (410) | (116) | (16) | (4) | (78) | (279) | (95) | (34) | (1) | - | (1,033) |
| Cash earnings before tax, IoRE, distributions and non-controlling interest | 1,556 | 607 | 412 | 356 | 314 | 141 | (101) | 61 | 21 | - | 3,367 |
| Income tax expense | (458) | (181) | (110) | (71) | (100) | (44) | 56 | (20) | 35 | - | (893) |
| **Cash earnings before IoRE, distributions and non-controlling interest** | 1,098 | 426 | 302 | 285 | 214 | 97 | (45) | 41 | 56 | - | 2,474 |
| Net profit - non-controlling interest | - | - | - | - | - | - | - | - | - | - | - |
| IoRE | - | - | - | 26 | - | - | - | - | - | - | 26 |
| Distributions | - | - | - | - | - | - | - | - | - | (112) | (112) |
| **Cash earnings** | 1,098 | 426 | 302 | 311 | 214 | 97 | (45) | 41 | 56 | (112) | 2,388 |

| **Key balance sheet items** | | | | | | | | | | | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross loans and acceptances (Average) ($bn) | 188.4 | 112.6 | 12.6 | 17.5 | 43.5 | 55.7 | 7.5 | 5.4 | 2.5 | - | 445.7 |
| Retail deposits (Average) ($bn) | 78.1 | 61.4 | - | 9.2 | 22.9 | 40.3 | - | 6.5 | 5.5 | - | 223.9 |
| Total risk-weighted assets (spot) ($bn) | 144.9 | 38.6 | 32.9 | 6.7 | 29.1 | 55.3 | 20.5 | 6.4 | 10.3 | - | 344.7 |

[1] *Corporate Functions & Other includes Group Funding, Group Business Services, other supporting units and Asia Banking.*

*Note: The Divisional Performance Summary excluding acquisitions is on pages 159 to 162.*

## Divisional Performance Summary

| Half year ended 31 March 2010 | Business Banking $m | Personal Banking $m | Wholesale Banking $m | MLC & NAB Wealth $m | NZ Banking $m | UK Banking $m | Specialised Group Assets $m | GWB $m | Corporate Functions & Other [1] $m | Eliminations $m | Cash Earnings $m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 2,312 | 1,215 | 616 | 142 | 472 | 864 | 105 | 100 | 288 | - | 6,114 |
| Fees and commissions | 412 | 294 | 122 | 18 | 151 | 222 | 12 | 20 | 52 | - | 1,303 |
| Trading income | 33 | - | 251 | - | (1) | 1 | (230) | - | (54) | - | - |
| Other | 25 | 7 | 44 | - | 23 | - | 5 | 9 | 20 | (61) | 72 |
| Other operating income | 470 | 301 | 417 | 18 | 173 | 223 | (213) | 29 | 18 | (61) | 1,375 |
| MLC net operating income | - | - | - | 748 | - | - | - | - | - | - | 748 |
| Net operating income | 2,782 | 1,516 | 1,033 | 908 | 645 | 1,087 | (108) | 129 | 306 | (61) | 8,237 |
| Operating expenses | (843) | (834) | (447) | (541) | (289) | (622) | (27) | (59) | (260) | 61 | (3,861) |
| Underlying profit | 1,939 | 682 | 586 | 367 | 356 | 465 | (135) | 70 | 46 | - | 4,376 |
| Specific charge to provide for doubtful debts | (372) | (168) | (73) | (3) | (43) | (291) | (114) | (19) | - | - | (1,083) |
| Collective charge to provide for doubtful debts | (9) | (63) | 44 | (2) | (27) | (31) | (47) | (1) | 1 | - | (135) |
| Charge on investments held to maturity | - | - | - | - | - | - | (12) | - | - | - | (12) |
| Charge to provide for doubtful debts | (381) | (231) | (29) | (5) | (70) | (322) | (173) | (20) | 1 | - | (1,230) |
| Cash earnings before tax, IoRE, distributions and non-controlling interest | 1,558 | 451 | 557 | 362 | 286 | 143 | (308) | 50 | 47 | - | 3,146 |
| Income tax expense | (463) | (134) | (154) | (98) | (84) | (36) | 91 | (17) | 11 | - | (884) |
| **Cash earnings before IoRE, distributions and non-controlling interest** | 1,095 | 317 | 403 | 264 | 202 | 107 | (217) | 33 | 58 | - | 2,262 |
| Net profit - non-controlling interest | - | - | - | (1) | - | - | - | - | - | - | (1) |
| IoRE | - | - | - | 35 | - | - | - | - | - | - | 35 |
| Distributions | - | - | - | - | - | - | - | - | - | (103) | (103) |
| **Cash earnings** | 1,095 | 317 | 403 | 298 | 202 | 107 | (217) | 33 | 58 | (103) | 2,193 |

| **Key balance sheet items** | | | | | | | | | | | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross loans and acceptances (Average) ($bn) | 184.8 | 104.3 | 13.7 | 16.7 | 43.6 | 58.1 | 8.4 | 3.8 | 2.3 | - | 435.7 |
| Retail deposits (Average) ($bn) | 77.0 | 58.7 | - | 9.3 | 22.0 | 39.6 | - | 4.3 | 4.3 | - | 215.2 |
| Total risk-weighted assets (spot) ($bn) | 138.5 | 36.4 | 32.4 | 6.2 | 29.2 | 52.9 | 24.3 | 4.3 | 8.6 | - | 332.8 |

[1] *Corporate Functions & Other includes Group Funding, Group Business Services, other supporting units and Asia Banking.*

*Note: The Divisional Performance Summary excluding acquisitions is on pages 159 to 162.*

# Business Banking

Joseph Healy

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

## Strategic Highlights and Business Developments

Business Banking performed strongly over the year, delivering cash earnings of $2,193 million, up 37.1% on September 2009. This performance reflects the continued investment in capabilities supporting Australian businesses ('more bankers in more places'), sound margin management, disciplined expense management and lower bad and doubtful debt charges.

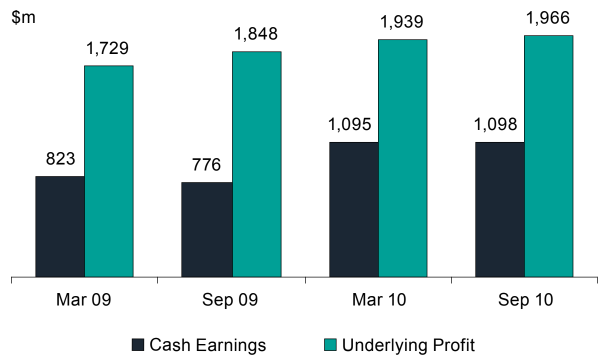
The result also reflects an unwavering commitment to relationship banking **with a focus on 'AND'** - growing market share AND managing risk/reward AND relationship cross sell. Business Banking's commitment to its customers and execution of the relationship-driven strategy continues to strengthen its reputation and grow market share:

- Business Banking increased market share, and has the leading market share in business lending of 22.5% (Source: APRA August 2010 data).
- Winner of 8 Australian Banking & Finance Corporate and Business Banking Awards, including "Best Relationship Management Bank", "Best Bank - Corporate" and "Best Lender - SME" and "Best Cash Management Bank".
- Recognised as the 2010 "Business Bank of the Year" by CFO Magazine for the second year in a row in October 2010.

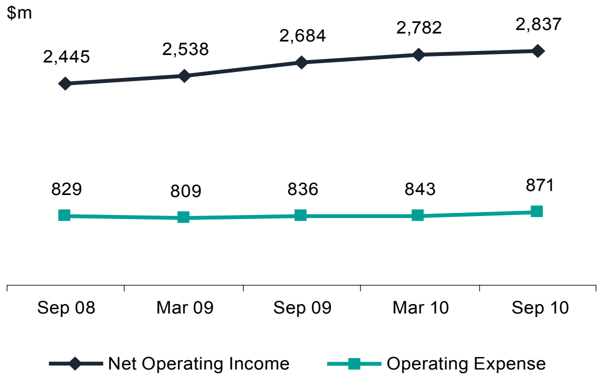
Business Banking has continued to invest in the relationship banking model with the rollout of the '**Customer-led Innovation Strategy'**, designed to deepen customer relationships, attract new to bank customers, enhance customer satisfaction and optimise cross sell opportunities. To assist in executing the Customer-led Innovation Strategy, external consultants Miller Heiman have been engaged to work with senior management and The Academy. Over 4,000 bankers will go through an intensive training program, designed by Miller Heiman, during 2011. Performance scorecards and incentives will also be aligned to support this strategy.

**Investment in frontline resources** has put more bankers in more places and embedded specialists, including Wholesale Banking specialists, in Business Banking Centres (BBCs). Over the year, 209 new bankers and specialists were hired, with a total of 363 since 2009. Seven new BBCs opened during the year.

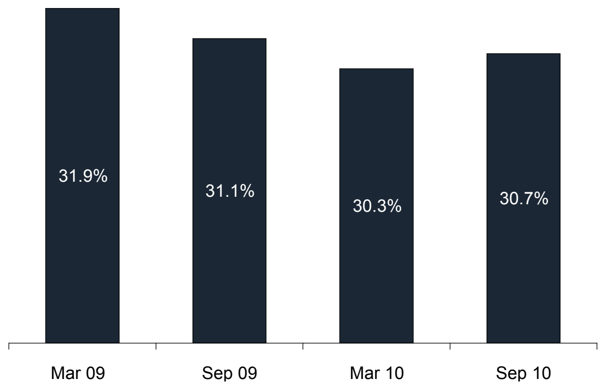
**Business Banking Cash Earnings and Underlying Profit**



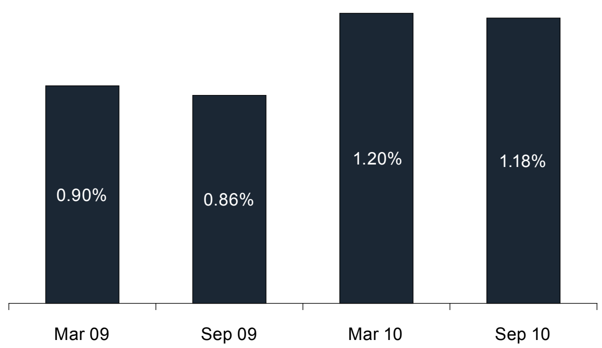

**Business Banking Revenue and Expense Trends**




**Business Banking Cost to Income Ratio**




**Business Banking Cash Earnings on Average Assets**



During the year Business Banking has **focused on delivering growth through supporting customers.** While business credit system declined by 3.6% in the year to August 2010, Business Banking continued to lend, increasing its market share. Over the course of the last 17 months to August 2010, NAB has been a consistent supporter of businesses across Australia and has grown lending at a time when the industry has contracted lending by a net $40 billion (Source: APRA data August 2010).

**Improving the customer experience** remains a strategic priority, with a focus on both service and relationships to ensure that products and services provide **Fair Value** to customers. As part of this, certain fees on business products were abolished in January 2010, which has benefited almost 500,000 business account holders.

**A commitment to sound risk and capital management practices** through the frontline management of risk has also been a focus, with the co-location of credit managers and bankers, and the continued repricing for current market conditions to ensure that margins reflect current market conditions. The drive for new business is consistent with our focus on building long-term relationships, together with quality and acceptable returns.

Attracting and maintaining a strong business deposit base remained a key priority, with business deposits growing by 9.6% over the year. The Customer Funding Index (CFI) improved by 120 basis points to 46.3%, through the increase of transactional and deposit balances across all segments.

**Focus on investments that generate strategic growth** was also a priority. Business Banking together with Personal Banking has established a Small and Emerging Business unit dedicated to expanding banker capabilities and customer service to this segment of the market. Part of this investment included a new dedicated small business contact centre launched in December 2009. Good progress was also made in restoring strength to the Institutional business with the creation of a middle office to enable relationship managers more customer facing time.

**Disciplined expense management** through efficiency initiatives continued, with a focus on banker training and development, together with the migration of administrative activities to back office functions, both in Australia and offshore, to provide bankers with more quality customer contact time. The long term objective of these measures is to forge high quality customer relationships with investment in frontline bankers and BBCs. This investment will continue over the coming period.

## Operating Environment

The September 2010 year saw a continued decline in business lending, with system growth hitting a 17 year low during the year as conditions remained subdued. Business confidence improved from that point and lending activity is expected to recover in the second half of 2011. During the year, competition intensified as a number of domestic banks re-balanced their overweight retail portfolio, with the second half seeing the return of offshore banks into the market. This created an environment of low system growth, combined with increasingly intense competition and pricing pressures.

The large corporate end of business lending was the predominant driver of system decline throughout the year. This segment has taken the opportunity to pay down debt levels and de-leverage their balance sheets as economic conditions have improved. The SME segment has been resilient, but growing more slowly this year than in previous years.

Pursuit for deposits was also intense, with global and second-tier banks re-emerging in the deposit market. Pricing remains tight as competitors look to secure customer funding to manage their balance sheet. Strength in the deposit base is still a priority, with a focus on those deposits that strengthen and support customer relationships.

The credit environment improved but remains uncertain reflecting economic uncertainty, although there are emerging signs of sustained improvement. The effects of rising interest rates and the strength of the Australian dollar on Business Banking customers are yet to be fully seen.

## Business Banking

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 $m | Mar 10 $m | Sep 10 v Mar 10 % |
| Net interest income | **4,664** | 4,305 | 8.3 | **2,352** | 2,312 | 1.7 |
| Other operating income | **955** | 917 | 4.1 | **485** | 470 | 3.2 |
| **Net operating income** | **5,619** | 5,222 | 7.6 | **2,837** | 2,782 | 2.0 |
| Operating expenses | **(1,714)** | (1,645) | (4.2) | **(871)** | (843) | (3.3) |
| **Underlying profit** | **3,905** | 3,577 | 9.2 | **1,966** | 1,939 | 1.4 |
| Charge to provide for bad and doubtful debts | **(791)** | (1,316) | 39.9 | **(410)** | (381) | (7.6) |
| **Cash earnings before tax** | **3,114** | 2,261 | 37.7 | **1,556** | 1,558 | (0.1) |
| Income tax expense | **(921)** | (662) | (39.1) | **(458)** | (463) | 1.1 |
| **Cash earnings** | **2,193** | 1,599 | 37.1 | **1,098** | 1,095 | 0.3 |
| | | | | | | |
| **Average Volumes ($bn)** | | | | | | |
| Gross loans and acceptances | **186.6** | 183.3 | 1.8 | **188.4** | 184.8 | 1.9 |
| Interest earning assets | **186.1** | 183.5 | 1.4 | **187.7** | 184.5 | 1.7 |
| Total assets | **184.1** | 182.1 | 1.1 | **185.8** | 182.4 | 1.9 |
| Retail deposits | **77.6** | 70.8 | 9.6 | **78.1** | 77.0 | 1.4 |
| | | | | | | |
| **Capital ($bn)** | | | | | | |
| Risk-weighted assets - credit risk (spot) | **142.3** | 133.8 | 6.4 | **142.3** | 136.0 | 4.6 |
| Total risk-weighted assets (spot) | **144.9** | 136.4 | 6.2 | **144.9** | 138.5 | 4.6 |
| | | | | | | |
| **Performance Measures** | | | | | | |
| Cash earnings on average assets | **1.19%** | 0.88% | 31 bps | **1.18%** | 1.20% | (2 bps) |
| Net interest margin | **2.51%** | 2.35% | 16 bps | **2.50%** | 2.51% | (1 bps) |
| Cost to income ratio | **30.5%** | 31.5% | 100 bps | **30.7%** | 30.3% | (40 bps) |
| Cash earnings per average FTE ($'000s) | **417** | 317 | | **406** | 428 | |
| FTEs (spot) | **5,482** | 5,055 | | **5,482** | 5,259 | |

| | As at | | |
|---|---|---|---|
| **Market Share [1]** | Aug 10 | Mar 10 | Sep 09 |
| Business lending | **22.5%** | 20.8% | 21.0% |
| Business deposits | **20.9%** | 22.0% | 21.1% |

[1] *Source: APRA Monthly Banking Statistics*

## Business Banking
Financial Analysis

### September 2010 v September 2009

**Cash earnings** increased by $594 million or 37.1% against the September 2009 year, driven by a strong underlying profit performance (9.2% growth) and lower bad and doubtful debts charge due to fewer customer rating downgrades as the credit environment improved.

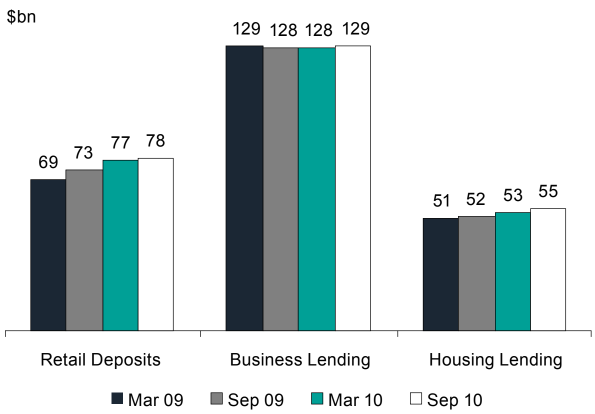
**Cash earnings on average assets** improved by 31 basis points, reflecting the improved bad and doubtful debt position and the delivery of the Business Banking "AND" strategy with a focus on growing market share AND managing risk/reward.

**Net interest income** increased by $359 million or 8.3% compared to the September 2009 year, due to strong margin management through repricing for current market conditions, and growth in both lending and deposit products. This was partly offset by higher funding costs and lower earnings on attributed capital.

**Average interest earning assets** grew by $2.6 billion or 1.4%, a result of business and housing lending growth in the SME and specialised business segments. This was partly offset by lower lending volumes in the Institutional segment, as customers repaid debt and de-leveraged their balance sheets.

**Average retail deposits** increased by $6.8 billion or 9.6%, in line with Business Banking's strategic priority to grow deposits and reduce the reliance on wholesale funding.

### Business Banking Average Volumes




**Net interest margin** increased by 16 basis points over the year due to improved lending margins achieved through repricing for current market conditions and a favourable mix impact, as growth was concentrated in higher margin products. This was partly offset by higher funding and deposit costs.

**Other operating income** increased by $38 million or 4.1%, driven by higher lending related fees from growth in volumes and repricing for risk. This was partly offset by a decline in the demand for risk management products as market volatility returned to more normal levels.

**Operating expenses** increased by $69 million or 4.2%, reflecting increased costs from the investment in additional frontline bankers, and additional salary related costs. This was partially offset by tight expense management in underlying expenses through the delivery of EQS initiatives.

The **charge to provide for bad and doubtful debts** decreased by $525 million due to a reduction in the incidence of losses on single name exposures, improved customer credit ratings, and a more favourable credit environment.

### September 2010 v March 2010

**Cash earnings** increased by $3 million or 0.3% on the March 2010 half, largely as a result of 1.4% growth in underlying profit, partly offset by a small increase in bad and doubtful debts.

**Cash earnings on average assets** decreased by 2 basis points, due to the small increase in bad and doubtful debt charges.

**Net interest income** increased by 1.7% compared to the March 2010 half, largely due to stable lending margins and growth in lending products.

**Average interest earning assets** grew by $3.2 billion or 1.7%, due to both business and housing lending growth, partially offset by lower volumes in the Institutional segment.

**Average retail deposits** grew by $1.1 billion or 1.4%, reflecting Business Banking's strategic priority to reduce its reliance on wholesale funding.

**Net interest margin** decreased by 1 basis point on the March 2010 half with effective margin management through repricing largely offsetting increasing wholesale borrowing costs.

**Other operating income** increased by $15 million or 3.2% due to higher lending related fees from growth in volumes.

**Operating expenses** increased by $28 million or 3.3%, reflecting investment in additional frontline bankers to enable growth, offset by savings generated through efficiency initiatives.

The **charge to provide for bad and doubtful debts** increased by $29 million, largely attributable to an additional provision raised against an existing impaired client.

## Other Items

### Asset Quality

| | As at | | |
|---|---|---|---|
| | Sep 10 | Mar 10 | Sep 09 |
| Specific provision for doubtful debts ($m) | **909** | 892 | 915 |
| Collective provision for doubtful debts ($m) | **1,091** | 1,176 | 1,157 |
| Collective provision on loans at fair value ($m) | **129** | 29 | 24 |
| 90+ DPD assets ($m) | **859** | 792 | 699 |
| Gross impaired assets ($m) | **3,215** | 2,873 | 2,798 |
| 90+ DPD plus gross impaired assets to gross loans and acceptances | **2.16%** | 1.97% | 1.89% |
| Specific provision to gross impaired assets | **28.3%** | 31.0% | 32.7% |
| Net write-offs to gross loans and acceptances (annualised) | **0.46%** | 0.43% | 0.27% |
| Total provision as a percentage of net write-offs | **244%** | 264% | 421% |
| Total provision to gross loans and acceptances | **1.13%** | 1.13% | 1.14% |
| Bad and doubtful debt charge to credit risk weighted assets | **0.56%** | 0.56% | 0.98% |

The asset quality of the Business Banking portfolio remains sound in a challenging yet progressively improving environment. Asset quality indicators continued to stabilise over the past six months, although an increase in impaired assets is within expectations and is attributed to the lagged effect of the global financial crisis (GFC) on the portfolio of categorised assets.

The domestic economic environment continues to be characterised by multiple speeds of economic activity; with resources and related industries strong, whilst the balance of the economy - manufacturing, retail and housing - remains patchy. Trading conditions are reflective of this with volatile confidence and conditions translating into cautious business investment activity. This was seen in the decrease in business credit system of 3.6% over the year.

In this environment, Business Banking through sound lending practices achieved growth across the SME, Agribusiness, NAB Health and Corporate portfolios.

The portfolio remains well diversified across product and industry segments. The Commercial Property portfolio in Business Banking remains closely monitored and the concentration has improved relative to prior periods.

The bad and doubtful debts charge for the September 2010 half year of $410 million largely comprised of specific provisions raised on impaired assets. The increase of $29 million on the March 2010 half was largely attributable to an additional provision raised against an existing impaired client. The charge remains significantly lower than that incurred in the previous corresponding period.

Loan loss provision cover remains stable compared to March 2010 and September 2009.

The ratio of 90+ DPD plus gross impaired assets to gross loans and acceptances rose by 19 basis points over the September 2010 half year to 2.16%. The gross impaired assets to gross loans and acceptances was up by 16 basis points mainly from the impairment of a small number of large clients operating in the property and agriculture sectors.

Over the half, we have modified risk settings across the business to reflect the current trading environment and NAB's market positioning strategy. The investment grade equivalent proportion of the non-retail portfolio fell by 66 basis points to 67.9%. However the underlying asset quality remains sound.

The ratio of net write-offs to gross loans and acceptances increased by 3 basis points from the March 2010 half, with the rate of increase slowing compared with the previous half. These write-offs related to a number of large customer accounts that were specifically provided for in previous periods.

### Investment Spend

The investment allocation was aligned to Business Banking's strategy, which is focused on three goals:

- *World-class relationship banking.* The recently launched Customer-Led Innovation Program will further strengthen the relationship banking model to deepen customer relationships and optimise cross-sell.
- *Business Banking's expansion* to be enabled through two programs: the successful growth strategy that has added 209 new bankers in 2010, making a total of 363 new bankers since 2009; and NAB's new service and value proposition to the Small and Emerging Business segment through the new small business call centre and the refinement of iFS and Specialisation models. Significant investment in the Institutional Banking segment was also made to increase resource levels to targeted clients.
- *Running the business well.* Initiatives have been undertaken to improve processes that will release capital and enhance Business Banking's capital efficiency.

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# Personal Banking

Lisa Gray

Personal Banking helps over 4.1 million retail and small business customers to realise their potential, by providing them with financial help, guidance and advice and by focusing on what they really want. Quality products and services are delivered through a range of distribution channels and brands including NAB, Homeside, UBank and a variety of broker and 'mortgage manager' brands operated by the Advantedge business.

## Strategic Highlights and Business Developments

This has been a year of reinvestment for Personal Banking, as the business continues to **differentiate itself as a bank that offers fair value to customers.** The early results have been pleasing, with improved customer satisfaction, increased sales across all channels and a more engaged workforce.

The business continues to drive its key strategies of:

- **Restoring the core business** by transforming the customer experience, improving sales productivity and differentiating NAB's brand and reputation, through the **Fair Value philosophy**.
- **Investing in gaps** in underweight channels and products in the portfolio.
- **Building for long-term growth** through new customer driven models, such as UBank.

### Restoring the Core Business

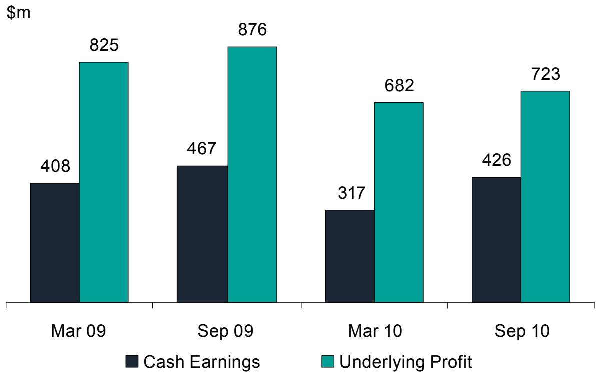
During the year NAB has prioritised investment within Personal Banking's core retail business.

A leading priority has been significant investment in differentiating the reputation of business via NAB's Fair Value philosophy. This has resulted in giving customers a fairer banking relationship and a competitive alternative to peers, as well as creating a sustainable business model for the retail franchise in the long-term. This investment has positioned Personal Banking well, providing the basis for a constructive relationship with both existing and new customers and significantly revitalising the engagement of our people, which together have significantly increased the momentum of the business.

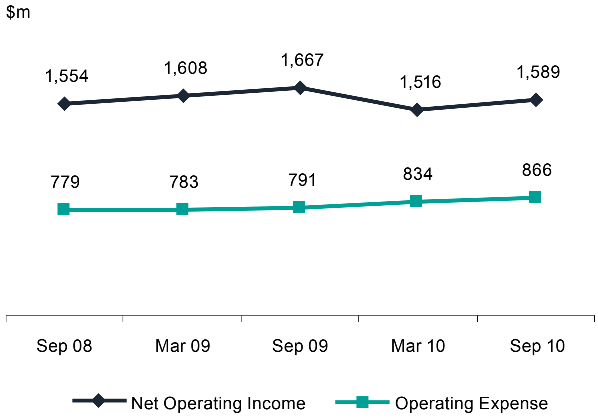
During 2010, key initiatives taken to differentiate NAB's brand and reputation through Fair Value included:

- Abolishing monthly account fees on everyday transaction accounts, the cornerstone product of a customer's relationship with its main bank.
- Reducing credit card late fees from $30 to $5 and abolishing credit card over-limit fees.
- Launching NAB Care, a dedicated team handling cases of financial hardship.
- Changing the mortgage pricing strategy, to offer customers a competitive alternative to peers.

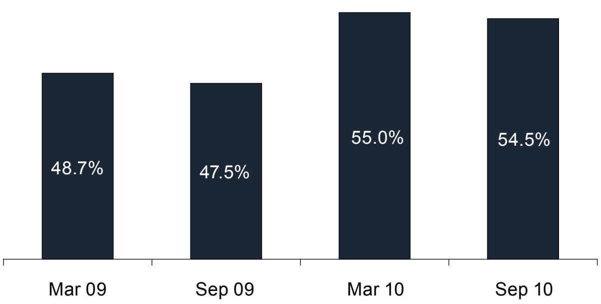
**Personal Banking Cash Earnings and Underlying Profit**



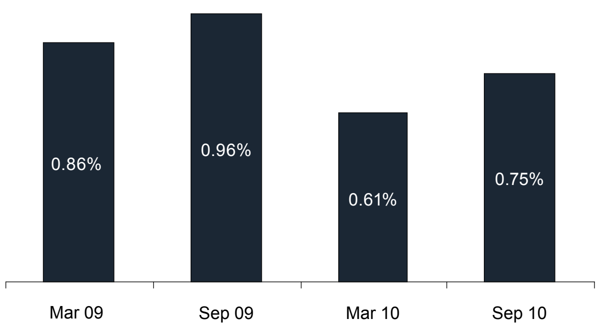

**Personal Banking Revenue and Expense Trends**




**Personal Banking Cost to Income Ratio**




**Personal Banking Cash Earnings on Average Assets**



Another important focus in 2010 has been starting the transformation of the customer experience to make it easier for customers to do business with NAB. Initiatives have included:

- Building people capability and sales effectiveness to provide NAB's people with the support and skills they need to improve the service offering to customers.
- Measures to centralise administrative tasks away from the branch network to provide staff with more time with customers.
- The continued roll-out of NAB Kiosks to broaden the physical network and introduce more convenient methods for customers to do business with NAB.
- Investment in the capacity and extended operating hours of the Customer Contact Centre.
- Investment in online and mobile channels, including the launch of a refreshed and simpler nab.com.au website.
- Initiated the Mortgage Transformation Program, which has stabilised the Bank's mortgage fulfilment processes, resulting in a 23% increase in Broker conversion rates.
- Launching a new dedicated small business contact centre, in a joint investment with Business Banking and increased the number of small business bankers to 133 over the year.

These actions and initiatives have helped drive momentum in the business, the key highlights of which are:

- Above system mortgage growth in all Personal Banking channels in the second half of 2010, helping deliver overall NAB mortgage growth of 2x system for the half. Asset quality of new loans written remains at or better than that of the existing book.
- A shift in brand perception, with 40% of consumers at September 2010 believing NAB customers are at an advantage, up from only 30% at September 2009 according to the Sweeney Research Brand Tracker.
- A 174,263 or 605% increase in net new transaction accounts, while maintaining average account balances in line with the back book.
- A significant improvement in customer satisfaction, up 3.9% to 74.7% in September 2010, the largest annual increase across the four major banks [(1)].
- Being awarded Your Mortgage magazine 'Bank of the Year', the CHOICE award for 'Best Low-Fee Bank Account', Money magazine 'Credit Card Issuer of the Year', Money magazine 'Best Online Savings Account 2010' for USaver and the Australian Business Awards 2010 awarded UBank both the 'Business Award for Innovation' and the 'Product Award for Product Excellence'.

Realising the benefits of these investments and delivering a step change in customer experience will continue to be a focus of the business in the coming financial year.

**Investing in Gaps**

There was a strong focus on the third party broker mortgage distribution segment during the year, with significant progress gained from expansion into alternative brands.

[(1)] *Roy Morgan Research, Australian Main Financial Institution Population aged 14+, 6 months to September 2010 compared to 6 months to September 2009. Customer satisfaction is based on customers who answered very/fairly satisfied.*

Both NAB Broker and Advantedge support NAB's commitment to the third party broker industry and are showing significant sales momentum. The Challenger Mortgage Management acquisition (now branded Advantedge), was completed with no loss of key staff or brokers. Integration into NAB continues to progress successfully. It has resulted in an increase in Personal Banking home loans of $6.3 billion as at September 2010 (including the impact of the Advantedge back-book purchase).

NAB Broker's Homeside brand has continued to evolve, with the introduction of risk-based pricing in October 2009 and has delivered significant sales momentum and improved overall asset quality, particularly in the second half of the year. This included achieving a record level of monthly settlements for the channel. New loan settlement volumes in NAB Broker increased by 76% in 2010 as compared to 2009, with the growth enabled by process improvements, a result of the Mortgage Transformation Program. NAB Broker has contributed over $6.5 billion to home lending balances during 2010.

**Building for Long-term Growth**

UBank has experienced significant growth during the year, growing to over $5 billion in deposits, driven by the launch of its online savings account, USaver, in August 2009, followed up by the launch of USaver Reach, a savings product targeted at the Under 30s market, and a self-managed super fund online deposit product.

USaver was the first product launched on the new Next Generation Banking IT Platform. The new platform has proved successful, with over 125,000 new accounts opened using real-time online application and verification, enabling customers to open an account online in five minutes. This product has been a key contributor to Personal Banking's growth in household deposits, which has been at 1.8x system during 2010.

## Operating Environment

Throughout the financial year the Australian economy has remained stable in an environment of continuing economic uncertainty.

In response to pressure on regulators globally, Australian Government regulation has increased over the financial year. This regulation is targeted at consumer protection across the financial industry, such as the introduction of the National Consumer Credit Protection Act and Unfair Contract Terms legislation.

House prices continued to be resilient, supporting the Reserve Bank of Australia's decision to steadily lift the official cash rate throughout the period October 2009 to May 2010.

Whilst unemployment levels have marginally improved during the year they have remained higher than in recent years, placing some stress on consumers. Despite this, unsecured asset quality has been relatively stable over the year.

Competition for customer deposits remains strong as banks position themselves for the new regulatory environment and reduce their reliance on international wholesale markets. This has contributed to higher funding costs, including lower deposit margins.

## Personal Banking

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 $m | Mar 10 $m | Sep 10 v Mar 10 % |
| Net interest income | 2,501 | 2,468 | 1.3 | 1,286 | 1,215 | 5.8 |
| Other operating income | 604 | 807 | (25.2) | 303 | 301 | 0.7 |
| **Net operating income** | 3,105 | 3,275 | (5.2) | 1,589 | 1,516 | 4.8 |
| Operating expenses | (1,700) | (1,574) | (8.0) | (866) | (834) | (3.8) |
| **Underlying profit** | 1,405 | 1,701 | (17.4) | 723 | 682 | 6.0 |
| Charge to provide for bad and doubtful debts | (347) | (482) | 28.0 | (116) | (231) | 49.8 |
| **Cash earnings before tax** | 1,058 | 1,219 | (13.2) | 607 | 451 | 34.6 |
| Income tax expense | (315) | (344) | 8.4 | (181) | (134) | (35.1) |
| **Cash earnings** | 743 | 875 | (15.1) | 426 | 317 | 34.4 |
| **Average Volumes ($bn)** | | | | | | |
| Gross loans and acceptances | 108.4 | 96.1 | 12.8 | 112.6 | 104.3 | 8.0 |
| Interest earning assets | 108.5 | 96.1 | 12.9 | 112.6 | 104.3 | 8.0 |
| Total assets | 109.0 | 96.1 | 13.4 | 113.2 | 104.7 | 8.1 |
| Retail deposits | 60.0 | 51.5 | 16.5 | 61.4 | 58.7 | 4.6 |
| **Spot Volumes ($bn)** | | | | | | |
| Housing lending | 109.5 | 90.5 | 21.0 | 109.5 | 99.2 | 10.4 |
| Other personal lending | 7.6 | 7.4 | 2.7 | 7.6 | 7.7 | (1.3) |
| Retail deposits | 64.7 | 57.2 | 13.1 | 64.7 | 59.9 | 8.0 |
| **Capital ($bn)** | | | | | | |
| Risk-weighted assets - credit risk (spot) | 35.1 | 29.9 | 17.4 | 35.1 | 32.9 | 6.7 |
| Total risk-weighted assets (spot) | 38.6 | 33.6 | 14.9 | 38.6 | 36.4 | 6.0 |
| **Performance Measures** | | | | | | |
| Cash earnings on average assets | 0.68% | 0.91% | (23 bps) | 0.75% | 0.61% | 14 bps |
| Net interest margin | 2.31% | 2.57% | (26 bps) | 2.28% | 2.34% | (6 bps) |
| Cost to income ratio | 54.8% | 48.1% | (670 bps) | 54.5% | 55.0% | 50 bps |
| Cash earnings per average FTE ($'000s) | 89 | 116 | | 97 | 80 | |
| FTEs (spot) | 8,945 | 7,663 | | 8,945 | 8,434 | |

| | As at | | |
|---|---|---|---|
| **Distribution** | Sep 10 | Mar 10 | Sep 09 |
| Number of retail outlets [1] | 773 | 748 | 752 |
| Number of ATMs | 3,154 | 3,172 | 3,164 |
| Number of internet banking customers (no. million) | 1.701 | 1.523 | 1.375 |

(1) *Retail outlets include both branches and kiosks.*

| | As at | | |
|---|---|---|---|
| **Market Share** | Aug 10 | Mar 10 | Sep 09 |
| Housing lending [1] | 13.2% | 12.8% | 12.8% |
| Household deposits [2] | 13.6% | 13.4% | 13.1% |

(1) *RBA Financial System / NAB including Wholesale Banking data as at August 2010.*

(2) *APRA Banking System / NAB including Wholesale Banking data as at August 2010.*

## Personal Banking
Financial Analysis

### September 2010 v September 2009

**Cash earnings** decreased by $132 million or 15.1% compared to September 2009, mainly due to lower income as a result of Fair Value fee initiatives and increased investment in frontline staff. This was partially offset by the contribution of the acquired Advantedge business ($55 million) and lower bad and doubtful debt charges.

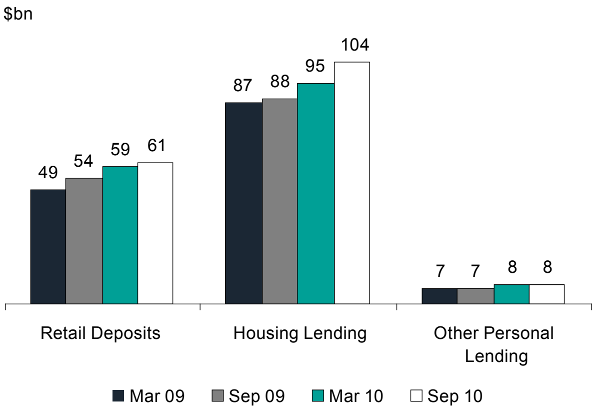
**Cash earnings on average assets** declined by 23 basis points, mainly as a result of lower income.

**Net interest income** increased by $33 million or 1.3% compared to September 2009, largely due to the acquisition of the Advantedge business ($76 million). The competitive home loan pricing strategy resulted in improved revenues from increased volumes, which were more than offset in the year by higher funding and deposit costs.

**Average interest earning assets grew** by $12.4 billion or 12.9%, driven by the newly acquired Advantedge business ($4.7 billion) and above system growth across all sales channels in mortgages.

**Average retail deposits** increased by $8.5 billion or 16.5%, due to UBank's outstanding growth and solid growth in the proprietary network.

### Personal Banking Average Volumes




The decrease in the **net interest margin** of 26bps for the year is a reflection of the competitive strategy being maintained across the Personal Banking home loan portfolio, as well as higher funding and deposit costs.

**Other operating income** decreased by $203 million or 25.2%. This decline is due to initiatives to improve the reputation of the Bank which included the abolition of several fees as part of the Fair Value philosophy and a full year impact of ATM direct charging. This has been partially offset by the acquisition of the Advantedge business ($72 million).

**Operating expenses** increased by $126 million or 8.0% due to the acquisition of the Advantedge business ($67 million), combined with re-investment in frontline employees to restore the core business and drive the Personal Banking strategy. This was partially offset by savings from EQS.

The **charge to provide for bad and doubtful debts** decreased by $135 million driven by improvements in asset quality and collections practices, which has driven lower collective provision charges and a single collective provision charge for loans covered by Lenders Mortgage Insurance in 2009 not being repeated.

### September 2010 v March 2010

**Cash earnings** increased by $109 million or 34.4% on the March half mainly due to higher income and lower bad and doubtful debts, partially offset by higher expenses.

**Cash earnings on average assets** increased by 14 basis points, driven by higher cash earnings.

**Net interest income** increased by $71 million or 5.8% largely due to strong volume growth in mortgages.

**Average interest earning assets** grew by $8.3 billion or 8.0% due to above system mortgage growth in all channels, as a result of the competitive pricing strategy.

**Average retail deposits** grew by $2.7 billion or 4.6%, underpinned by solid growth in NAB Retail and continued momentum in UBank.

The 6bps decrease in the **net interest margin** for the half year reflects increased funding and deposit costs and changes in product mix as a result of the growth in mortgage products.

**Other operating income** remained relatively flat for the half year, up $2 million, with the full half impact of Fair Value fee initiatives offset by higher home loan package fees and the timing of annual credit card fees, which are traditionally higher in the second half of the year.

**Operating expenses** increased by $32 million or 3.8%, driven by re-investment in frontline employees to restore the core business, in line with the Personal Banking strategy, together with increased costs for the half year from the Advantedge business ($11 million), with the business acquired in late October 2009.

**The charge to provide for bad and doubtful debts** decreased by $115 million on the March half year, reflecting improvements in asset quality in both the secured and unsecured portfolio over the September 2010 half due to improved collections practices and the impact of changes in credit settings in previous years.

## Other Items

### Asset Quality

| | As at | | |
|---|---|---|---|
| | **Sep 10** | **Mar 10** | **Sep 09** |
| Specific provision for doubtful debts ($m) | **46** | 64 | 65 |
| Collective provision for doubtful debts ($m) | **416** | 460 | 397 |
| 90+ DPD assets ($m) | **667** | 736 | 729 |
| Gross impaired assets ($m) | **169** | 231 | 269 |
| 90+ DPD plus gross impaired assets to gross loans and acceptances | **0.71%** | 0.90% | 1.01% |
| Specific provision to gross impaired assets | **27.2%** | 27.7% | 24.2% |
| Net write-offs to gross loans and acceptances (annualised) | **0.29%** | 0.31% | 0.36% |
| Total provision as a percentage of net write-offs | **133%** | 155% | 128% |
| Total provision to gross loans and acceptances | **0.39%** | 0.49% | 0.46% |
| Bad and doubtful debt charge to credit risk weighted assets | **0.99%** | 1.41% | 1.61% |

Whilst the broader macro economy has continued to prove resilient throughout 2010, more difficult conditions remain across some geographic regions and within the small business segment. The unemployment rate was stable at around 5.2%, whilst importantly, there was an improvement in under-employment which underpins borrowers' capacity to service debt. The focus on asset quality applied over the past two years through a revision of underwriting strategy and a continued investment in collections capability and capacity is now demonstrable via the improvement in key metrics. There has been a significant improvement in both 90+ days past due (DPD) and impairment rates across the portfolio, as well as a reduction in collective provisions held. The 90+ DPD and gross impaired assets (GIAs) to gross loans and acceptances (GLAs) ratio continued its improvement, reducing by 19bps on the March 2010 half and by 30bps since September 2009.

Total provisions as a percentage of net write-offs have decreased to 133% since March 2010 due to the seasonal nature of the portfolio. Compared to September 2009, this ratio has improved in line with improvements in asset quality. Total provisions to GLAs have decreased to 0.39%, reflecting recent improvements in quality experienced across the unsecured portfolio.

Overall arrears on mortgages have continued to improve over the past 12 months. The 30+ DPD rate has been stable and shows no immediate signs of deterioration in an increasing interest rate environment. Later stage delinquency also continues to improve as both 90+ DPD and impaired balances decline due to improved collections strategies and efficiencies, along with stronger recoveries as house prices rose. Latest vintage analysis gives further confidence of the quality of the new mortgage flows.

Through the year, although demand for finance from first home buyers dropped, the quality of applications increased with a shift to lower loan to value ratios in this segment. The delinquency profile of the first home buyer segment improved considerably over the second half of the year, with the proportion of customers paying ahead of their loan increasing.

The unsecured portfolios have seen continued improvement during the second half across key delinquency metrics, driven by improved collections performance and higher levels of efficiency. Further benefits are expected to flow from improved new account vintages as a result of enhanced underwriting processes and changes to credit settings implemented at the start of the global financial crisis.

After significant and sustained increases in hardship applications last year, the number has now been stable since August 2009.

### Investment Spend

During the year investment spend has remained largely focused on 'restoring the core' of Personal Banking. In addition to the investment in brand and reputation from the Fair Value initiatives and the new advertising campaign "More Give, Less Take", the business has invested in increased staffing capacity and capability to improve service and sales effectiveness.

Key areas of investment during the year included:

- Ongoing investment in capacity and capability in the collections area, which has contributed to a significant improvement in our 90+ DPD, particularly in the second half of the year.
- Investment in the mortgage process, increasing capacity and improving efficiency, initially focused on the Broker business. The investment helped drive a 23% improvement in Broker conversion rates, contributing to a 76% increase in new loans.
- Continued investment in the UBank business which has significantly contributed to the improvement in retail deposit volumes during the year.
- Ongoing optimisation of our physical network of branches and kiosks. This included opening several new branches and kiosks, as well as relocating branches to more convenient locations for customers and refurbishing existing branches.
- Increased service capability and capacity across the branch network and contact centres to deliver improved services, such as extended hours in the contact centre and shorter waiting times in branches. The results have been pleasing with improved customer satisfaction in both branches and the contact centre.

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# Wholesale Banking

Rick Sawers

Wholesale Banking's key lines of business include Global Markets, Treasury, Specialised Finance, Financial Institutions and Asset Servicing. As a global business, it operates in five geographic regions with over 3,000 employees in Australia, New Zealand, Asia, the UK and the US.

## Strategic Highlights and Business Developments

Wholesale Banking's franchise focus strategy is aimed at achieving incremental and sustainable growth by providing a diverse product range to clients across the Group's franchises. These franchises include Business Banking, MLC and NAB Wealth, and UK Banking.

The increasing need to intermediate financial flows globally, fuelled by an Australian economy dependent on offshore funding and significant growth in global retirement savings, plays to the strength of the business.

A key feature of the **franchise focus strategy** during the year was the increasing number of Wholesale Banking product specialists co-located in Business Banking Centres, as well as a targeted foreign exchange advertising campaign in partnership with Business Banking.

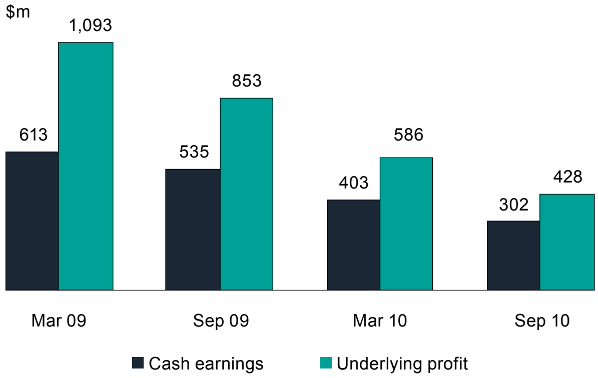
This close interaction with Business Banking was highlighted when NAB was rated as Best Overall Interest Rate Bank in Australia and first in three Australian dollar categories for Interest Rate Swaps, Forward Rate Agreements and Repurchase Agreements by Risk Australia's 2010 Derivatives Survey in September 2010.

The close relationship with other Group franchises was highlighted by **a number of significant transactions achieved in 2010** including:

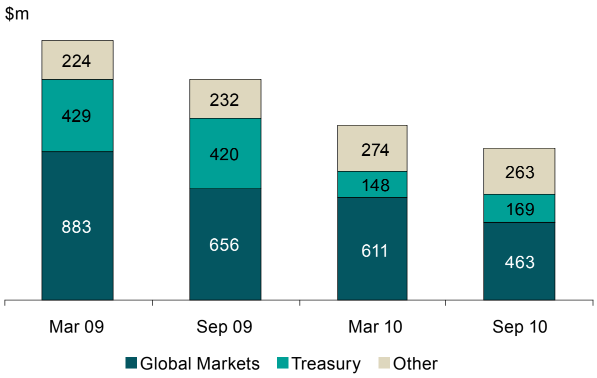
- Joint arranger for Primary Health Care retail bond for $152 million, which was the first retail bond in the Australian debt capital market to utilise ASIC prospectus relief rules.
- Full banking relationship for Symbion, including an innovative tailored trade receivable securitisation facility.
- Lead manager of the first 10 year Australian dollar corporate bond raising since 2006 on behalf of Telstra Corporation for $150 million.
- Joint lead arranger of a syndicated loan of $2.6 billion for Origin Energy.

During the year, Global Markets experienced challenging macroeconomic conditions with subdued business activity in the UK, US and New Zealand businesses. The market environment was characterised by lower volumes, reduced market volatility and narrower product spreads in contrast to the exceptional sales and trading environment in the prior year.

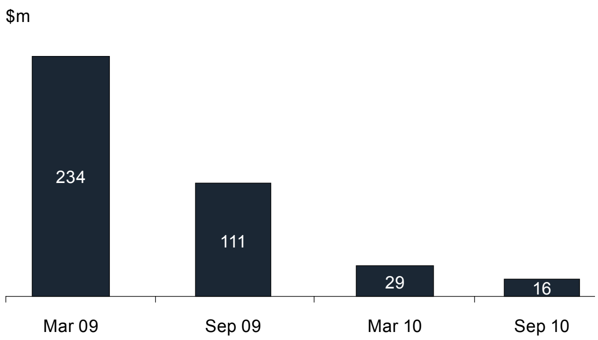
**Wholesale Banking Cash Earnings and Underlying Profit**



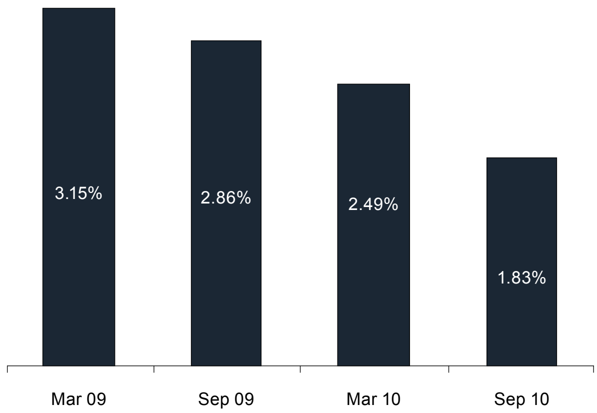

**Wholesale Banking Net Operating Income**




**Wholesale Banking Charge to Provide for Bad and Doubtful Debts**




**Wholesale Banking Return on Risk Weighted Assets**



Wholesale Banking Treasury successfully fulfilled its core strategic objectives: ensuring balance sheet stability and managing liquidity, whilst generating returns for the bank despite significant ongoing uncertainty. The business prudently managed the Group's balance sheet in preparation for the prospect of future regulatory change. Throughout 2010, the stable liquidity position has been maintained through a successful deposit raising program, fundamental to the future growth of the Group.

The Asset Servicing business maintained its significant support to Australia's superannuation industry, with over $660 billion in Assets Under Custody as at the end of September 2010. Discussions with BNY Mellon continue, with the aim of deepening the existing partnership with new systems and processes as well as enhancements to the range of products and services available to the NAB client base.

The Specialised Finance business plays an important role in **supporting Australia's infrastructure and natural resources growth**, as well as selectively supporting clients in the UK and Asia. This activity includes providing a range of debt products and risk management solutions through Global Markets to core infrastructure projects such as schools, hospitals, airports, mining projects and utilities.

Significant transactions in 2010 included:

- Mandated Lead Arranger for the $765 million project finance facility for Peninsula Link, a Public Private Partnership and one of the major initiatives in the $38 billion Victorian Government Transport Plan.
- Sole Arranger for the $200 million structured asset finance transaction for the Royal Australian Navy.

The Financial Institutions Group is a dedicated relationship management team supporting Banks, Diversified Financial Institutions, Funds and Insurance clients in Australia and select international locations. NAB's strengths in product development and innovation were demonstrated through the leadership role it played in the reinvigoration of the Australian securitisation market following the global financial crisis, as arranger and joint lead manager for the issuance of multi-currency Australian Residential Mortgage Backed Securities for ME Bank.

## Operating Environment

The external environment was characterised by continued weakness in key markets including New Zealand, the UK and the US, compared with a return to stronger growth in Asia and Australia. This was coupled with a general reduction in market volatility from the extreme levels reached through late 2008 and 2009.

However, global financial markets continue to be buffeted by patchy global growth, specific concerns about the US economy and the risks posed by stretched Government finances, and adjustments to the new regulatory landscape. Some specific issues that have affected the operating environment include:

- Subdued business activity in core UK, US and New Zealand franchises.
- Reduced market volatility, narrow product spreads near pre global financial crisis levels, and the absence of trending markets.
- Steep yield curves in Australia throughout the year limiting the demand for interest rate risk management products.
- A return to demand for investment and debt products post the global financial crisis.
- A re-emergence of foreign and investment banks in the Australian market, leading to increasing pressure on margins and intensifying the competition for talent.

Changes in the regulatory capital and liquidity framework may create opportunities for clients, but they may also change the return profile across key lines of business. The introduction of US Financial Services Reform and the newly proposed UK bank levy are also expected to impact Wholesale Banking.

Regional variances across Wholesale Banking's key markets are expected to continue:

- In Australia, it is expected that the economy continues to grow with the resources sector generating the majority of the growth.
- In the US, the economic recovery through the second half of 2010 has faltered, increasing the risk of continued subdued business activity.
- In Europe, through much of 2010 there has been a source of investor concern as a sovereign debt crisis emerged after the Greek Government experienced fiscal difficulties. The policy response to the crisis has been for governments to adopt austerity measures which may continue to confine the European and UK economies to slow growth and reduced business activity in the years ahead.

## Wholesale Banking

*Results presented at actual exchange rates*

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 $m | Mar 10 $m | Sep 10 v Mar 10 % |
| Net interest income | 1,189 | 1,467 | (19.0) | 573 | 616 | (7.0) |
| Other operating income | 739 | 1,377 | (46.3) | 322 | 417 | (22.8) |
| **Net operating income** | 1,928 | 2,844 | (32.2) | 895 | 1,033 | (13.4) |
| Operating expenses | (914) | (898) | (1.8) | (467) | (447) | (4.5) |
| **Underlying profit** | 1,014 | 1,946 | (47.9) | 428 | 586 | (27.0) |
| Charge to provide for bad and doubtful debts | (45) | (345) | 87.0 | (16) | (29) | 44.8 |
| **Cash earnings before tax** | 969 | 1,601 | (39.5) | 412 | 557 | (26.0) |
| Income tax expense | (264) | (455) | 42.0 | (110) | (154) | 28.6 |
| **Cash earnings before non-controlling interest** | 705 | 1,146 | (38.5) | 302 | 403 | (25.1) |
| Net profit - non-controlling interest | - | 2 | large | - | - | - |
| **Cash earnings** | 705 | 1,148 | (38.6) | 302 | 403 | (25.1) |
| **Average Volumes ($bn)** | | | | | | |
| Gross loans and acceptances | 13.1 | 14.7 | (10.9) | 12.6 | 13.7 | (8.0) |
| Interest earning assets | 144.8 | 168.8 | (14.2) | 143.2 | 146.5 | (2.3) |
| Total assets | 185.4 | 223.1 | (16.9) | 183.5 | 187.4 | (2.1) |
| **Capital ($bn)** | | | | | | |
| Risk-weighted assets - credit risk (spot) | 20.8 | 25.5 | (18.4) | 20.8 | 19.7 | 5.6 |
| Total risk-weighted assets (spot) | 32.9 | 37.3 | (11.8) | 32.9 | 32.4 | 1.5 |
| **Performance Measures** | | | | | | |
| Cost to income ratio | 47.4% | 31.6% | (1,580 bps) | 52.2% | 43.3% | (890 bps) |
| FTEs (spot) | 3,145 | 3,043 | | 3,145 | 3,049 | |

### Impact of foreign exchange rate movements

| Favourable/ (unfavourable) September 10 | Year since Sep 09 $m | Sep 10 v Sep 09 Ex FX % | Half year since Mar 10 $m | Sep 10 v Mar 10 Ex FX % |
|---|---|---|---|---|
| Net interest income | (94) | (12.5) | (5) | (6.2) |
| Other operating income | (28) | (44.3) | (3) | (22.1) |
| Operating expenses | 51 | (7.5) | 2 | (4.9) |
| Charge to provide for bad and doubtful debts | (1) | 87.2 | 1 | 41.4 |
| Income tax expense | 21 | 37.4 | 1 | 27.9 |
| Cash earnings before non-controlling interest | (51) | (34.0) | (4) | (24.1) |

## Wholesale Banking

Financial Analysis

### September 2010 v September 2009

**Cash earnings** decreased by $443 million on the September 2009 year to $705 million. This was mainly due to lower revenues generated in Global Markets and Treasury, down from the exceptional levels achieved in the prior year, partially offset by a lower charge to bad and doubtful debts. From 2008 cash earnings is up 10% when measured on a CAGR basis.

**Net operating income** decreased by $916 million or 32.2% on the September 2009 year to $1,928 million.

Global Markets and Treasury income fell by $997 million to $1,391 million as the external environment exhibited low volatility and margins at or near pre-global financial crisis levels.

Markets Sales income fell by $133 million to $612 million due to subdued economic activity in the UK and New Zealand markets, steep yield curves and a strong Australian dollar.

Markets Trading income decreased from the prior year by $332 million to $462 million due to reduced market volatility, absence of directional and trending markets and banking fund flows, increased competition from electronic trading and narrowing product spreads. This was in contrast to the extreme volatility and wider product spreads experienced during 2009.

Treasury revenue declined by $532 million to $317 million. Returns in the liquidity portfolio decreased as volatility in credit spreads reduced from the high levels experienced in 2009 and as a result of reduced opportunities in 2010 to raise funding at sub-benchmark levels.

Asset Servicing experienced lower income as a result of reduced foreign exchange volumes and securities lending income, as clients withdrew from this activity through the global financial crisis.

Financial Institutions Group increased income reflecting higher deposits in Australia due to an initiative by the Group to increase customer deposits from this customer base.

**Operating expenses** increased by $16 million or 1.8% on the September 2009 year to $914 million. Excluding the impact of foreign exchange rate movements, the increase was $67 million or 7.5%. This primarily resulted from an increased investment in people and technology to support the business growth initiatives of the franchise focus strategy. These additional people and technology resources will facilitate the development of improved products and services delivered to more customers with an increased speed to market.

The **charge to provide for bad and doubtful debts** decreased by $300 million in the September 2010 year to $45 million due to more stable economic conditions.

**Average interest earning assets** decreased by $24.0 billion (14.2%) to $144.8 billion. Excluding the foreign exchange impact, the decrease was $10.3 billion (6.6%) mainly due to a reduction in internal interest earning assets, reflecting the lower levels of short-term funding requirements of other NAB businesses as a result of successful deposit raisings across the Group.

**Risk weighted assets** decreased by $4.4 billion (11.8%) to $32.9 billion, primarily due to a number of optimisation activities, an improvement in counterparty credit quality, the stronger Australian dollar and the change in mix of the Group's liquidity portfolio.

### September 2010 v March 2010

**Cash earnings** decreased by $101 million on the March 2010 half year, mainly due to lower revenues generated in Global Markets.

**Net operating income** decreased by $138 million or 13.4%.

Markets revenue fell $148 million as momentum slowed in a challenging trading and sales environment.

Sales income fell as a result of lower derivative sales in the UK. Investor uncertainty in the September 2010 half year restricted syndicated loan issuance, resulting in multi year lows.

Treasury income increased by $21 million. The business benefited from short-term interest rate positioning, the more recent contraction in credit spreads and the AA credit rating of the Bank.

During the September 2010 half year, economic and political uncertainty dampened revenue opportunities in infrastructure, energy and utilities and natural resources for Specialised Finance.

**Operating expenses** increased by $20 million or 4.5%. Excluding the impact of foreign exchange rate movements, the increase was $22 million (4.9%). This primarily resulted from an increased investment in people and technology to support the business growth initiatives of the franchise focus strategy. These additional people and technology resources will facilitate the development of improved products and services delivered to more customers with an increased speed to market.

The **charge to provide for bad and doubtful debts** decreased by $13 million in the September 2010 half year to $16 million. The portfolio remains sound.

**Average interest earning assets** decreased by $3.3 billion (2.3%). Excluding the foreign exchange impact, the decrease was $2.1 billion (1.4%).

**Risk weighted assets** increased by $0.5 billion (1.5%) as a result of a number of small moves within the portfolio.

## Other Items

### Asset Quality

Asset quality remains sound. Charges for bad and doubtful debts have fallen from the prior year, consistent with the stabilising credit environment. Provisions remain at strong levels and the economic outlook continues to improve.

The ratio of gross impaired assets to gross loans and acceptances decreased from 2.71% at March 2010 to 1.04% at September 2010. This was mostly due to the write off and partial recovery of debt for one large impaired exposure. The increase in the ratio of specific provisions to impaired assets during the September 2010 half has been driven by one asset moving to impaired status.

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

| | As at | | |
|---|---|---|---|
| | **Sep 10** | **Mar 10** | **Sep 09** |
| Specific provision for doubtful debts ($m) | **61** | 98 | 62 |
| Collective provision for doubtful debts ($m) | **64** | 91 | 129 |
| Collective provision on loans at fair value ($m) | **1** | 1 | 1 |
| Collective provision on derivatives at fair value ($m) | **144** | 141 | 103 |
| Gross impaired assets ($m) | **140** | 358 | 154 |
| Gross impaired assets to gross loans and acceptances | **1.04%** | 2.71% | 1.07% |
| Specific provision to gross impaired assets | **43.6%** | 27.4% | 40.3% |
| Net write-offs to gross loans and acceptances | **0.85%** | 0.53% | 1.43% |

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# MLC & NAB Wealth

Steve Tucker

MLC & NAB Wealth is a market leader in wealth management with a demonstrated track record of delivering value to both clients and NAB shareholders, while making enduring contributions to the wider community. MLC & NAB Wealth's business model is built on sustainable leadership positions across each of the core wealth management profit pools.

Distribution depth and breadth is a key strength of the business. Utilising a multi-brand, multi-channel strategy, MLC & NAB Wealth has built leadership positions in financial advice for retail, corporate and institutional clients. MLC & NAB Wealth operates one of the largest retail financial adviser networks in Australia across bank and aligned channels through its various brands: NAB Financial Planning, NAB Private Wealth (which includes private banking), JBWere, Garvan Financial Planning, MLC Financial Planning, Apogee Financial Planning and Godfrey Pembroke. MLC & NAB Wealth has also significantly increased its presence in the independent financial adviser (IFA) market through its acquisition of Aviva. The business is committed to growing and fostering its more than 4,000 IFA relationships. For corporate, institutional and not-for-profit clients MLC & NAB Wealth provides investment advice and implemented consulting services via JANA and MLC Implemented Consulting.

MLC & NAB Wealth also derives significant benefits from its operating scale in wealth management platforms (superannuation, pensions and discretionary investments), personal insurance and Manager-of-Manager asset management. Key products are MasterKey, MasterKey Custom and Navigator investment platforms for retail clients; Plum superannuation master trusts for large corporates; and MasterKey Business Super for SMEs. MLC & NAB Wealth's insurance business includes Personal and Group insurance offers, debt protection and business insurance; and general insurance products via a distribution agreement.

## Strategic Highlights and Business Development

During the year, MLC & NAB Wealth achieved significant momentum on a number of its key strategies.

**Maintaining a leading position in Superannuation and Insurance:**

- MLC & NAB Wealth continues to deliver on its strategy in the superannuation business to maximise returns through volume growth and by improving platform scale efficiency. Within the wholesale superannuation market, Plum Financial Services has become a leader in corporate superannuation, serving 82 clients and over 175,000 members since its creation 11 years ago. Plum is an important source of referral business for MLC & NAB Wealth's retail advice channels. Plum's corporate relationships have also been successfully leveraged to boost Group Insurance sales, which have grown from 3 clients in 2007 to 65 clients in 2010.
- MLC Insurance continued its focus on writing high quality, sustainable new business. In the past year MLC Insurance has experienced strong growth in premiums, retaining its number one market share position in individual risk while improving its ranking from fourth to second for Group risk sales [1]. A newly launched retention program has reduced lapse rates, and the implementation of online technology solutions for group plans has been well received by the market.
- The integration of Aviva is significantly ahead of expectations. Cost synergies are tracking a full year ahead of the acquisition business case, whilst underlying business momentum in Aviva remains strong. Adviser and client retention have outperformed initial forecasts. Integration activity is currently focused on combining MLC's insurance product with Aviva's service model and online insurance functionality.
- Disciplined effort continues to be directed at generating process efficiency, business simplification and releasing frontline capacity for client servicing and growth.

**Building Australia's leading Private Wealth capability:**

- MLC & NAB Wealth's ability to leverage NAB Group's client relationships with many of Australia's wealthiest individuals and families, puts it in a unique position to deliver a market-leading capability for High Net Worth (HNW) clients.
- NAB Private Wealth has over 18,000 client groups that equate to 33% market share of HNW connections [2]. Over the past two years it has successfully diversified its core banking revenue to include a growing share of wealth services revenues, including wealth advisory, origination services and trustee services.
- The strategic alliance with JBWere has expanded MLC & NAB Wealth's capabilities in direct equities broking and research, which are critical services for HNW clients. With an enviable brand heritage, JBWere services approximately 40,000 clients in the broking and private wealth advisory markets across Australia and New Zealand. Since joining the NAB Group, JBWere has attracted a further 27 specialist HNW advisers.
- Next year MLC & NAB Wealth will release a new platform to migrate clients from the existing Goldman Sachs infrastructure which will further enhance JBWere's Private Wealth offering.

**Increasing presence in direct Asset Management:**

- A key strategic priority for MLC & NAB Wealth is to increase its presence in direct asset management through nabInvest. Since being established in 2007, nabInvest has acquired investments in six asset managers: Northward Capital (Australian Equities); Fairview Equity Partners (Australian Small Caps); Lodestar Capital Partners (Long/Short Australian Equities); Cambridge Industrial Trust Management (Asian Direct Property); Pengana Capital (Multi Asset Class Boutique); and the recently acquired, Presima Inc. (Global REIT). In addition, the existing Antares Fixed Interest and Private Equity businesses are now operated under nabInvest and a quantitative equities operation has been established (Antares Equities). nabInvest continues to pursue further acquisition opportunities, particularly in the high margin asset categories of Global Equities, Infrastructure and Direct Property. During the year nabInvest asset managers attracted $4.9 billion in flows, and received a number of positive ratings amongst asset consultants and retail research houses.

- MLC & NAB Wealth retained its position as one of Australia's largest investment manager of Manager-of-Managers funds. MLC's return for the Horizon 4 Balanced portfolio has outperformed the Mercer Median (which includes single and multi-manager peers), over 1, 3 and 5 year periods to the end of September 2010. The Horizon 2 (Income) Fund was awarded the Conservative Multi-Sector Fund of the year in the 2010 AFR Smart Investor Blue Ribbon Awards. Significant enhancements to the Manager-of-Managers approach continue to be made, notably in the areas of asset allocation and product design. These will bring additional benefits to advisers and customers.

**Leveraging reputation and brand to attract advisers, clients and talent:**

- For the past five years MLC & NAB Wealth has led the wealth management industry in its efforts to improve trust and transparency in financial planning. The recent government reform announcements (Future of Financial Advice, Cooper Review) reinforce the decisions MLC & NAB Wealth took several years ago to reposition its business model as fee-for-service.
- MLC & NAB Wealth has received an unprecedented number of financial advisers expressing interest in joining MLC aligned dealer groups in response to regulatory reform (100 advice businesses have agreed to join the Group in the past 12 months). Further investment has been directed into business development to increase the recruitment of quality advisors. Advisor numbers have grown from 1,486 at March 2010 to 1,555 at September 2010.

  During the year, MLC & NAB Wealth launched the Advice Business School. An industry first, the Advice Business School supports financial advisers who are new to business ownership or have the ambition to run their own financial planning business. By drawing on its experience in working closely with a large number of successful practices, MLC transfers the requisite skills to new business owners and helps them focus on the areas that are critical to the long-term success of their businesses. Participants also benefit from access to a network of like-minded individuals who are in the same stage of the business life cycle.
- All of the aligned advice businesses have transitioned to fee-for-advice for new investment business. In April 2010, Godfrey Pembroke announced that they will transition to fee-for-advice for 100% of their client base. The transition means that all commission-based remuneration arrangements will be removed for all investments and superannuation clients, existing and new, as well as for new clients seeking insurance and mortgage advice.

(1) *Source: DEXX&R, Life Analysis, June 2010.*

(2) *Australian Private Banking Council 2010 benchmarking study (study comprises data from the major banks WBC, CBA, NAB, ANZ, SGB and Bankwest).*

## Operating Environment

The Australian wealth management industry is going through a period of profound change. Government superannuation policy and regulatory reform include the prospective banning of commissions on superannuation and investment products and a staged increase to the Superannuation Guarantee Contribution (SGC) from 9% to 12%. Shifting consumer demographics, new technologies and industry consolidation will also significantly influence the future operating environment for wealth managers.

MLC & NAB Wealth has anticipated these changes and is well positioned to capture the emerging opportunities with its breadth and diversity of distribution channels, operational scale, commitment to talent management, and leading reputation for trust and transparency.

With stability returning to the market and continued consumer confidence, MLC & NAB Wealth is well placed to benefit from increased flows into superannuation and discretionary investments, whilst maintaining its focus on both cost control and driving efficiencies throughout the business.

## MLC & NAB Wealth

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 $m | Mar 10 $m | Sep 10 v Mar 10 % |
| Net interest income | 295 | 286 | 3.1 | 153 | 142 | 7.7 |
| Other operating income | 34 | 58 | (41.4) | 16 | 18 | (11.1) |
| MLC net operating income | 1,512 | 1,068 | 41.6 | 764 | 748 | 2.1 |
| **Net income** | 1,841 | 1,412 | 30.4 | 933 | 908 | 2.8 |
| Operating expenses | (1,114) | (842) | (32.3) | (573) | (541) | (5.9) |
| **Underlying profit** | 727 | 570 | 27.5 | 360 | 367 | (1.9) |
| Charge to provide for bad and doubtful debts | (9) | (18) | 50.0 | (4) | (5) | 20.0 |
| **Cash earnings before tax** | 718 | 552 | 30.1 | 356 | 362 | (1.7) |
| Income tax expense | (169) | (139) | (21.6) | (71) | (98) | 27.6 |
| **Cash earnings before IoRE** | 549 | 413 | 32.9 | 285 | 264 | 8.0 |
| Net profit - non-controlling interest | (1) | (2) | 50.0 | - | (1) | large |
| IoRE [1] | 61 | 26 | large | 26 | 35 | (25.7) |
| **Cash earnings** | 609 | 437 | 39.4 | 311 | 298 | 4.4 |

[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.*

| | Sep 10 $m | Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 $m | Mar 10 $m | Sep 10 v Mar 10 % |
|---|---|---|---|---|---|---|
| *Represented by:* | | | | | | |
| Investments & Private Bank cash earnings before IoRE and non-controlling interest | 352 | 243 | 44.9 | 185 | 167 | 10.8 |
| Insurance cash earnings before IoRE and non-controlling interest | 197 | 170 | 15.9 | 100 | 97 | 3.1 |
| **Cash earnings before IoRE and non-controlling interest** | 549 | 413 | 32.9 | 285 | 264 | 8.0 |
| **Capital ($bn)** | | | | | | |
| Risk-weighted assets - credit risk (spot) | 6.4 | 6.7 | (4.5) | 6.4 | 5.9 | 8.5 |
| Total risk-weighted assets (spot) | 6.7 | 7.0 | (4.3) | 6.7 | 6.2 | 8.1 |
| **Performance Measures** | | | | | | |
| Cost to income ratio (%) | 60.5% | 59.6% | | 61.4% | 59.6% | |
| Cash earnings before IoRE and non-controlling interest per average FTE ($'000s) | 107 | 100 | | 101 | 114 | |
| FTEs (spot) [2] | 5,714 | 3,991 | | 5,714 | 5,541 | |
| Financial advisers - salaried channels | 726 | 543 | | 726 | 679 | |
| Financial advisers - aligned channels | 829 | 803 | | 829 | 807 | |

[2] *FTEs for March 2010 have been restated to include integration FTEs whose costs are represented outside of cash earnings.*

| | Year to | | | | | |
|---|---|---|---|---|---|---|
| | Sep 10 | | | Sep 09 | | |
| **IoRE by Asset Class** | Actual Earnings $m | Weighted Asset Balance $m | Earning Rate % | Actual Earnings $m | Weighted Asset Balance $m | Earning Rate % |
| Equity | 2 | 148 | 1.7% | (6) | 128 | (4.9%) |
| Fixed interest | 5 | 86 | 5.8% | 3 | 78 | 4.1% |
| Cash and others [1] | 127 | 1,467 | 8.7% | 81 | 1,336 | 6.1% |
| Debt | (44) | 811 | (5.4%) | (32) | 675 | (4.7%) |
| Income tax | (29) | | | (20) | | |
| **IoRE** | 61 | | | 26 | | |

| | Half Year to | | | | | |
|---|---|---|---|---|---|---|
| | Sep 10 | | | Mar 10 | | |
| **IoRE by Asset Class** | Actual Earnings $m | Weighted Asset Balance $m | Earning Rate % | Actual Earnings $m | Weighted Asset Balance $m | Earning Rate % |
| Equity | (5) | 145 | (3.4%) | 7 | 151 | 4.5% |
| Fixed interest | 3 | 90 | 3.7% | 2 | 82 | 2.0% |
| Cash and others [1] | 66 | 1,547 | 4.3% | 61 | 1,387 | 4.4% |
| Debt | (21) | 870 | (2.4%) | (23) | 753 | (3.1%) |
| Income tax | (17) | | | (12) | | |
| **IoRE** | 26 | | | 35 | | |

[1] *Cash and others includes Aviva IoRE.*

## MLC & NAB Wealth

Financial Highlights

### September 2010 v September 2009

MLC & NAB Wealth's cash earnings before IoRE and non-controlling interest of $549 million, increased by $136 million or 33% compared to September 2009.

A number of factors contributed to this result, including:

- The acquisition of Aviva.
- Growth in Net Interest Income of 3% due to increased home lending volumes as a result of a stronger housing market and the Group's competitive mortgage pricing strategy.
- Net flows of $7.2 billion were higher than September 2009 mainly due to new wholesale flows in JANA and nabInvest.
- An improvement in global investment markets resulting in higher investment earnings and Funds under Management (FUM).
- Strong expense control whilst maintaining strategic investment spending.
- Lower charges for bad and doubtful debts due to a recovery in the housing market.
- Maintaining number one market share position in Individual Risk at 19.1% as at June 2010. MLC/Aviva's strong growth in premiums in force over the year to June 2010 of 11.0% was above the growth in system of 10.9%.

Underlying cash earnings growth before IoRE, excluding the acquired Aviva and JBWere businesses was 14% compared to September 2009.

MLC's spot FUM of $116.1 billion has increased by $31 billion since September 2009. The underlying average FUM growth was 22%, inclusive of Aviva, average FUM growth amounted to 46%. Growth in FUM was also driven by higher net flows and an improvement in market returns across the well diversified investment portfolio.

MLC's underlying growth (excluding Aviva) in average inforce premiums was 12% compared to the prior year. The business experienced favourable claims experience for individual lump sum products, offset by higher claims experience for the group and individual disability products.

Operating expenses increased by $272 million or 32% as a result of the Aviva acquisition and the strategic alliance with JBWere. Operating expenses, excluding the Aviva business and JBWere remained relatively flat.

### September 2010 v March 2010

MLC & NAB Wealth's cash earnings before IoRE have increased by $21 million to $285 million or 8% since March 2010.

This result was largely due to an increase in investment income on higher FUM, higher Net Interest Income due to increased home lending volumes driven by the Group's competitive mortgage pricing strategy. Higher insurance income due to growth in inforce premiums also contributed.

MLC's spot FUM of $116.1 billion has increased by $1.9 billion or 2% since March 2010 as a result of strong wholesale net flows from JANA and nabInvest.

Operating expenses increased by $32 million or 6%, due to the inclusion of a full half year of expenses associated with the JBWere alliance (the prior half included associated costs from November 2009 onwards only) and the seasonality of superannuation end of financial year activities.

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

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 $m | Mar 10 $m | Sep 10 v Mar 10 % |
| Net interest income | **295** | 286 | 3.1 | **153** | 142 | 7.7 |
| Other operating income | **34** | 58 | (41.4) | **16** | 18 | (11.1) |
| Gross income | **1,556** | 1,006 | 54.7 | **806** | 750 | 7.5 |
| Volume related expenses | **(548)** | (327) | (67.6) | **(292)** | (256) | (14.1) |
| **Net income** | **1,337** | 1,023 | 30.7 | **683** | 654 | 4.4 |
| Operating expenses | **(878)** | (650) | (35.1) | **(455)** | (423) | (7.6) |
| **Underlying profit** | **459** | 373 | 23.1 | **228** | 231 | (1.3) |
| Charge to provide for bad and doubtful debts | **(9)** | (18) | 50.0 | **(4)** | (5) | 20.0 |
| **Cash earnings before tax** | **450** | 355 | 26.8 | **224** | 226 | (0.9) |
| Income tax expense | **(98)** | (112) | 12.5 | **(39)** | (59) | 33.9 |
| **Cash earnings before IoRE** | **352** | 243 | 44.9 | **185** | 167 | 10.8 |

| **Average Volumes - Private Bank ($bn)** | | | | | | |
|---|---|---|---|---|---|---|
| Gross loans and acceptances | **17.1** | 16.7 | 2.4 | **17.5** | 16.7 | 4.8 |
| Interest earning assets | **17.1** | 16.6 | 3.0 | **17.5** | 16.7 | 4.8 |

| **Performance Measures [1]** | | | | | | |
|---|---|---|---|---|---|---|
| Funds under management (spot) ($m) | **116,079** | 85,067 | 36.5 | **116,079** | 114,206 | 1.6 |
| Funds under management (average) ($m) | **109,386** | 74,981 | 45.9 | **112,306** | 106,638 | 5.3 |
| Net funds flow ($m) | **7,228** | 2,373 | large | **2,629** | 4,599 | (42.8) |
| Net interest margin - Private Bank & Equity Lending | **1.73%** | 1.73% | 0 bps | **1.74%** | 1.71% | 3 bps |
| Cost to income ratio | **65.7%** | 63.5% | (220 bps) | **66.6%** | 64.7% | (190 bps) |
| Investment operating expenses to average FUM (bps) | **69** | 66 | | **68** | 69 | |
| Investment income to average FUM (bps) | **92** | 91 | | **91** | 93 | |

(1) *MLC FUM excludes Trustee and Cash Management.*

| | Funds Under Management | | | | | |
|---|---|---|---|---|---|---|
| | Jun 10 | | Dec 09 | | Jun 09 [3] | |
| | Rank | Market Share % | Rank | Market Share % | Rank | Market Share % |
| Retail (excl. Cash) | **1** | **15.9%** | 1 | 16.0% | 1 | 15.2% |
| Total Retail Superannuation | **1** | **20.3%** | 1 | 20.5% | 1 | 19.1% |
| Total Wholesale | **1** | **9.3%** | 1 | 8.8% | 1 | 8.4% |

| | Share of New Business [2] | | | | | |
|---|---|---|---|---|---|---|
| | Jun 10 | | Dec 09 | | Jun 09 [3] | |
| | Rank | Market Share % | Rank | Market Share % | Rank | Market Share % |
| Retail (excl. Cash) | **2** | **13.8%** | 2 | 14.8% | 1 | 13.3% |
| Total Retail Superannuation | **1** | **20.2%** | 1 | 21.1% | 2 | 16.1% |
| Total Wholesale | **4** | **5.8%** | 4 | 5.6% | 8 | 4.2% |

*Source: Plan for Life Australian Retail & Wholesale Investments Market Share & Dynamics Report - June 2010.*

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

(3) *Market share data includes Aviva.*

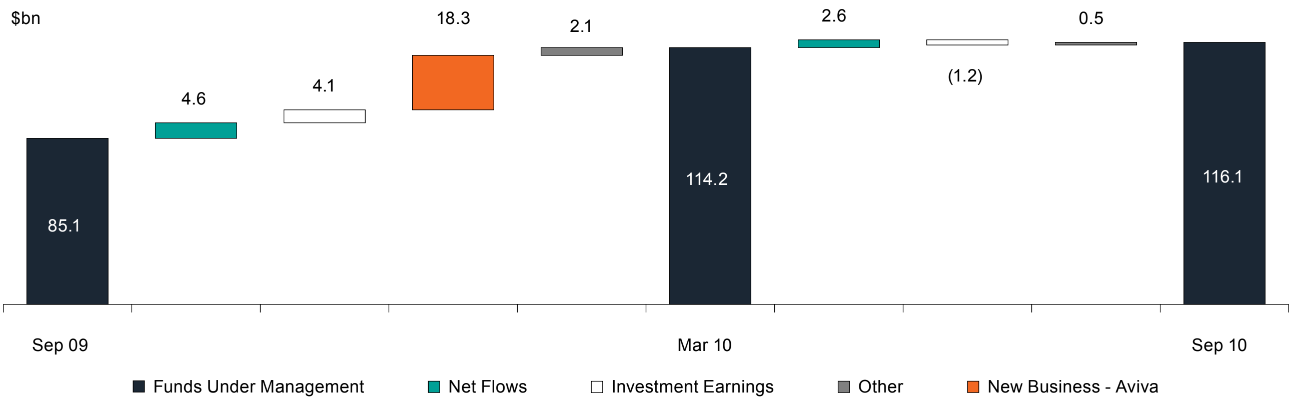
## Funds Under Management

| Movement in Funds under Management and administration ($m) | As at Sep 09 | Inflows | Outflows | Investment earnings | Acquisition Aviva | Other (1) | As at Sep 10 |
|---|---|---|---|---|---|---|---|
| Master Funds (Platforms) | **58,512** | 14,445 | (10,952) | 1,834 | 15,865 | (979) | **78,725** |
| Other Retail | **3,012** | 9 | (74) | (34) | 2,490 | (701) | **4,702** |
| **Total Retails Funds (Excl. Cash)** | **61,524** | 14,454 | (11,026) | 1,800 | 18,355 | (1,680) | **83,427** |
| Wholesale | **23,543** | 9,191 | (5,391) | 1,036 | - | 4,273 | **32,652** |
| **Total MLC ex Trustee and Cash Management** | **85,067** | **23,645** | **(16,417)** | **2,836** | **18,355** | **2,593** | **116,079** |
| Trustee | 7,375 | 1,113 | (1,395) | - | - | - | 7,093 |

| Movement in Funds under Management and administration ($m) | As at Mar 10 | Inflows | Outflows | Investment earnings | Acquisition Aviva | Other (1) | As at Sep 10 |
|---|---|---|---|---|---|---|---|
| Master Funds (Platforms) | **79,999** | 6,223 | (6,097) | (820) | - | (580) | **78,725** |
| Other Retail | **4,888** | 6 | (41) | (33) | - | (118) | **4,702** |
| **Total Retails Funds (Excl. Cash)** | **84,887** | 6,229 | (6,138) | (853) | - | (698) | **83,427** |
| Wholesale | **29,319** | 6,759 | (4,221) | (401) | - | 1,196 | **32,652** |
| **Total MLC ex Trustee and Cash Management** | **114,206** | **12,988** | **(10,359)** | **(1,254)** | **-** | **498** | **116,079** |
| Trustee | 7,443 | 617 | (967) | - | - | - | 7,093 |

(1) *Other includes nabInvest and trust distributions.*

## Funds Under Management




| FUM by Asset Class | As at Sep 10 | Mar 10 | Sep 09 |
|---|---|---|---|
| Australian equities | **33%** | 33% | 33% |
| International equities | **26%** | 31% | 31% |
| Australian fixed interest | **19%** | 15% | 14% |
| International fixed interest | **9%** | 8% | 9% |
| Australian cash | **6%** | 6% | 7% |
| International direct property | **3%** | 3% | 2% |
| International listed property | **2%** | 2% | 2% |
| Australian listed property | **2%** | 2% | 2% |

## MLC & NAB Wealth - Investments and Private Wealth

Financial Analysis

### September 2010 v September 2009

**Cash earnings before IoRE** increased by $109 million or 45% compared to September 2009, driven by the acquisition of Aviva, strong expense control, an improvement in net flows and lower charges for bad and doubtful debts.

Underlying cash earnings before tax, excluding the Aviva and JBWere businesses were up by 10%, mainly as a result of an increase in net operating income of 6% and lower bad and doubtful debts.

Net flows of $7.2 billion were higher than the September 2009 result of $2.4 billion as a result of new wholesale mandates for JANA, nabInvest and Plum. In addition global investment markets were stronger over the year compared to 2009(1), contributing to the higher FUM.

**Net interest income** grew by $9 million or 3% due to increased home lending volumes as a result of stronger markets and the Group's competitive mortgage pricing strategy. Net interest margins were relatively flat.

**Other operating income** was relatively flat compared to the prior year after allowing for one-off equity movements for nabInvest of $20 million in the prior year that were reported under Other Operating Income.

**Gross income** increased by $550 million or 55% due to the acquisition of Aviva and the JBWere alliance, as well as the increase in average FUM.

MLC's spot FUM of $116.1 billion has increased by $31 billion since September 2009 and includes $18 billion from the acquisition of Aviva. The underlying average FUM growth of 22% was driven by large wholesale flows and an improvement in market returns.

Gross income, excluding Aviva and JBWere, increased by $96 million or 10% over the period. This was lower than the growth in average FUM mainly due to lower margin wholesale flows over the year.

**Volume related expenses** include commission payments and investment costs. These costs increased by $221 million or 68%, mainly as a result of the Aviva acquisition and higher average FUM.

Underlying volume related expenses increased by $53 million or 16%, in line with the growth in average Retail FUM.

**Operating expenses** increased by $228 million or 35%, due to the inclusion of the Aviva acquisition and the JBWere alliance. Underlying expenses remained relatively flat compared to the prior year.

The integration of Aviva's operations is delivering cost synergies to date that are a year ahead of the acquisition business case. The costs associated with the integration of these businesses are not reported in cash earnings.

*(1) MSCI All country index ($A) - The annual return from September 2009 to September 2010 was negative 0.7%, an improvement on the annual return for the year to September 2009 of negative 10.2%.*

### September 2010 v March 2010

**Cash earnings before IoRE** have increased by $18 million or 11% since March 2010 driven by higher FUM.

Net flows of $2.6 billion were $2 billion lower than March 2010 due to a large inflow for Plum in the prior half.

**Net interest income** increased by $11 million or 8% mainly due to increased home lending volumes as a result of stronger markets and the Group's competitive mortgage pricing strategy.

**Other operating income** was relatively flat compared to the prior half.

**Gross income** increased by $56 million or 8% principally due to higher average FUM, and the inclusion of a full half of income from the JBWere alliance (the prior half included 5 months from November 2009). Average FUM growth was 5% over the half.

MLC's spot FUM of $116.1 billion has increased by $1.9 billion or 2% since March 2010 as a result of strong wholesale net flows for JANA and nabInvest.

**Volume related expenses** increased by $36 million or 14% due to higher average FUM, higher distribution expenses in the half from higher sales and adviser growth.

**Operating expenses** increased by $32 million or 8%, as a result of the inclusion of a full half year of expenses associated with the JBWere alliance (the prior half included associated costs from November 2009 onwards only), and the seasonality of superannuation end of financial year activities.

## Other Items

### Asset Quality

| | As at | | |
|---|---|---|---|
| | **Sep 10** | **Mar 10** | **Sep 09** |
| Specific provision for doubtful debts ($m) | **7** | 11 | 13 |
| Collective provision for doubtful debts ($m) | **17** | 14 | 12 |
| 90+ DPD assets ($m) | **29** | 16 | 17 |
| Gross impaired assets ($m) | **57** | 46 | 50 |
| 90+ DPD plus gross impaired assets to gross loans and acceptances | **0.48%** | 0.36% | 0.41% |
| Specific provision to gross impaired assets | **12.3%** | 23.9% | 26.0% |
| Net write-offs to gross loans and acceptances (annualised) | **0.07%** | 0.07% | 0.04% |
| Total provision as a percentage of net write-offs | **185%** | 208% | 357% |
| Total provision to gross loans and acceptances | **0.13%** | 0.15% | 0.15% |
| Bad and doubtful debt charge to credit risk weighted assets | **0.14%** | 0.17% | 0.27% |

Asset quality measures across the Private Wealth business have stabilised when compared to the prior 12 months, even though certain sub-segments of the book are continuing to be managed carefully.

The asset quality position overall continues to benefit from a recovery in the housing market generally, which is a key sector to which the Private Wealth Division is principally exposed. There has been similar improvement in the value of equities, which has translated into a lessening of pressure on clients who had pursued an aggressive gearing strategy for equity investment.

The increase in 90+ DPD is being proactively managed, with no direct concentration in any demographic or geographic segment of the book.

## MLC & NAB Wealth - Insurance

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 $m | Mar 10 $m | Sep 10 v Mar 10 % |
| Gross income | 1,480 | 1,006 | 47.1 | 755 | 725 | 4.1 |
| Volume related expenses | (976) | (617) | (58.2) | (505) | (471) | (7.2) |
| **Net operating income** | 504 | 389 | 29.6 | 250 | 254 | (1.6) |
| Operating expenses | (236) | (192) | (22.9) | (118) | (118) | - |
| **Cash earnings before tax, IoRE and non-controlling interest** | 268 | 197 | 36.0 | 132 | 136 | (2.9) |
| Income tax expense | (71) | (27) | large | (32) | (39) | 17.9 |
| **Cash earnings before IoRE and non-controlling interest** | 197 | 170 | 15.9 | 100 | 97 | 3.1 |
| **Planned and Experience Analysis** | | | | | | |
| Planned Margins | 181 | 159 | 13.8 | 101 | 80 | 26.3 |
| Experience Profit | 16 | 11 | 45.5 | (1) | 17 | large |
| **Cash earnings before IoRE** | 197 | 170 | 15.9 | 100 | 97 | 3.1 |
| **Performance Measures** | | | | | | |
| Annual inforce premiums (spot) ($m) | 1,406.7 | 968.8 | 45.2 | 1,406.7 | 1,332.9 | 5.5 |
| Annual inforce premiums (average) ($m) | 1,187.8 | 914.1 | 29.9 | 1,369.8 | 1,150.9 | 19.0 |
| New business premiums ($m) | 349.0 | 264.5 | 31.9 | 168.4 | 180.6 | (6.8) |
| Insurance cost to average inforce premiums (%) | 20% | 21% | | 17% | 21% | |

| Annual Inforce Premiums ($m) | As at Sep 09 | Sales | Lapses | Aviva Acquisition | As at Sep 10 | Sep 09 v Sep 10 % |
|---|---|---|---|---|---|---|
| Retail | 748.1 | 260.1 | (157.1) | 271.3 | 1,122.4 | 50.0 |
| Group Risk | 220.7 | 88.9 | (48.0) | 22.7 | 284.3 | 28.8 |
| **Total** | 968.8 | 349.0 | (205.1) | 294.0 | 1,406.7 | 45.2 |

| Annual Inforce Premiums ($m) | As at Mar 10 | Sales | Lapses | Aviva Acquisition | As at Sep 10 | Mar 10 v Sep 10 % |
|---|---|---|---|---|---|---|
| Retail | 1,073.1 | 130.6 | (81.3) | - | 1,122.4 | 4.6 |
| Group Risk | 259.8 | 37.8 | (13.3) | - | 284.3 | 9.4 |
| **Total** | 1,332.9 | 168.4 | (94.6) | - | 1,406.7 | 5.5 |

| | Premiums in Force | | | | | |
|---|---|---|---|---|---|---|
| | Jun 10 | | Dec 09 | | Jun 09 [1] | |
| | Rank | Market Share % | Rank | Market Share % | Rank | Market Share % |
| Retail risk premiums | 1 | 19.1% | 1 | 19.1% | 1 | 19.1% |
| Group risk | 5 | 9.8% | 5 | 9.8% | 6 | 9.0% |

| | Share of New Business | | | | | |
|---|---|---|---|---|---|---|
| | Jun 10 | | Dec 09 | | Jun 09 [1] | |
| | Rank | Market Share % | Rank | Market Share % | Rank | Market Share % |
| Retail risk premiums | 1 | 20.4% | 1 | 21.2% | 1 | 20.6% |
| Group risk | 2 | 13.9% | 3 | 12.8% | 4 | 10.3% |

*Source: DEXX&R Life Analysis - June 2010.*

(1) *Market share data includes Aviva.*

## MLC & NAB Wealth - Insurance
Financial Analysis

### September 2010 v September 2009

**Cash earnings before IoRE** have increased by $27 million or 16% compared to September 2009 which included the acquisition of Aviva.

Cash earnings before tax increased by $71 million or 36% to $268 million, whilst cash earnings before tax excluding the Aviva business were 11% higher than the prior year.

**Gross income** increased by $474 million or 47%, and average annual inforce premiums grew by 30%, mainly due to the Aviva acquisition.

Excluding the Aviva acquisition, gross income increased by $157 million or 16% and underlying average inforce premiums grew by 12% compared to the prior year.

Earnings on the assets backing the Insurance portfolio recovered from the prior year, reflecting the impact of interest rate movements on government and semi-government bond yields.

**Volume related expenses** include commission payments, claims and changes in insurance policy liabilities. These costs increased by $359 million or 58%, reflecting the Aviva acquisition and the growth in premiums inforce.

Underlying volume related expenses increased by $135 million or 22%, partly reflecting the increase in average premiums inforce. The increase above the rate of growth in premiums inforce was a result of changes in business mix, including a greater proportion of level premium business being written.

Compared to the prior year, the business experienced favourable claims experience for individual lump sum products, offset by higher claims experience for the group and individual disability products.

**Operating expenses** increased by $44 million or 23%, driven by the Aviva acquisition. Excluding Aviva, underlying expenses remained flat compared to the prior year.

**Planned Margins and Experience Profit**

Planned margins grew by less than business volumes in 2010, reflecting the inclusion of lower margin Aviva business and deteriorating disability claims experience on the MLC business.

Experience profits arose as a result of better than expected claims and lapses on the Aviva book and improved lump sum claims experience on the MLC book, partly offset by unfavourable claims experience on MLC individual disability products.

### September 2010 v March 2010

**Cash earnings before IoRE** have increased by $3 million or 3% compared to the prior half.

Cash earnings before tax and IoRE decreased by $4 million or 3% to $132 million as a result of changes in business mix.

**Gross income** increased by $30 million or 4% broadly in line with the growth in inforce premiums of 6%.

**Volume related expenses** increased by $34 million or 7% driven by an increase in premiums inforce and unfavourable claims experience for individual lump sum products, largely offset by lower claims experience for group and individual disability products.

In addition, volume related expenses increased above the rate of growth in premiums inforce as a result of changes in business mix, including a greater proportion of level premium business being written.

**Operating expenses** remained flat over the period as a result of strong cost control and synergies from the integration of Aviva.

The integration of Aviva's operations is delivering cost synergies to date that are a year ahead of the acquisition business case. The costs associated with the integration of these businesses are not reported in cash earnings.

# NZ Banking

Andrew Thorburn

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

## Strategic Highlights and Business Developments

New Zealand has continued its slow recovery from a challenging period stemming from the recent domestic recession coupled with the disrupted global credit environment.

During the current year, management continued to focus on the long-term strategic agenda of **maintaining balance sheet strength, driving cost efficiencies, leveraging investment in our Partners and Retail stores and enhancing the customer experience.** This strategic focus remains unchanged and is underpinned by a core philosophy that puts the customer at the forefront of everything BNZ does.

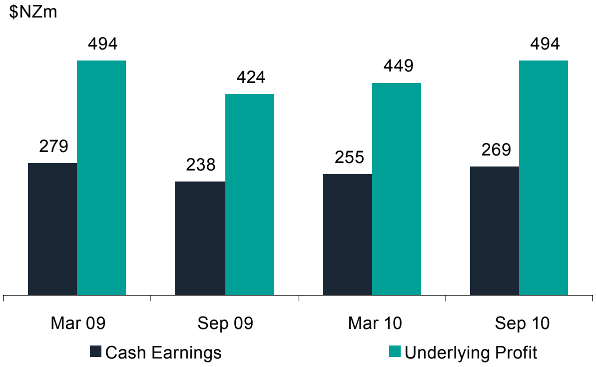
This clear strategic focus, combined with BNZ's core strengths, provides a strong foundation for longer term growth through helping customers realise their potential to achieve success for themselves and for New Zealand.

BNZ continues to **further strengthen its balance sheet** through proactive capital and liquidity management, a strategic focus on deposit growth and the diversification and lengthening of the term profile of wholesale funding. In June 2010, BNZ completed an inaugural domestic Covered Bond issue. The issue is a pioneering initiative for the New Zealand banking sector as it marks the first such issue by any bank in Australasia. Not only does it demonstrate BNZ's innovative solutions and first-to-market execution, the issue's success was a clear indication of investors' confidence in the BNZ brand. The focus on customer deposits has also been a success, with strong growth and an increase in BNZ's market share of retail deposits.

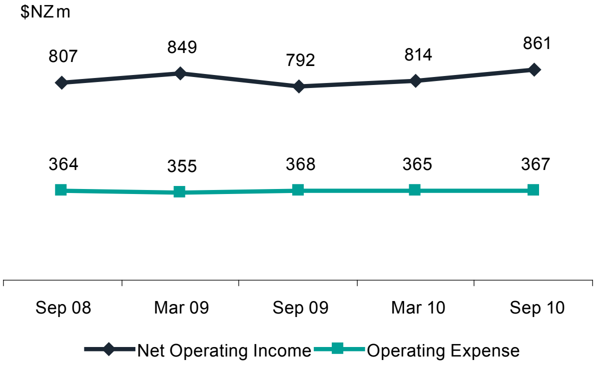
The well engrained culture of continuous improvement (Kaizen) is a key enabler for BNZ's drive for efficiency, improved customer service and continuing **long-term trend of flat costs.** This cultural focus, combined with a strong cost discipline, has also enabled BNZ to reinvest resources in initiatives that support its long-term strategic growth agenda.

In line with the strategy to further enhance customer engagement and streamline service delivery, a significant investment has been made in the transformation of BNZ's Retail stores. The upgrade of the retail distribution network aims to provide customer service that is more akin to retail shopping than traditional banking, via an open and dynamic banking experience. The programme continues to gain momentum, with 26 refreshed stores having been rolled out to date.

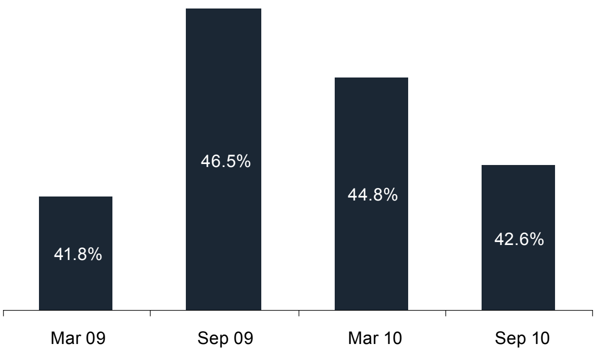
**NZ Banking Cash Earnings and Underlying Profit**



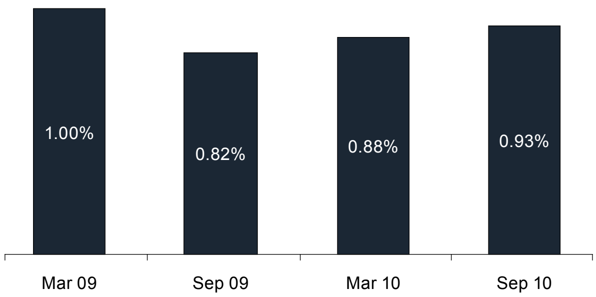

**NZ Banking Revenue and Expense Trends**




**NZ Banking Cost to Income Ratio**




**NZ Banking Cash Earnings on Average Assets**



**The BNZ Partners business model was further enhanced** during the year with the integration of Corporate Banking. BNZ has now opened 10 new Partners business centres and launched a dedicated small business hub providing specialised services and expertise to this critical segment of the New Zealand economy. The business centres aim to provide customers with an office away from home, as well as a convenient regional hub for the local business community. With an innovative distribution network and key strengths in business banking, BNZ is well positioned to leverage growth opportunities when market conditions improve.

BNZ has recently launched **Liquid Encryption Number technology, invented and globally patented by BNZ.** This anti-fraud innovation enables periodic updates of credit card data to help make skimmed card data and counterfeit cards redundant, thereby minimising the likelihood of any inconvenience to customers from instances of counterfeit fraud.

In August 2010, BNZ held its first nationwide BNZ Connect event, with 46 stores participating in 35 events across the country. BNZ Connect aims to promote and foster connections between New Zealand's small businesses in their local communities. These monthly events provide an opportunity for like-minded business people to meet at informal networking evenings held in BNZ stores to share ideas, experiences, successes, referrals and to build their networks and raise their business profiles. The events are open to all local businesses, including BNZ customers and non-customers alike. They also provide an effective nationwide platform for BNZ to connect, build rapport and demonstrate support for the business community.

During the year, BNZ launched its brand evolution programme. The programme aims to **further strengthen the BNZ brand** and identity to better reflect its history, heritage and aspirations. Most importantly, it helps demonstrate **BNZ's strong connection with the businesses, communities and families of New Zealand.**

**BNZ continues to invest in its people to drive for a high performing culture.** A survey completed during the year has delivered engagement and enablement scores comparable to high performing organisations and above the average global benchmark for financial services. These results reflect BNZ's long term strategy to empower employees at all levels of the organisation and continued focus on building talent, leadership development and succession management.

### Operating Environment

Overall, the New Zealand economy is gradually recovering from a protracted recession, which saw gross domestic product contract by 3.5% over 2008 and 2009. While various business and consumer surveys, as well as many macro drivers, suggest potential growth is in the pipeline, general expectations have softened from their optimistic view earlier in 2010. The recent Canterbury earthquake has also increased the uncertainty. While the consensus view on international growth has been tempered over recent months, New Zealand's trading partners' GDP growth to date has proved stronger than expected, which will help export led economic growth.

The unemployment rate has decreased from its recent peak of over 7% in December 2009. However, the current rate at 6.8% still represents a relatively high level compared to around 4.0% in 2007 and 2008 years and it will take time for the labour market to work its way back to normal levels.

The Reserve Bank of New Zealand (RBNZ) has started to reverse some of the significant policy easing it instituted during the depths of the recession, which saw the official cash rate (OCR) drop 500 basis points from September 2008 to 2.50%. The RBNZ lifted its OCR this year in June (25bps) and July (25bps) to 3.00%, and has since continued to hold it at this level. While the RBNZ looks set to hold the OCR for the near term owing to uncertainties around the robustness of the recovery, increases are likely ahead, albeit at a pace that is slower than previously thought.

The other factor reinforcing a "tightening cycle" is the fact that wholesale funding costs for banks remain substantially higher than long-term averages. The new RBNZ Liquidity Policy (BS13) requires local banks to source a greater proportion of their funding at term and from domestic customer deposits. While credit spreads for short-term international money have largely normalised, these new requirements are maintaining upward pressure on the overall cost of funding. Competition for customer deposits remains intense, as all banks focus on strengthening their core funding ratios pursuant to these new regulatory requirements.

All wholesale funding raised by BNZ in the current year has been completed without the use of the Government Guarantee. This reflects strong investor confidence in the BNZ brand, its risk management disciplines and overall balance sheet strength.

While GDP growth expectations are positive, businesses remain extremely cautious about making new investments and expenditure, and are conscious of debt loads. This is in large part why demand for new business lending has been very subdued, as evidenced by the contraction of New Zealand's system business credit in the current year. For the agriculture sector, even with this season's dairy payout being near the highest on record, growth in new lending has slowed substantially.

Demand for mortgages has also been subdued, with relatively low levels of home sales. New home construction has been slow, although it is expected to be set for an impetus post the Canterbury earthquake.

Leading asset quality indicators have shown signs of stabilising in the current financial year, with moderate increases in total past due and impaired assets compared to September 2009. The levels are still high relative to long-term trends, reflecting the impact of the subdued economy, high unemployment and a weak appetite for new investment or spending. However, these asset quality indicators need to be interpreted in context, particularly in terms of the low base experienced before the global financial crisis, and performance relative to peers.

## NZ Banking

*Results presented in local currency. See page 79 for results in $AUDm.*

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | Sep 10 NZ$m | Sep 09 NZ$m | Sep 10 v Sep 09 % | Sep 10 NZ$m | Mar 10 NZ$m | Sep 10 v Mar 10 % |
| Net interest income | **1,233** | 1,162 | 6.1 | **638** | 595 | 7.2 |
| Other operating income [1] | **442** | 479 | (7.7) | **223** | 219 | 1.8 |
| **Net operating income** | **1,675** | 1,641 | 2.1 | **861** | 814 | 5.8 |
| Operating expenses | **(732)** | (723) | (1.2) | **(367)** | (365) | (0.5) |
| **Underlying profit** | **943** | 918 | 2.7 | **494** | 449 | 10.0 |
| Charge to provide for bad and doubtful debts | **(187)** | (188) | 0.5 | **(99)** | (88) | (12.5) |
| **Cash earnings before tax** | **756** | 730 | 3.6 | **395** | 361 | 9.4 |
| Income tax expense | **(232)** | (213) | (8.9) | **(126)** | (106) | (18.9) |
| **Cash earnings** | **524** | 517 | 1.4 | **269** | 255 | 5.5 |
| **Average Volumes (NZ$bn)** | | | | | | |
| Gross loans and acceptances | **54.9** | 53.8 | 2.0 | **54.9** | 55.0 | (0.2) |
| Interest earning assets | **57.1** | 56.4 | 1.2 | **56.9** | 57.2 | (0.5) |
| Total assets | **57.7** | 57.1 | 1.1 | **57.6** | 57.8 | (0.3) |
| Retail deposits | **28.3** | 25.8 | 9.7 | **28.8** | 27.7 | 4.0 |
| **Capital (NZ$bn)** | | | | | | |
| Risk-weighted assets - credit risk (spot) | **33.5** | 35.1 | (4.6) | **33.5** | 33.2 | 0.9 |
| Total risk-weighted assets (spot) | **38.2** | 39.1 | (2.3) | **38.2** | 37.6 | 1.6 |
| **Performance Measures** | | | | | | |
| Cash earnings on average assets | **0.91%** | 0.91% | 0 bps | **0.93%** | 0.88% | 5 bps |
| Net interest margin | **2.16%** | 2.06% | 10 bps | **2.24%** | 2.08% | 16 bps |
| Cost to income ratio | **43.7%** | 44.1% | 40 bps | **42.6%** | 44.8% | 220 bps |
| Cash earnings per average FTE (NZ$'000s) | **122** | 120 | | **123** | 121 | |
| FTEs (spot) | **4,407** | 4,257 | | **4,407** | 4,243 | |

(1) *The other operating income decrease from the prior year includes a $23 million impact from the abolishing of certain customer fees as part of the Fair Value initiative from 1 September 2009.*

### Market Share [1]

| | As at | | |
|---|---|---|---|
| | Aug 10 | Mar 10 | Sep 09 |
| Housing | **15.9%** | 15.8% | 15.8% |
| Cards | **27.7%** | 27.5% | 27.6% |
| Agribusiness | **19.2%** | 19.0% | 18.9% |
| Retail deposits[2] | **17.6%** | 17.5% | 17.0% |

(1) *Source RBNZ - August 2010.*

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

### Distribution

| | As at | | |
|---|---|---|---|
| | Sep 10 | Mar 10 | Sep 09 |
| Number of retail branches | **178** | 179 | 180 |
| Number of ATMs | **442** | 437 | 428 |
| Number of internet banking customers (no. '000s) | **491** | 472 | 450 |

## NZ Banking
Financial Analysis (in local currency)

### September 2010 v September 2009

**Cash earnings** increased by 1.4% to $524 million when compared to the previous year. Current year performance is characterised by modest housing growth, lower fee income as a result of fee reduction initiatives and weak demand for business credit in line with contraction in the New Zealand system. Overall expenses and bad and doubtful debt charges are in line with the prior year.

**Net interest income** increased by 6.1% due to overall margin improvement through repricing for risk and volume growth in variable rate housing products.

**Net interest margin** increased by 10 basis points to 2.16%, reflecting favourable product mix from customers' strong preference for variable rate products, as well as repricing on the asset portfolio. This has been partially offset by margin pressure stemming from a continued focus on strengthening the balance sheet by growing retail deposits and increasing the term profile of wholesale funding.

**Other operating income** decreased by 7.7%. The abolition of a range of fees from 1 September 2009 as part of the Fair Value initiative has driven $23 million of the decline. Fees from risk management solution products also decreased due to significantly reduced customer demand for hedging products relative to the prior year, when extremely volatile market conditions drove unprecedented customer demand.

**Operating expenses** increased by 1.2% driven by the commencement of new building leases in Auckland and Wellington, as well as expenses relating to the BNZ brand evolution programme and new marketing sponsorships.

**Average gross loans and acceptances** increased by 2.0%, while **retail deposits** grew very strongly by 9.7%. The growth in business lending progressively slowed over the year in line with weak system growth and renewed competitor activity. System growth in housing remained subdued, but BNZ maintained its market share. Strong market share gains were also made in the highly competitive deposits market.

The **cost to income ratio** decreased from 44.1% to 43.7% compared to the prior year, as a result of higher revenue, while tight cost control was maintained.

The **charge to provide for bad and doubtful debts** decreased by $1 million compared to the year ended 30 September 2009. Impairment of assets showed signs of stabilisation as market conditions slowly improved. In light of the uncertainties concerning the robustness of economic recovery, risk remains, particularly in the business sector.

### September 2010 v March 2010

**Cash earnings** increased by 5.5% to $269 million when compared with the March 2010 half year, reflecting the slowly improving market conditions.

**Net interest income** increased by 7.2% to $638 million. This was primarily due to repricing for current risk settings as well as favourable product mix, as customers had a strong preference for higher margin variable rate mortgage products in light of the relatively low OCR during the year. This increase was partially offset by costs associated with improving balance sheet strength and competitive pressure on deposit margins.

**Net interest margin** increased by 16 basis points to 2.24%, reflecting repricing on the asset book, together with the favourable mix impact within the housing portfolio.

**Other operating income** increased by 1.8%, largely due to an increase in commitment fees from business lending.

**Operating expenses** increased slightly compared to the March 2010 half year due primarily to costs associated with the BNZ brand evolution programme.

**Average gross loans and acceptances** decreased slightly by 0.2%, reflecting weak business lending in line with system contraction, offset by modest housing growth. **Retail deposits** grew by 4.0% over the half, maintaining BNZ's market share and strengthening the balance sheet in a highly competitive New Zealand market.

The **charge to provide for bad and doubtful debts** increased by 12.5%, reflecting the downside risk that remains in the business sector.

## Other Items

### Asset Quality

| | As at | | |
|---|---|---|---|
| | **Sep 10** | **Mar 10** | **Sep 09** |
| Specific provision for doubtful debts (NZ$m) | **148** | 147 | 158 |
| Collective provision for doubtful debts (NZ$m) | **202** | 187 | 147 |
| Specific provision on loans at fair value (NZ$m) | **94** | 102 | 63 |
| Collective provision on loans at fair value (NZ$m) | **71** | 76 | 84 |
| Collective provision on derivatives at fair value | **-** | - | 5 |
| 90+ DPD assets (NZ$m) [(1)] | **196** | 284 | 210 |
| Gross impaired assets (NZ$m) [(2)] | **776** | 734 | 639 |
| 90+ DPD plus gross impaired asset to gross loans and acceptances | **1.75%** | 1.85% | 1.53% |
| Specific provision to gross impaired assets | **31.2%** | 33.9% | 34.6% |
| Net write-offs to gross loans and acceptances | **0.27%** | 0.24% | 0.13% |
| Total provision as a percentage of net write-offs | **348%** | 393% | 626% |
| Total provision to gross loans and acceptances | **0.93%** | 0.93% | 0.83% |
| Bad and doubtful debt charge to credit risk weighted assets | **0.56%** | 0.53% | 0.53% |

(1) *The September 2010 balance includes NZ$6 million of fair value non impaired loans 90 days past due. (March 2010: NZ$4 million)*

(2) *Gross impaired assets for September 2010 includes NZ$282 million gross impaired fair value assets. (March 2010: NZ$305 million, September 2009: NZ$191 million)*

Leading asset quality indicators have shown signs of stabilisation in the current financial year in line with the improving economic environment, albeit at a very slow pace. BNZ's strong risk management framework and responsible approach to lending has ensured that it has remained well placed in the fragile economic environment.

Net write-offs have remained low, in line with the prior half. This was mainly due to the strength of BNZ's frontline credit analysis and credit risk management function.

In comparison to the 2009 financial year, the level of impaired assets and 90+ DPD assets to gross loans and acceptances has increased by 22 basis points to 1.75%. The increase is primarily due to business exposures. Importantly, the level of 90+ DPD assets has declined since March 2010, supporting the view that the worst of the credit cycle is behind us. Key industry risk areas continue to be in the commercial property (residential subdivision and development land) and dairy farming sectors, which make up 12.5% and 10% of BNZ's total lending portfolio respectively.

BNZ's disciplines around property development financing such as requirements relating to minimum pre-sales targets, project feasibility analysis and assessment of undue concentration risk, have all contributed to minimising losses on exposures in this sector. Commodity prices, especially in respect of dairy products, are continuing to exhibit volatility. The dairy payout for the current 2010 season is the second highest payout on record, albeit at around 15% below the record high achieved in 2008. The forecast for the 2011 season is similar. This is resulting in some improved confidence within the agribusiness sector, although a number of farmers remain under financial stress and are still required to proceed with de-leveraging plans.

BNZ continues with its positive approach to the agricultural sector as it has encountered comparatively few financially stressed customers, as a result of its conservative through-the-cycle approach to assessing expected future returns from dairy and other commodities.

Housing accounts for 47% of BNZ's total lending portfolio. In an environment where sales volumes have been slow and with interest rates set to increase in light of a tightening cycle, the sector has experienced relatively minor deterioration in asset quality. Unemployment still remains higher than average and BNZ continues to proactively monitor and manage emerging distressed customers with increased resources focusing on retail credit. Asset quality in unsecured consumer lending has been relatively robust, despite the adverse economic conditions.

A magnitude 7.1 earthquake which occurred on 4 September 2010 has resulted in extensive damage to infrastructure in the Canterbury region. A customer assistance package was made available by BNZ when business opened on Monday 6 September. This package provides emergency credit facilities for rebuilding and repair.

BNZ continues to place significant focus on close monitoring and proactive management of its asset quality to enable early intervention, if required. Risk settings, a comprehensive program of oversight and intervention activities, as well as active partnering with the businesses are key strategies employed to maintain acceptable asset quality. In addition, there has been further strengthening of the specialised recovery team.

BNZ continues to closely monitor its lending portfolio to ensure that risk settings are managed dynamically in the uncertain environment.

**Capital and Funding Position**

During the year, management continued to focus on further strengthening the balance sheet through proactive capital and liquidity management, a strategic focus on deposit growth and the diversification and lengthening of the term profile of wholesale funding. This focus on customer deposits has resulted in strong growth and an increase in BNZ's market share for retail deposits.

While retail deposit rates have increased significantly and are now well above the wholesale cost of funds, retail funding is a core component of balance sheet strength and is key to maintaining BNZ's AA credit rating.

In June 2010, BNZ completed a successful domestic Covered Bond issue, demonstrating domestic investors' confidence in BNZ, despite the post global financial crisis market uncertainty.

BNZ has also been proactive in maintaining a strong profile with existing and potential investors via a number of international road shows. In March 2010, BNZ successfully completed a 7 year Euro Medium Term Note issue, recognising international investors' confidence in the BNZ name.

Regulatory capital is held at levels well above the RBNZ's prescribed minimum levels. BNZ's legal entity Tier 1 capital ratio was 8.85% and Total capital ratio was 11.81% (minimum 8%) as at 30 September 2010.

BNZ's Core Funding Ratio (CFR) remained well above the RBNZ regulatory minimum of 65%.

At 81% the Stable Funding Index (SFI) remained above BNZ's 70% internal target and the Customer Funding Index (CFI) also showed strong improvement as it increased to 56%, up from 51% in September 2009.

## NZ Banking

*Results presented in Australian dollars. See page 76 for results in local currency.*

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | **Sep 10 $m** | **Sep 09 $m** | **Sep 10 v Sep 09%** | **Sep 10 $m** | **Mar 10 $m** | **Sep 10 v Mar 10%** |
| Net interest income | **978** | 947 | 3.3 | **506** | 472 | 7.2 |
| Other operating income | **351** | 391 | (10.2) | **178** | 173 | 2.9 |
| **Net operating income** | **1,329** | 1,338 | (0.7) | **684** | 645 | 6.0 |
| Operating expenses | **(581)** | (589) | 1.4 | **(292)** | (289) | (1.0) |
| **Underlying profit** | **748** | 749 | (0.1) | **392** | 356 | 10.1 |
| Charge to provide for bad and doubtful debts | **(148)** | (154) | 3.9 | **(78)** | (70) | (11.4) |
| **Cash earnings before tax** | **600** | 595 | 0.8 | **314** | 286 | 9.8 |
| Income tax expense | **(184)** | (173) | (6.4) | **(100)** | (84) | (19.0) |
| **Cash earnings** | **416** | 422 | (1.4) | **214** | 202 | 5.9 |

### Impact of foreign exchange rate movements

| **Favourable/ (unfavourable) September 10** | **Year since Sep 09 $m** | **Sep 10 v Sep 09 Ex FX %** | **Half year since Mar 10 $m** | **Sep 10 v Mar 10 Ex FX %** |
|---|---|---|---|---|
| Net interest income | **(27)** | 6.1 | **1** | 7.2 |
| Other operating income | **(9)** | (7.7) | **1** | 1.8 |
| Operating expenses | **16** | (1.2) | **(1)** | (0.5) |
| Charge to provide for bad and doubtful debts | **4** | 0.5 | **-** | (12.5) |
| Income tax expense | **5** | (8.9) | **-** | (18.9) |
| Cash earnings | **(11)** | 1.4 | **1** | 5.5 |

# UK Banking

Lynne Peacock

UK Banking operates under the Clydesdale Bank and Yorkshire Bank brands. It offers a range of banking services for both personal and business customers through retail branches, iFS centres, direct banking and brokers. As the UK economy emerged from recession during the year and entered a period of tentative economic growth, UK Banking achieved an improvement in earnings. It did this while balancing profit with increased security in the shape of a strengthened balance sheet driven by above system deposit growth. At the same time the business continued to support new lending and rebalance its loan portfolio.

## Strategic Highlights and Business Developments

**Cash earnings have improved significantly during the year (up 53.2%)** in an economy in the early stages of recovery.

UK Banking has **strengthened and reshaped its balance sheet** for the future when the UK economy returns to more stable conditions. Liquidity levels were increased in the year to mitigate the risks posed by the European sovereign debt crisis and its potential impacts on funding markets.

The business continued to demonstrate support for its customers during 2010, with **new lending of £4.7 billion** in the year, concentrated in the SME and housing sectors. However, subdued market demand for credit, debt reduction by businesses and a **conscious effort to lower exposures in commercial property and unsecured personal lending** left the overall balance sheet flat.

UK Banking continues to attract **trading and mid-corporate business** as the iFS strategy progresses. UK Banking remains focused on rebalancing the portfolio towards trading companies and to applying the iFS approach with medium-sized private and quoted companies. The mortgage book continues to grow and increased by 4.2% in the year.

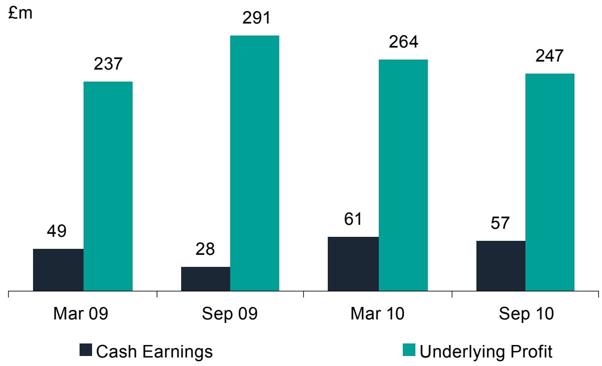
**Deposit growth of over 11% is strong** in a highly competitive market. This growth has contributed to an improved Stable Funding Index (SFI) of 105.3% and a higher Customer Funding Index (CFI) of 85.2%.

The **Term Funding Index (TFI) of 20.1% has been maintained** in line with the risk appetite of the business, as maturing medium term funding is replaced. However, new medium term funding has become significantly more expensive as the markets adjust to changes in the global economy after the global financial crisis.

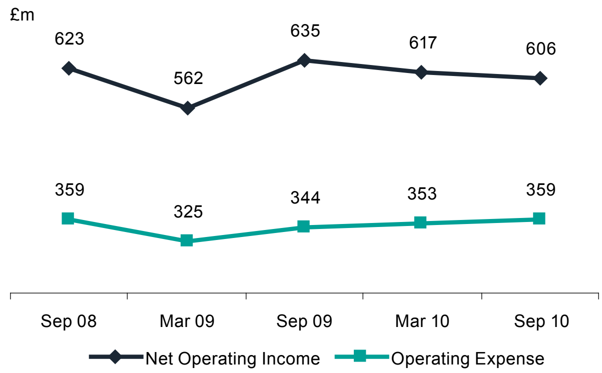
Levels of customer engagement remained strong throughout the period despite the difficult market conditions.

The **charge to provide for bad and doubtful debts is lower than in the previous year.** However, certain asset quality measures, particularly gross impaired assets, continue to reflect the current stage of the economic cycle.

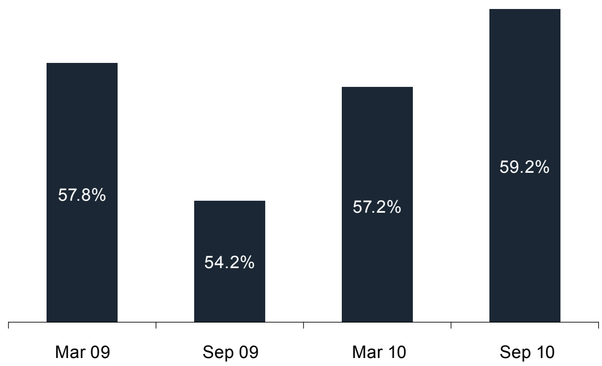
**UK Banking Cash Earnings and Underlying Profit**



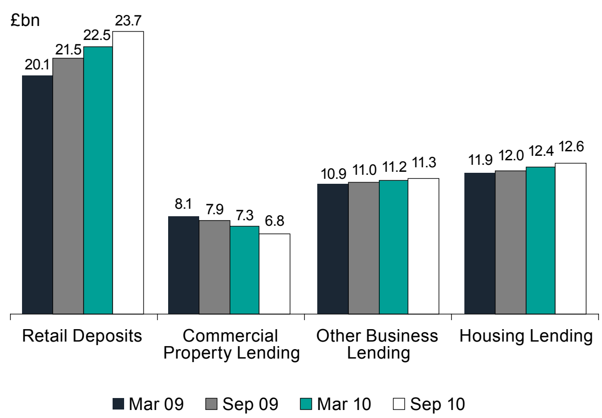

**UK Banking Income and Expense Trends**




**UK Banking Cost to Income Ratio**




**UK Banking Average Volumes**



## Operating Environment

The UK economy has shown consistent signs of recovery in the last year.

UK GDP grew by 1.2% in the second quarter of 2010, after first quarter growth of 0.3%, with marked differences between the sectors. Economists expect contradictory signals in the second half of the calendar year although the majority think the UK will avoid a double dip recession. The latest Bank of England data predicts GDP growth of between 2.5% and 3% in 2011.

The latest figures in the various house price indices continue to show annual increases, although the monthly figures are still somewhat erratic. It is expected that house prices will remain relatively static or show a slight decline in the coming months. Commercial property prices have demonstrated some encouraging signs of improvement over the past year, but the average figures do disguise some marked regional variations and they remain about 35% below their June 2007 peak.

Unemployment fell by 49,000 to 2.46 million in the quarter to June and the unemployment rate was 7.8%. Expectations for 2010 and 2011 are that unemployment will peak at about 8.0% which is significantly lower than in previous recessions. With reductions planned in public spending, it is likely that job cuts in this sector will place pressure on the unemployment statistics, as these cuts may not be offset by job creation in the private sector in the short term.

A package of austerity measures was announced in the UK Government's Emergency Budget in June 2010 designed to address the fiscal deficit and reduce sovereign risk. It included increases in direct and indirect taxes and the signalling of spending cuts. Most of these measures will take effect from 2011. The tax measures include a 2.5 percentage point increase in Value Added Tax (VAT) to 20% in January 2011, a bank levy and a 10% increase in Capital Gains Tax for higher rate tax payers. Of the £32 billion of spending cuts to be enacted by 2014, around £11 billion is likely to come from cuts in welfare payments and a further £3 billion from a two-year freeze in civil service pay. On 20 October, the UK Government announced details of its Spending Review 2010 which set out plans aimed to eliminate the structural budget deficit by 2015. The Government has also published draft legislation on the Bank Levy announced as part of the Budget in June 2010.

Inflation remains above the Bank of England target. The consumer price index was 3.1% in July 2010, the fourth consecutive month that the growth in prices has slowed. The increase in VAT in January 2011, as well as pressures on commodity and food prices, means that inflation is likely to remain above 2% until early 2012.

The sizeable economic stimuli in the economy, including low interest rates, quantitative easing and government spending, have had an impact on UK output. There are still, however, significant headwinds and the road to recovery remains challenging in some parts of the economy.

The UK financial markets saw the average daily spread between Base Rate and three month LIBOR at a more normal historical level of 16 basis points for the year to September 2010, compared with a peak of 86 basis points for the year to September 2009. (The 90 day rolling average spread dropped to 16 basis points for the year to September 2010 from its peak of 150 basis points in the year to September 2009).

The 'normalisation' of spreads, coupled with actions taken in the prior year to reduce the exposure to basis risk, has resulted in a significant decrease in the cost of basis risk.

In November 2009, the UK Supreme Court decided in favour of the banks regarding certain charges in a unanimous ruling. It concluded that unarranged overdraft charges are an important part of current account services which the banks provide to their customers and that the level of those charges is not assessable for fairness. In December 2009, the Office of Fair Trading announced that it would not be taking forward its investigations into the fairness of the banks' unarranged overdraft charges. This effectively closes issues relating to past complaints about these charges and attention will now focus on future charging structures.

Market-wide issues relating to Payment Protection Insurance (PPI) claims handling are ongoing. On 8 October 2010 the British Bankers Association (BBA) filed papers with the High Court asking for a review of proposals by the Financial Services Authority contained in new rules that are due to be implemented at the end of this year. On behalf of the industry the BBA alleges that the rules require banks to apply sales standards retrospectively to a period before their introduction. Provision has been made for costs arising from claims received, although at this stage there remains uncertainty surrounding the potential impact.

## UK Banking

*Results presented in local currency. See page 86 for results in $AUDm.*

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | **Sep 10 £m** | **Sep 09 £m** | **Sep 10 v Sep 09 %** | **Sep 10 £m** | **Mar 10 £m** | **Sep 10 v Mar 10 %** |
| Net interest income | **962** | 881 | 9.2 | **472** | 490 | (3.7) |
| Other operating income | **261** | 316 | (17.4) | **134** | 127 | 5.5 |
| **Net operating income** | **1,223** | 1,197 | 2.2 | **606** | 617 | (1.8) |
| Operating expenses | **(712)** | (669) | (6.4) | **(359)** | (353) | (1.7) |
| **Underlying profit** | **511** | 528 | (3.2) | **247** | 264 | (6.4) |
| Charge to provide for bad and doubtful debts | **(347)** | (421) | 17.6 | **(164)** | (183) | 10.4 |
| **Cash earnings before tax** | **164** | 107 | 53.3 | **83** | 81 | 2.5 |
| Income tax expense | **(46)** | (30) | (53.3) | **(26)** | (20) | (30.0) |
| **Cash earnings** | **118** | 77 | 53.2 | **57** | 61 | (6.6) |
| | | | | | | |
| **Average Volumes (£bn)** | | | | | | |
| Gross loans and acceptances | **32.9** | 33.3 | (1.2) | **32.7** | 33.0 | (0.9) |
| Interest earning assets | **41.1** | 39.1 | 5.1 | **41.3** | 40.9 | 1.0 |
| Total assets | **44.5** | 42.5 | 4.7 | **44.6** | 44.4 | 0.5 |
| Retail deposits | **23.1** | 20.8 | 11.1 | **23.7** | 22.5 | 5.3 |
| | | | | | | |
| **Capital (£bn)** | | | | | | |
| Risk-weighted assets - credit risk (spot) | **30.6** | 29.4 | 4.1 | **30.6** | 29.4 | 4.1 |
| Total risk-weighted assets (spot) | **33.8** | 32.0 | 5.6 | **33.8** | 32.1 | 5.3 |
| | | | | | | |
| **Performance Measures** | | | | | | |
| Cash earnings on average assets | **0.27%** | 0.18% | 9 bps | **0.25%** | 0.28% | (3 bps) |
| Net interest margin | **2.34%** | 2.25% | 9 bps | **2.28%** | 2.40% | (12 bps) |
| Cost to income ratio | **58.2%** | 55.9% | (230 bps) | **59.2%** | 57.2% | (200 bps) |
| Cash earnings per average FTE (£'000s) | **14** | 9 | | **14** | 15 | |
| FTEs (spot) | **8,355** | 8,295 | | **8,355** | 8,239 | |

## UK Banking

Financial Analysis (in local currency)

### September 2010 v September 2009

**Cash earnings** at £118 million increased by £41 million (53.2%) over the prior year, reflecting higher net interest income and lower charges to provide for bad and doubtful debts. These were partly offset by lower wealth management and insurance income and higher expenses.

**Average gross loans and acceptances** decreased by £0.4 billion (1.2%), reflecting both the decision to re-shape the loan book and the subdued demand for credit. Within this, commercial property lending fell by 11.3% and exposure to credit card and personal lending fell by 12.5%. Lending for mortgages and trading businesses grew by 4.2% and 2.8% respectively.

During the year, UK Banking continued to support customers by advancing £4.7 billion of new loans, of which £2.7 billion comprised business lending and £1.7 billion were mortgage advances.

**Average retail deposits** in a highly competitive market grew by 11.1% (£2.3 billion), which is more than double the industry average growth rate of 4.8% (Bank of England - August 2010). iFS average deposit growth was 12.7% and Retail network growth was 8.1%.

**Net interest income** increased by £81 million (9.2%). The repricing activity from 2009 and further repricing in 2010 resulted in widening of lending margins. This, together with lower basis risk costs, was partially offset by lower earnings on capital and higher funding costs.

The **net interest margin** increased by 9 basis points driven by higher lending margins and a reduction in basis risk. These were partially offset by higher funding costs, lower deposit margins and lower earnings on capital.

**Other operating income** decreased by £55 million (17.4%) driven by a number of items. Firstly, in 2009 there was a one-off benefit of £16 million from the transfer of the investment business to AXA UK. Secondly, income from property sales was £7 million lower than the prior year. Thirdly, as a result of an industry-wide ban on sales of single premium PPI on personal loans, this product was discontinued in March 2009. It was replaced by a regular premium product, launched in September 2009, that will take some time to build momentum and resulted in £9 million lower income than in the prior year. Fourthly, as a result of new guidance from the regulator on the handling of PPI claims, the business, in common with the industry, has seen increased claims activity, principally from the claims management companies. The charge for PPI refunds to customers has increased by £10 million during the year. Finally, the remaining variance is driven by lower wealth management income.

**Operating expenses** increased by £43 million (6.4%) over the prior year driven by £28 million higher defined benefit pension costs. These costs principally increased due to lower expected returns from the pension scheme's assets, together with a lower discount rate being applied to the scheme's liabilities. Expenses, excluding pension costs, increased by £15 million (2.2%) which was below inflation.

The **cost to income ratio** at 58.2% showed a 230 basis point increase. Excluding the PPI and pension movements, the cost to income ratio improved by 80 basis points.

The **charge to provide for bad and doubtful debts** decreased by £74 million (17.6%) over the prior year. There has been a general improvement in the UK environment and in commercial property prices over the year. The charge to provide for bad and doubtful debts normally lags behind economic growth post recession and remains under close scrutiny by management.

### September 2010 v March 2010

**Cash earnings** decreased by £4 million on the prior half. This decrease primarily reflected lower earnings on capital.

**Average gross loans and acceptances** decreased by £0.3 billion (0.9%) as a result of subdued market conditions and the managed reduction of the commercial property book. Gross new advances of £2.5 billion in the period were offset by an increasing appetite for customers to reduce their levels of borrowing.

**Average retail deposits** grew by 5.3% (£1.2 billion). This was primarily due to continued momentum in iFS and a robust performance by the Retail network.

**Net interest income** decreased by £18 million (3.7%) as a result of lower earnings from capital and pressure on retail deposit margins. Higher lending income partially offsets this decrease.

The **net interest margin** decreased by 12 basis points. This was as a result of lower deposit margins and earnings on capital and margin dilution from the increase in low yielding liquid assets, partially offset by higher lending margins.

**Other operating income** increased by £7 million (5.5%). Higher commission, property sales and higher fee income were partially offset by an increased charge for PPI refunds to customers.

**Operating expenses** increased by £6 million (1.7%) which was in line with inflation.

The **cost to income ratio** at 59.2% increased by 200 basis points, reflecting lower net operating income and higher expenses.

The **charge to provide for bad and doubtful debts** decreased by £19 million (10.4%) when compared to the March 2010 half. This area remains under close scrutiny by management.

## Other Items

### Asset Quality

| | As at | | |
|---|---|---|---|
| | **Sep 10** | **Mar 10** | **Sep 09** |
| Specific provision for doubtful debts (£m) | **65** | 68 | 55 |
| Collective provision for doubtful debts (£m) | **282** | 290 | 291 |
| Specific provision on loans at fair value (£m) | **26** | 19 | 26 |
| Collective provision on loans at fair value (£m) | **104** | 81 | 84 |
| 90+ DPD assets (£m) | **265** | 292 | 284 |
| Gross impaired assets (£m) [(1)] | **766** | 684 | 585 |
| 90+ DPD plus gross impaired assets to gross loans and acceptances | **3.15%** | 2.98% | 2.61% |
| Specific provision to gross impaired assets | **11.9%** | 12.7% | 13.8% |
| Net write-offs to gross loans and acceptances (annualised) | **0.99%** | 0.93% | 1.07% |
| Total provision as a percentage of net write-offs | **147%** | 150% | 128% |
| Total provision to gross loans and acceptances | **1.46%** | 1.40% | 1.37% |
| Bad and doubtful debt charge to credit risk weighted assets | **1.13%** | 1.25% | 1.43% |

[(1)] *Gross impaired assets for September 2010 includes £42 million gross impaired fair value assets.(March 2010: £65 million, September 2009: £115 million)*

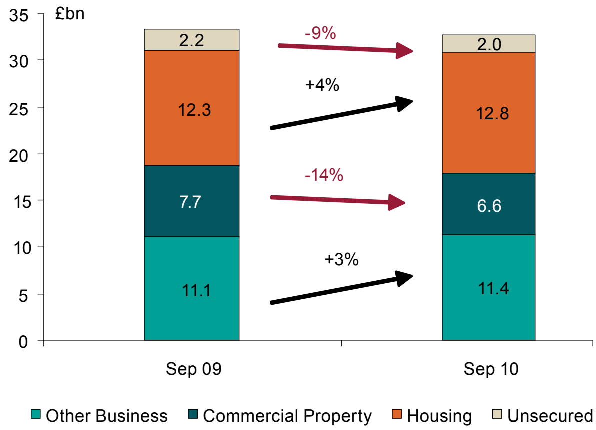
Asset quality measures continue to reflect the current operating environment in the UK. The charge to provide for bad and doubtful debts fell during the year and the flow of new files referred for close monitoring and review remained relatively stable in both value and volume. The market, although no longer in economic recession, remains challenging for both trading and property businesses alike, and this has resulted in a further weakening of some key asset quality measures.

The business book continues to generate the greatest proportion of provisions and losses and, while the level of commercial property losses has slowed, trading business losses have increased, as the SME sector is affected by the prolonged slowdown. Overall, business losses were lower than in the year ended September 2009. Retail product provisions have also decreased, with the low interest rate environment assisting affordability, particularly for mortgages, where losses remain low.

As a whole, the portfolio remains well secured and diversified, both geographically and by lending type. The credit profile of new lending continues to be materially better than that of the existing portfolio.

As a result of the strategy to reshape the balance sheet towards secured lending over the last four years, the unsecured element of the portfolio has been reduced. Delinquency rates on this portfolio have remained stable.

**Lending Book (Spot)**




Lending on commercial property has now fallen by 14% from £7.7 billion at September 2009 to £6.6 billion as at the end of September 2010. This represents 20% of gross loans and acceptances (36% of the business book). Of this, approximately 80% was investment lending and 20% development lending. The largest commercial property loan represents about 1.9% of the commercial property portfolio or 0.4% of the total portfolio. The portfolio is broadly spread around the UK and not concentrated in any one geographical region.

The residential mortgages portfolio has proved resilient, with 90+ DPD arrears decreasing from 0.80% to 0.76% during the year. The average Loan to Value ratio of the mortgage book has improved from 54% in September 2009 to 52% in September 2010 on an indexed valuation basis. Over 70% of mortgages approved in the period had a loan to value ratio below 80%.

The number of owner occupied residential properties taken into possession has increased but remains at low levels relative to the portfolio size. There were 96 residential properties repossessed in the year to September 2010, compared to 78 in the preceding year. At the end of the period, a stock of 66 residential properties was held.

The business 90+ DPD balances have reduced through early engagement with customers and a focus on appropriate limit management. The increase in gross impaired asset balances reflects the impact of the ongoing difficult economic and market conditions, although the rate of growth has slowed when compared to last year. Trading businesses have driven the second half growth in gross impaired assets, although the balance continues to primarily consist of commercial property. Whilst there has been some stabilisation in property prices, the market for disposing of these assets is still operating below normal levels. This has resulted in assets remaining in the impaired asset category longer than has been previously experienced, with some 44% of the current commercial property business impaired balances (as at end September 2010) being in this category prior to the start of the current financial year. Within the trading business impaired asset portfolio, over 10% comprises ‘restructured’ arrangements which, if they continue to track to expectations, will migrate to full performing status over the next six months.

Asset quality measures remain under close management scrutiny to ensure that the actions in place remain appropriate.

## Capital and Funding Position

| Clydesdale Bank PLC diversity of funding | As at Sep 10 | Mar 10 | Sep 09 |
|---|---|---|---|
| Retail deposits | **64%** | 61% | 59% |
| Market short term | **14%** | 16% | 15% |
| Subordinated debt | **3%** | 3% | 3% |
| Structured finance | **2%** | 3% | 3% |
| Securitisation | **5%** | 5% | 6% |
| Parent company | **6%** | 6% | 6% |
| Medium term notes | **6%** | 6% | 8% |
| CB PLC Funding | **100%** | 100% | 100% |

Clydesdale Bank's Tier 1 capital ratio (FSA basis) improved to 9.0% as at September 2010 from 8.2% at September 2009. This was primarily due to an additional £310 million of ordinary share capital that was issued by Clydesdale Bank to its parent company. Capital requirements are kept under regular review and are subject to regulatory scrutiny.

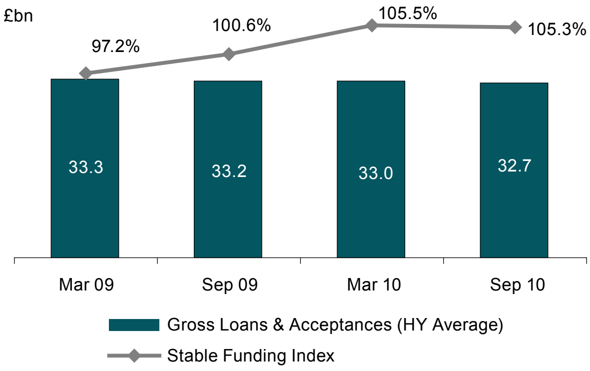
Clydesdale Bank held a portfolio of liquid assets totalling £10.1 billion as at 30 September 2010 compared to £8.7 billion as at September 2009. This portfolio includes UK Government gilts, Bank of England Reserve Account, treasury bills, note cover required to cover Clydesdale's notes in circulation and lending to other banks. Clydesdale Bank's diverse funding mix of short and long-term wholesale funding, parent company funding, securitisation and Covered Bonds has created this strong liquidity position.

Clydesdale Bank restructured its EUR9 billion Covered Bond programme in November 2009 to a pass-through structure which enabled the two issuances under the programme to retain AAA rating from all three rating agencies.

As existing wholesale term funding matures and is replaced with more expensive new issuances, the overall margin paid on wholesale funding is increasing. In line with the market, this has been partially offset by the fall in liquidity costs as the spread between UK Base Rate and LIBOR normalises.

UK Banking's strong performance in attracting retail deposits has continued and positions the business well to grow.

**UK Stable Funding Index**




## Investment Spend

The UK investment cash spend for the September 2010 year was £90 million across the regulatory and compliance, efficiency and simplification and revenue generation categories. This compares to total cash spend of £87 million for the September 2009 year.

The delivery of an enhanced customer proposition was advanced by a number of projects undertaken in the year. The roll-out of the simplified end-to-end Business Lending platform was completed, with 2,000 users now actively using the application across iFS, Retail and Credit. The new Debit MasterCard, which delivers improved world-wide acceptance and protection, was also successfully launched.

Effort continues to be expended across a number of programmes to ensure applications are compliant with new regulatory requirements. Lastly, keeping the customer safe remains a key focus and the business has continued to enhance the fraud prevention and detection capability.

## UK Banking

*Results presented in Australian dollars. See page 82 for results in local currency.*

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 $m | Mar 10 $m | Sep 10 v Mar 10 % |
| Net interest income | 1,665 | 1,866 | (10.8) | 801 | 864 | (7.3) |
| Other operating income | 452 | 669 | (32.4) | 229 | 223 | 2.7 |
| **Net operating income** | 2,117 | 2,535 | (16.5) | 1,030 | 1,087 | (5.2) |
| Operating expenses | (1,232) | (1,417) | 13.1 | (610) | (622) | 1.9 |
| **Underlying profit** | 885 | 1,118 | (20.8) | 420 | 465 | (9.7) |
| Charge to provide for bad and doubtful debts | (601) | (892) | 32.6 | (279) | (322) | 13.4 |
| **Cash earnings before tax** | 284 | 226 | 25.7 | 141 | 143 | (1.4) |
| Income tax expense | (80) | (64) | (25.0) | (44) | (36) | (22.2) |
| **Cash earnings** | 204 | 162 | 25.9 | 97 | 107 | (9.3) |

### Impact of foreign exchange rate movements

| Favourable/ (unfavourable) September 10 | Year since Sep 09 $m | Sep 10 v Sep 09 Ex FX % | Half year since Mar 10 $m | Sep 10 v Mar 10 Ex FX % |
|---|---|---|---|---|
| Net interest income | (373) | 9.2 | (29) | (3.7) |
| Other operating income | (100) | (17.4) | (7) | 5.5 |
| Operating expenses | 275 | (6.4) | 21 | (1.7) |
| Charge to provide for bad and doubtful debts | 134 | 17.6 | 10 | 10.4 |
| Income tax expense | 18 | (53.3) | 2 | (30.0) |
| Cash earnings | (46) | 53.2 | (3) | (6.6) |

# Specialised Group Assets

Peter Thodey

The Specialised Group Assets (SGA) portfolios comprise non-franchise assets with $20.5 billion of Risk Weighted Assets.

These assets are primarily domiciled in the UK and the US and consist of nine portfolios:

- Structured Asset Management (SAM).
- Private Equity and Real Estate Investment Funds USA.
- Infrastructure Finance USA.
- Corporate Lending USA.
- Corporate and Non Bank Financial Institution (NBFI) Lending UK.
- Commercial Property UK.
- Leverage Finance UK.
- Structured Asset Finance UK.
- Credit Wrapped Bonds.

## Strategic Highlights and Business Developments

SGA was established in October 2009. Following the recruitment of key personnel, the portfolios were reviewed in detail and appropriate strategies and management objectives were established. Run-off in the portfolios during the period has been limited, and consistent with management expectations.

SGA's role is to actively manage its credit risk and cash earnings volatility and to selectively pursue options to reduce risk weighted assets and improve capital release. The contractual maturity profiles of the balance sheet assets, some of which are long-dated (i.e. more than three years), are potentially subject to refinance risk and hence the extension of committed facilities (particularly in the commercial property portfolio), or early repayments. Both of these could influence the maturity profile over the next few years.

The business's ongoing performance is highly dependent on the recovery of the UK and US economies and the financial results remain sensitive to market conditions.

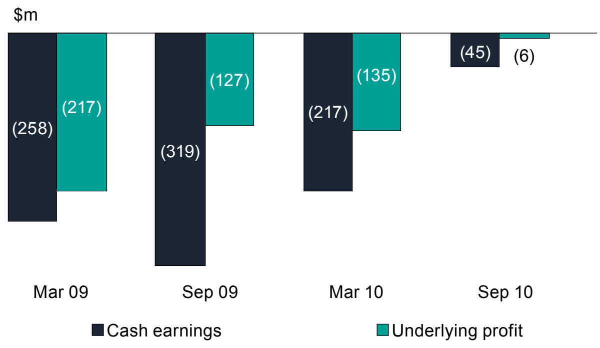
Cash earnings improved on the September 2009 year primarily due to lower mark-to-market losses and a reduced charge to bad and doubtful debts.

Net operating income includes the mark-to-market on the SCDO risk mitigation trades.

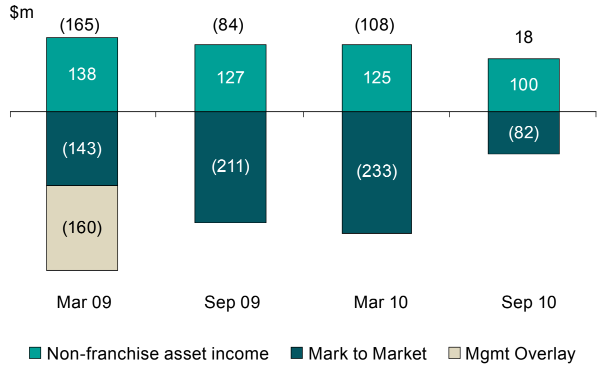
The total negative mark-to-market at the September 2010 year improved on the September 2009 year primarily as result of the additional $160 million management overlay relating to conduit assets and derivative transactions during the September 2009 year.

The SCDO hedges have worked as intended in relation to losses incurred on three SCDO assets. The accounting effect of the losses and hedge recovery is reflected within the Group results.

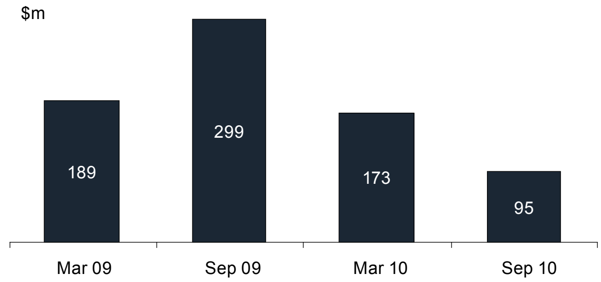
**Specialised Group Assets Cash Earnings and Underlying Profit**



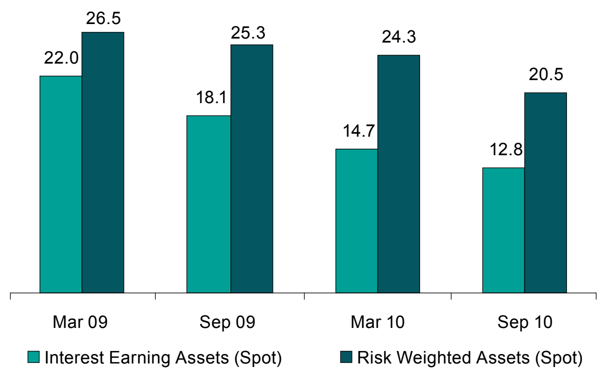

**Specialised Group Assets Net Operating Income**




**Specialised Group Assets Charge to Provide for Bad and Doubtful Debts**




**Specialised Group Assets Risk Weighted Assets**



## Operating Environment

The September 2010 year saw hesitant recovery in the UK and US in a sluggish economic environment following the severe weakness experienced in 2009. Interest rates remain at historic lows and are coupled with a subdued housing market in both the US and UK.

The weak performance of the UK and the US economies continued to have an adverse impact on SGA, with Leverage Finance, Commercial Property and NBFIs in the UK most affected. In the past six months, there have been some positive indications that the rate of credit deterioration of SGA assets has decreased, but performance remains highly dependent upon the continued recovery of the economies to which the portfolios are exposed.

## Specialised Group Assets

*Results presented at actual exchange rates*

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 $m | Mar 10 $m | Sep 10 v Mar 10 % |
| Net interest income | 178 | 220 | (19.1) | 73 | 105 | (30.5) |
| Other operating income | (268) | (469) | 42.9 | (55) | (213) | 74.2 |
| **Net operating income** | (90) | (249) | 63.9 | 18 | (108) | large |
| Operating expenses | (51) | (95) | 46.3 | (24) | (27) | 11.1 |
| **Underlying profit** | (141) | (344) | 59.0 | (6) | (135) | 95.6 |
| Charge to provide for bad and doubtful debts | (268) | (488) | 45.1 | (95) | (173) | 45.1 |
| **Cash earnings before tax** | (409) | (832) | 50.8 | (101) | (308) | 67.2 |
| Income tax expense | 147 | 255 | 42.4 | 56 | 91 | 38.5 |
| **Cash earnings** | (262) | (577) | 54.6 | (45) | (217) | 79.3 |
| | | | | | | |
| **Average Volumes ($bn)** | | | | | | |
| Gross loans and acceptances | 7.9 | 10.9 | (27.5) | 7.5 | 8.4 | (10.7) |
| Interest earning assets | 15.6 | 21.3 | (26.8) | 15.0 | 16.2 | (7.4) |
| | | | | | | |
| **Capital ($bn)** | | | | | | |
| Risk-weighted assets - credit risk (spot) | 20.5 | 25.3 | (19.0) | 20.5 | 24.3 | (15.6) |
| Total risk-weighted assets (spot) | 20.5 | 25.3 | (19.0) | 20.5 | 24.3 | (15.6) |

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

### Impact of foreign exchange rate movements

| Favourable/ (unfavourable) September 10 | Year since Sep 09 $m | Sep 10 v Sep 09 Ex FX % | Half year since Mar 10 $m | Sep 10 v Mar 10 Ex FX % |
|---|---|---|---|---|
| Net interest income | (41) | (0.5) | (2) | (28.6) |
| Other operating income | 26 | 37.3 | 1 | 73.7 |
| Operating expenses | 6 | 40.0 | - | 11.1 |
| Charge to provide for bad and doubtful debts | 71 | 30.5 | 3 | 43.4 |
| Income tax expense | (27) | (31.8) | (1) | (37.4) |
| Cash earnings before non-controlling interest | 35 | 48.5 | 1 | 78.8 |

## Specialised Group Assets

Financial Analysis

### September 2010 v September 2009

**Cash earnings** improved by $315 million on the September 2009 year to a $262 million loss. This was mainly due to lower mark to market losses and a reduction in the bad and doubtful debts charge.

**Net operating income** improved by $159 million or 63.9% on the September 2009 year to a loss of $90 million. This was mainly due to the unfavourable effects of the $160 million management overlay relating to conduit assets and derivative transactions in the September 2009 year.

Non-franchise asset income continued to decrease with the reduction of the lending portfolios.

**Operating expenses** decreased by $44 million, or 46.3% on the September 2009 year to $51 million. This decrease was due to the restructuring of the business, with FTE numbers falling from 88 to 47.

The **charge to provide for bad and doubtful debts** decreased by $220 million in the September 2010 year to $268 million.

The **effective tax rate credit** increased from 30.6% in the September 2009 year to 35.9% in the September 2010 year, primarily resulting from the change in mix of earnings across the regions.

**Average interest earning assets** decreased by $5.7 billion (26.8%) to $15.6 billion. Excluding the foreign exchange impact of $3.6 billion, the asset decrease was $2.1 billion (11.9%) mainly due the repayment and reduction of loans as the business is being managed down.

**Risk weighted assets** decreased by $4.8 billion to $20.5 billion. Excluding the foreign exchange impact of $2.1 billion, there was an underlying decrease of $2.7 billion.

### September 2010 v March 2010

**Cash earnings** improved by $172 million on the March 2010 half year. This was mainly due to lower mark-to-market losses and a reduction in the charge to bad and doubtful debts.

**Net operating income** improved by $126 million mainly due to the lower mark-to-market losses on the SCDO risk mitigation trades and lower markets counterparty credit valuation adjustments on derivative positions.

**Operating expenses** decreased by $3 million or 11.1%, reflecting the continued restructuring of the business.

The **charge to provide for bad and doubtful debts** decreased by $78 million or 45.1%.

The **effective tax rate credit** increased from 29.5% in the March 2010 half year to 55.4% in the September 2010 half year, primarily as a result of the change in mix of earnings, with the results reflecting increased losses in regions with higher tax rates, offset by much lower income booked in regions with lower tax rates.

**Average interest earning assets** decreased by $1.2 billion. Excluding the foreign exchange impact of $0.3 billion, the decrease was $0.9 billion (5.6%).

**Risk weighted assets** decreased by $3.8 billion. Excluding the foreign exchange impact of $0.7 billion, there was an underlying decrease of $3.1 billion.

## Other Items

### Asset Quality

The internal credit ratings of SGA portfolios assets have shown some signs of stabilisation during the year, which has assisted in reducing the bad and doubtful debt charge.

The charge to bad and doubtful debts charge decreased by $220 million, or 45.1%, on the September 2009 year. During the current half year, specific provisions across the portfolios stemmed principally from the Leveraged Finance and Commercial Property portfolios, which will remain the most vulnerable portfolios to adverse economic conditions.

The exposures across the portfolios are predominantly in the UK and Europe (56%) and North America (28%), with a further 9% spread across Europe, North America and Asia, and minor concentrations in Australia and New Zealand (7%).

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

SGA continues to actively manage the SAM portfolio. As at 30 September 2010, the exposures in the SAM portfolio reduced to $5.2 billion from $6.1 billion at September 2009.

With respect to the SCDOs, during the financial year there were five credit events with just one of these occurring during the 2010 calendar year. As a result, three of the original six SCDO notes, which form part of the SCDO exposures, incurred losses totalling $528 million. The SCDO hedges have worked as intended, with NAB recovering the loss amounts from the hedge counterparty. The accounting effect of the losses and hedge recovery is reflected within the Group results.

Internal and external credit ratings for the SCDOs have stabilised and have showed modest improvement in the second half of the year. Market values of the SCDO transactions benefited from improved credit conditions during the first half of the year, but suffered a setback in May and June 2010, as market conditions deteriorated due to intensified concerns about the European sovereign debt crisis and the strength of the economic recovery. Credit markets and transaction valuations have subsequently recovered. The future values of SCDO assets remain uncertain and will reflect developments in credit markets.

| | As at | | |
|---|---|---|---|
| | **Sep 10** | **Mar 10** | **Sep 09** |
| Specific provision for doubtful debts ($m) | **150** | 173 | 154 |
| Collective provision for doubtful debts ($m) | **303** | 305 | 259 |
| Collective provision on derivatives at fair value ($m) | **203** | 232 | 251 |
| Gross impaired assets ($m) | **558** | 582 | 602 |
| Gross impaired assets to gross loans and acceptances | **8.78%** | 7.70% | 6.50% |
| Specific provision to gross impaired assets | **26.9%** | 29.7% | 25.6% |
| Net write-offs to gross loans and acceptances | **3.04%** | 2.23% | 2.33% |

### Impaired Assets - Loans and Advances

The level of gross impaired assets has decreased by $44 million from September 2009 to $558 million at September 2010. However, due to the sharp decrease in Gross Loans and Acceptances, the ratio of gross impaired assets to gross loans and acceptances increased to 8.78% at September 2010 (up from 6.5% at September 2009).

The specific provision to gross impaired assets ratio increased to 26.9% at September 2010, from 25.6% at September 2009.

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# Great Western Bank

Great Western Bank (GWB) offers a range of traditional banking and wealth management products through 197 locations across seven Midwest states. GWB's strategy is to achieve continued growth in retail banking, with an increased focus on SMEs and agribusiness, particularly in the rural communities where GWB is based.

## Strategic Highlights and Business Developments

Over the course of 2010, GWB executed two strategic acquisitions, adding significant growth to the bank as a whole and leveraging the position of GWB in Nebraska and Iowa.

On 23 April 2010, GWB acquired F&M Bank in Iowa. The acquisition expanded the GWB footprint in the key Iowa market, adding 10 branch locations, US$410 million in deposits and US$109 million in performing loans, together with over 30,000 deposit accounts. There was no goodwill recorded as part of this transaction.

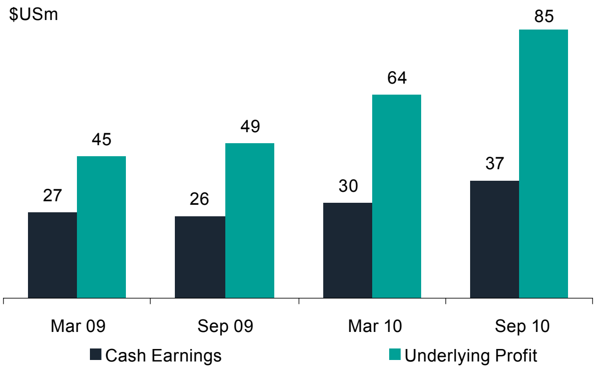
On 4 June 2010, GWB acquired the banking franchise including all deposits and loans of TierOne Bank in Nebraska. GWB purchased these assets net of liabilities from the Federal Deposit Insurance Corporation (FDIC) as receiver for TierOne Bank. As part of the transaction GWB entered into a loss share arrangement with the FDIC where credit losses on covered assets (the majority of loans and foreclosed property) are funded 80% by the FDIC. This loss share agreement extends for 5 years on commercial loans and 10 years on the consumer portfolio. With the loan portfolio fair valued on acquisition, GWB is well insulated from credit deterioration in that portfolio. Non-core, out-of-market relationships within the acquired portfolio are being exited, with the focus on rebuilding core banking relationships within the expanded GWB business. This acquisition added 62 branch locations across Nebraska and Iowa, approximately US$1.6 billion in loans and approximately US$1.9 billion in deposits.

Throughout the year GWB continued the momentum of organic growth which it achieved through 2009 despite the subdued economic environment. The agribusiness platform has further expanded since NAB's acquisition of GWB and now totals US$923 million, with US$533 million in net lending growth as part of the strategy since acquisition. With seven key centres supporting the agribusiness line, the business is now an integral component of the GWB operating model. Total agribusiness loans now account for 17% of the portfolio.

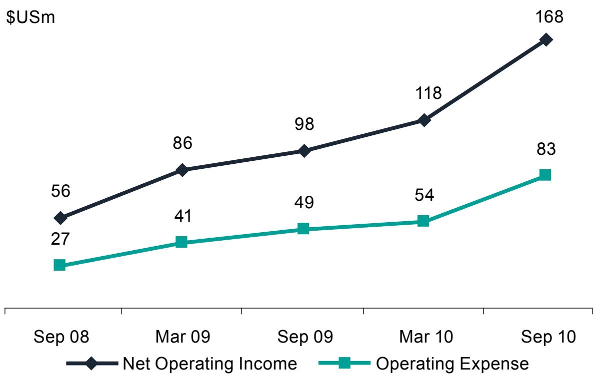
Pressure on asset quality has accelerated throughout the year, reflecting the continued subdued US economy with no sustained improvement in unemployment, consumer confidence or property prices. GWB performs well on both earnings and asset quality metrics and has further improved efficiency levels over the 12 months.

In the June 2010 quarter, GWB generated a pre-tax return on tangible assets of 1.62% against the average pre-tax return on assets of 1.01% for all commercial banks regulated by the FDIC. (Source FDIC)

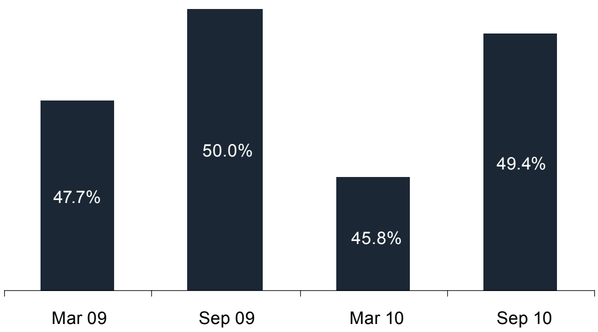
### Great Western Bank Cash Earnings and Underlying Profit



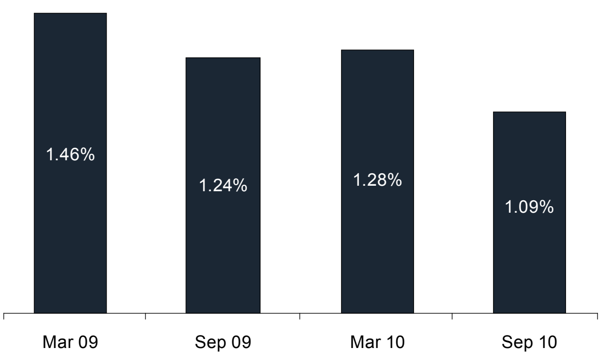

### Great Western Bank Revenue and Expense Trends




### Great Western Bank Cost to Income Ratio




### Great Western Bank Cash Earnings on Average Assets [1]




[1] *Average assets exclude goodwill and other intangible assets.*

GWB has continued to fund organic asset growth through customer deposits. The ratio of retail deposits to gross loans and acceptances at 30 September 2010 is 111%. Excess deposits remain invested primarily in high quality US government backed or agency securities.

## Operating Environment

The economic environment in the US remains poor, with the recession still deeply affecting communities and SMEs throughout the country and the GWB areas of operation.

Bank failures continue at an unprecedented rate, with 127 banks closed by the FDIC in the 9 months to 30 September 2010 and over 829 banks on the FDIC watch list as of 31 August 2010.

The overall lending market remains subdued, with overall US household debt continuing to fall in 2010. Consumer behaviour in the US continues to be restrained and the focus is on de-leveraging balance sheets.

Loan demand across the US remains subdued, with the FDIC reporting that the June quarter loans outstanding continued to fall for the fifth time in the past six quarters. Total loans fell by 1.3% or US$95.7 billion in the June quarter, primarily in the real estate, construction and development sectors. With current unemployment of 9.6% and a significant level of under-employment, the US economic environment is expected to remain difficult at least through to the end of 2010.

## Great Western Bank

*Results presented in local currency. See page 95 for results in $AUDm.*

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| | **Sep 10 US$m** | **Sep 09 US$m** | **Sep 10 v Sep 09 %** | **Sep 10 US$m** | **Mar 10 US$m** | **Sep 10 v Mar 10 %** |
| Net interest income | **221** | 143 | 54.5 | **130** | 91 | 42.9 |
| Other operating income | **65** | 41 | 58.5 | **38** | 27 | 40.7 |
| **Net operating income** | **286** | 184 | 55.4 | **168** | 118 | 42.4 |
| Operating expenses | **(137)** | (90) | (52.2) | **(83)** | (54) | (53.7) |
| **Underlying profit** | **149** | 94 | 58.5 | **85** | 64 | 32.8 |
| Charge to provide for bad and doubtful debts | **(49)** | (14) | large | **(31)** | (18) | (72.2) |
| **Cash earnings before tax** | **100** | 80 | 25.0 | **54** | 46 | 17.4 |
| Income tax expense | **(33)** | (27) | (22.2) | **(17)** | (16) | (6.3) |
| **Cash earnings** | **67** | 53 | 26.4 | **37** | 30 | 23.3 |
| | | | | | | |
| **Average Volumes (US$bn)** | | | | | | |
| Gross loans and acceptances | **4.2** | 2.9 | 44.8 | **4.9** | 3.5 | 40.0 |
| Interest earning assets | **5.5** | 3.8 | 44.7 | **6.5** | 4.5 | 44.4 |
| Total assets (1) | **5.8** | 3.9 | 48.7 | **6.8** | 4.7 | 44.7 |
| Retail deposits | **4.9** | 3.4 | 44.1 | **5.8** | 3.9 | 48.7 |
| | | | | | | |
| **Capital (US$bn)** | | | | | | |
| Risk-weighted assets - credit risk (spot) | **6.2** | 4.0 | 55.0 | **6.2** | 4.0 | 55.0 |
| Total risk-weighted assets (spot) | **6.2** | 4.0 | 55.0 | **6.2** | 4.0 | 55.0 |
| | | | | | | |
| **Performance Measures** | | | | | | |
| Cash earnings on average assets | **1.16%** | 1.36% | (20 bps) | **1.09%** | 1.28% | (19 bps) |
| Net interest margin | **4.02%** | 3.76% | 26 bps | **3.99%** | 4.06% | (7 bps) |
| Cost to income ratio | **47.9%** | 48.9% | 100 bps | **49.4%** | 45.8% | (360 bps) |
| Cash earnings per average FTE (US$'000s) | **59** | 61 | | **59** | 61 | |
| FTEs (spot) | **1,596** | 987 | | **1,596** | 960 | |

(1) *Total assets exclude goodwill and other intangible assets.*

## Great Western Bank

Financial Analysis (in local currency)

### September 2010 v September 2009

**Cash earnings** grew by 26.4% to US$67 million in the twelve months to September 2010, reflecting growth in assets, both organically and through acquisition. This result reflects a full year contribution of the First Community Bank branches in Colorado and, most recently, the April 2010 acquisition of F&M Bank in Iowa and the June 2010 acquisition of assets of TierOne Bank in Nebraska and Iowa.

Underlying profit increased by US$55 million in the year to US$149 million. Underlying profit growth of 58.5% outstripped interest earning asset growth of 44.7% due to increased efficiencies gained through consolidation of the acquisitions, together with flat expenses through the legacy business.

Cash earnings were also supported by a slightly higher net interest margin, primarily driven by a continued reduction in the cost of deposit funding across the full year. The reduction in the cost of deposits offset the reduction in yield earned from the investment portfolio as GWB shortened the duration and interest rate risk in that portfolio.

**Net operating income** increased by 55.4% to US$286 million, supported by a strong net interest margin of 4.02% and asset growth. Other operating income increased by 58.5% to US$65 million despite a reduction in overdraft and service fees. This was due to the larger customer base and additional sources of revenue such as insurance and trust activity generated by the acquisitions.

**Operating expenses** increased by 52.2% against the September 2009 year largely reflecting the costs of the expanded franchise.

The **charge to provide for bad and doubtful debts** increased significantly by US$35 million to US$49 million when compared to September 2009. An accelerated deterioration in asset quality has occurred over the past twelve months as the recession clearly affected the GWB footprint and, in particular, placed significant pressure on commercial property valuations, where most loan write-offs and provisioning requirements occurred.

### September 2010 v March 2010

**Cash earnings** for the six months to September 2010 were US$7 million or 23.3% higher than the March 2010 half. The acquisitions of F&M Bank and assets of TierOne Bank were the primary drivers of the growth. Operational efficiencies gained through the acquisitions have supported a lower cost base. However, earnings growth in the legacy business was affected by the higher charge for bad and doubtful debts.

The expanded footprint and larger customer base was responsible for the majority of lift in **net operating income** through the second half.

The cost to income ratio of 49.4% for the six months to September 2010, up from 45.8% for the March 2010 half was driven by the timing of acquisitions.

The acceleration of downward pressure on commercial property values, together with the prolonged recession, has significantly affected the **charge to provide for bad and doubtful debts**, which increased by 72.2% to US$31 million during the half. Specific provision coverage has increased on a number of relationships secured by commercial property in the larger cities including Sioux Falls, Kansas City and Omaha where property values have experienced significant deterioration.

## Other Items

### Asset Quality

| Excluding covered loans [1] | As at Sep 10 | Mar 10 | Sep 09 |
|---|---|---|---|
| Specific provision for doubtful debts (US$m) | **17** | 12 | 11 |
| Collective provision for doubtful debts (US$m) | **38** | 23 | 23 |
| Gross impaired assets (US$m) | **61** | 58 | 33 |
| 90+ DPD plus gross impaired assets to non-covered gross loans and acceptances | **1.48%** | 1.62% | 0.96% |
| Specific provision to gross impaired assets | **27.9%** | 20.7% | 33.3% |
| Total provision to non-covered gross loans and acceptances | **1.35%** | 0.98% | 0.99% |

| Including covered loans [1] | As at Sep 10 | Mar 10 | Sep 09 |
|---|---|---|---|
| 90+ DPD assets (US$m) | **221** | - | - |
| Specific provision for doubtful debts (US$m) | **17** | 12 | 11 |
| Collective provision for doubtful debts (US$m) | **38** | 23 | 23 |
| Gross impaired assets (US$m) | **61** | 58 | 33 |
| 90+ DPD plus gross impaired assets to gross loans and acceptances | **5.21%** | 1.62% | 0.96% |
| Specific provision to gross impaired assets | **27.9%** | 20.7% | 33.3% |
| Net write-offs to gross loans and acceptances (annualised) | **0.50%** | 0.89% | 0.41% |
| Total provision to gross loans and acceptances | **1.02%** | 0.98% | 0.99% |

(1) *Refers to loans covered by the loss share agreement with the FDIC.*

As expected, pressure on asset quality continued to intensify throughout the 12 months to September 2010. Without sustained economic recovery or improved consumer demand, the sustained stress on property prices, particularly in commercial real estate, continued to drive provisions and write-offs higher.

The total provision to gross loans and acceptances has grown to 1.02%. However, with the loans acquired through acquisitions which have been fair valued at acquisition, the overall coverage of provision to gross loans and acceptances on the legacy portfolio is higher at 1.35%.

Throughout the year, US$26 million in write-offs were taken, the majority in the commercial real estate and land and construction categories.

As part of the TierOne Bank assets acquisition, GWB purchased approximately US$1.6 billion of loans (fair valued) of which at 30 September 2010, US$1.3 billion are covered by the loss share agreement with the FDIC. All loans purchased as part of this transaction are carried at fair value on acquisition date. The FDIC loss share agreement covers 80% of credit losses on the gross value of covered loans and repossessed assets as at acquisition date (before being marked to fair value). Accordingly, while the 90+ DPD plus gross impaired assets to gross loans and acceptances for GWB in total is 5.21%, it is not expected that GWB will experience significant credit loss on the covered loans.

*Results presented in Australian dollars. See page 93 for results in local currency.*

| | Year to Sep 10 $m | Sep 09 $m | Sep 10 v Sep 09 % | Half Year to Sep 10 $m | Mar 10 $m | Sep 10 v Mar 10 % |
|---|---|---|---|---|---|---|
| Net interest income | **245** | 196 | 25.0 | **145** | 100 | 45.0 |
| Other operating income | **72** | 56 | 28.6 | **43** | 29 | 48.3 |
| **Net operating income** | **317** | 252 | 25.8 | **188** | 129 | 45.7 |
| Operating expenses | **(152)** | (122) | (24.6) | **(93)** | (59) | (57.6) |
| **Underlying profit** | **165** | 130 | 26.9 | **95** | 70 | 35.7 |
| Charge to provide for bad and doubtful debts | **(54)** | (19) | large | **(34)** | (20) | (70.0) |
| **Cash earnings before tax** | **111** | 111 | - | **61** | 50 | 22.0 |
| Income tax expense | **(37)** | (38) | 2.6 | **(20)** | (17) | (17.6) |
| **Cash earnings** | **74** | 73 | 1.4 | **41** | 33 | 24.2 |

### Impact of foreign exchange rate movements

| Favourable/ (unfavourable) September 10 | Year since Sep 09 $m | Sep 10 v Sep 09 Ex FX % | Half year since Mar 10 $m | Sep 10 v Mar 10 Ex FX % |
|---|---|---|---|---|
| Net interest income | **(56)** | 54.5 | **2** | 42.9 |
| Other operating income | **(17)** | 58.5 | **-** | 40.7 |
| Operating expenses | **34** | (52.2) | **(1)** | (53.7) |
| Charge to provide for bad and doubtful debts | **13** | large | **-** | (72.2) |
| Income tax expense | **9** | (22.2) | **-** | (6.3) |
| Cash earnings | **(17)** | 26.4 | **1** | 23.3 |

# Corporate Functions and Other

The Group's 'Corporate Functions' business includes Asia and functions that support all businesses including Group Funding and Other Corporate Functions activities.

Group Funding acts as the central vehicle for movements of capital and structural funding to support the Group's operations, together with capital and balance sheet management.

Other Corporate Functions activities include NAB's operations in Asia, as well as Group Business Services, Group CEO, Group Risk, Group Governance, Group Strategy and Finance (including Group Treasury) and Human Capital Strategy. These Group 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 10 $m | Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 $m | Mar 10 $m | Sep 10 v Mar 10 % |
| Net operating income | 589 | 374 | 57.5 | 283 | 306 | (7.5) |
| Operating expenses | (521) | (495) | (5.3) | (261) | (260) | (0.4) |
| **Underlying profit** | 68 | (121) | large | 22 | 46 | (52.2) |
| Charge to provide for bad and doubtful debts | - | (101) | large | (1) | 1 | large |
| **Cash earnings before tax and non-controlling interest** | 68 | (222) | large | 21 | 47 | (55.3) |
| Income tax benefit | 46 | 169 | (72.8) | 35 | 11 | large |
| **Cash earnings before distributions and non-controlling interest** | 114 | (53) | large | 56 | 58 | (3.4) |
| Net profit - non-controlling interest | - | - | - | - | - | - |
| **Cash earnings / (deficit)** | 114 | (53) | large | 56 | 58 | (3.4) |
| *Represented by:* | | | | | | |
| Group Funding | 294 | 174 | 69.0 | 163 | 131 | 24.4 |
| Corporate Functions - Other | (180) | (227) | 20.7 | (107) | (73) | (46.6) |
| **Cash earnings / (deficit)** | 114 | (53) | large | 56 | 58 | (3.4) |

## September 2010 v September 2009

**Cash earnings** increased by $167 million mainly due to a stronger capital position, a decrease in the charge to provide for bad and doubtful debts, lower liquidity costs and EQS savings. This was partially offset by an increase in activity in the Next Generation Banking IT Platform (NGP).

**Net operating income** increased by $215 million mainly due to the benefit derived from a stronger capital position of $203 million, reduced liquidity costs transferred centrally of $77 million and lower costs associated with the UK Financial Services Compensation Scheme of $24 million. The favourable movements in income were partially offset by lower gains of $91 million principally related to hedges on foreign currency.

**Operating expenses** increased by $26 million mainly due to increased activity in NGP of $85 million partly offset by one-off and other savings in Corporate Functions of $60 million. The main focus of NGP during the September 2010 year has been on defining business requirements and on making significant progress in high level design in conjunction with Oracle, the major supplier to NGP.

The **charge to provide for bad and doubtful debts** decreased by $101 million primarily due to the $86 million (pre tax) collective charge raised to strengthen the Group balance sheet against the economic volatility in the September 2009 year.

The **income tax benefit** decreased by $123 million as a result of higher cash earnings and a decline in centrally held tax benefits of $28 million.

## September 2010 v March 2010

**Cash earnings** declined by $2 million against the March 2010 half year mainly due to the movement in the fair value of hedging derivatives and increased NGP activity, partly offset by a higher income tax benefit resulting from the decline in cash earnings.

**Net operating income** declined by $23 million driven by an unfavourable movement in the fair value of hedging derivatives of $22 million.

**Operating expenses** increased by $1 million mainly due to increased activity in NGP of $18 million offset by one-off and other savings in Corporate functions.

The **charge to provide for bad and doubtful debts** increased by $2 million against the March 2010 half year.

The **income tax benefit** increased by $24 million due to lower cash earnings and a $11 million increase in centrally held tax benefits.

Section 5

# Financial Report

# Consolidated Income Statement

| | Note | Year to Sep 10 $m | Year to Sep 09 $m | Half Year to Sep 10 $m | Half Year to Mar 10 $m |
|---|---|---|---|---|---|
| Interest income | | **29,824** | 31,102 | **15,683** | 14,141 |
| Interest expense | | **(17,568)** | (19,034) | **(9,524)** | (8,044) |
| Net interest income | | **12,256** | 12,068 | **6,159** | 6,097 |
| Premium and related revenue | | **1,294** | 846 | **674** | 620 |
| Investment revenue | | **2,769** | 726 | **(10)** | 2,779 |
| Fee income | | **479** | 439 | **243** | 236 |
| Claims expense | | **(695)** | (477) | **(367)** | (328) |
| Change in policy liabilities | | **(1,724)** | (373) | **336** | (2,060) |
| Policy acquisition and maintenance expense | | **(930)** | (755) | **(490)** | (440) |
| Investment management expense | | **(35)** | (37) | **(14)** | (21) |
| Movement in external unitholders' liability | | **(345)** | (12) | **(12)** | (333) |
| Net life insurance income | 14 | **813** | 357 | **360** | 453 |
| Gains less losses on financial instruments at fair value | 3 | **122** | 665 | **(46)** | 168 |
| Other operating income | 3 | **3,817** | 3,687 | **1,853** | 1,964 |
| Total other income | | **3,939** | 4,352 | **1,807** | 2,132 |
| Personnel expenses | 4 | **(4,644)** | (4,402) | **(2,380)** | (2,264) |
| Occupancy-related expenses | 4 | **(592)** | (555) | **(285)** | (307) |
| General expenses | 4 | **(3,305)** | (3,022) | **(1,753)** | (1,552) |
| Total operating expenses | | **(8,541)** | (7,979) | **(4,418)** | (4,123) |
| Charge to provide for doubtful debts | 9 | **(2,791)** | (3,815) | **(1,072)** | (1,719) |
| Profit before income tax expense | | **5,676** | 4,983 | **2,836** | 2,840 |
| Income tax expense | 5 | **(1,451)** | (2,394) | **(707)** | (744) |
| **Net profit for the period** | | **4,225** | 2,589 | **2,129** | 2,096 |
| *Attributable to:* | | | | | |
| Owners of the Company | | **4,224** | 2,589 | **2,129** | 2,095 |
| Non-controlling interest in controlled entities | | **1** | - | **-** | 1 |
| **Net profit for the period** | | **4,225** | 2,589 | **2,129** | 2,096 |
| | | **cents** | **cents** | **cents** | **cents** |
| Basic earnings per share (cents) | | **191.8** | 123.4 | **96.0** | 95.5 |
| Diluted earnings per share (cents) | | **190.6** | 122.5 | **95.4** | 95.1 |

# Consolidated Statement of Comprehensive Income

| | | Year to | | Half Year to | |
|---|---|---|---|---|---|
| | Note | Sep 10 $m | Sep 09 $m | Sep 10 $m | Mar 10 $m |
| **Net profit for the period** | | 4,225 | 2,589 | 2,129 | 2,096 |
| **Other comprehensive income** | | | | | |
| Actuarial (losses)/gains on defined benefit pension scheme | 12 | (114) | (1,125) | 6 | (120) |
| Cash flow hedges | | | | | |
| Gains/(losses) taken to equity | 12 | 424 | (24) | 254 | 170 |
| Losses/(gains) transferred to the income statement | 12 | 3 | 66 | 14 | (11) |
| Exchange differences on translation of foreign operations | 12 | (969) | (1,485) | (233) | (736) |
| Tax on items transferred directly (from)/to equity | | (92) | 289 | (81) | (11) |
| Investments - available for sale | | | | | |
| Revaluation gains/(losses) | 12 | 60 | (6) | 41 | 19 |
| Gains from sale transferred to the income statement | 12 | (28) | (12) | (14) | (14) |
| Impairment transferred to the income statement | 12 | 3 | 52 | 3 | - |
| Revaluation of land and buildings | 12 | 9 | 3 | 9 | - |
| **Other comprehensive income for the period, net of income tax** | | (704) | (2,242) | (1) | (703) |
| **Total comprehensive income for the period** | | 3,521 | 347 | 2,128 | 1,393 |
| | | | | | |
| *Attributable to:* | | | | | |
| Owners of the Company | | 3,520 | 347 | 2,128 | 1,392 |
| Non-controlling interest in controlled entities | | 1 | - | - | 1 |
| **Total comprehensive income for the period** | | 3,521 | 347 | 2,128 | 1,393 |

# Consolidated Balance Sheet

| | Note | As at 30 Sep 10 $m | 31 Mar 10 $m | 30 Sep 09 $m |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and liquid assets | | **26,072** | 23,819 | 25,834 |
| Due from other banks | | **37,679** | 38,631 | 33,265 |
| Trading derivatives | | **38,340** | 29,558 | 37,030 |
| Trading securities | | **25,821** | 24,219 | 22,219 |
| Investments - available for sale | | **14,572** | 7,529 | 7,933 |
| Investments - held to maturity | | **13,789** | 13,609 | 17,529 |
| Investments relating to life insurance business | **14** | **64,560** | 61,990 | 54,254 |
| Other financial assets at fair value | | **37,409** | 31,763 | 31,530 |
| Hedging derivatives | | **3,712** | 3,260 | 3,926 |
| Loans and advances | | **354,835** | 343,880 | 344,774 |
| Due from customers on acceptances | | **49,678** | 52,699 | 55,035 |
| Current tax assets | | **222** | 394 | - |
| Property, plant and equipment | | **1,778** | 1,698 | 1,716 |
| Goodwill and other intangible assets | | **7,077** | 6,939 | 6,243 |
| Deferred tax assets | | **2,026** | 3,116 | 3,272 |
| Other assets | | **8,382** | 7,256 | 9,560 |
| **Total assets** | | **685,952** | 650,360 | 654,120 |
| **Liabilities** | | | | |
| Due to other banks | | **37,612** | 43,735 | 36,148 |
| Trading derivatives | | **40,587** | 28,230 | 38,090 |
| Other financial liabilities at fair value | | **19,887** | 19,566 | 21,311 |
| Hedging derivatives | | **1,444** | 1,737 | 2,131 |
| Deposits and other borrowings | **11** | **353,232** | 332,497 | 336,188 |
| Liability on acceptances | | **12,549** | 15,771 | 16,891 |
| Life policy liabilities | **14** | **54,354** | 53,058 | 47,314 |
| Current tax liabilities | | **-** | - | 382 |
| Provisions | | **1,445** | 1,048 | 1,555 |
| Bonds, notes and subordinated debt | | **93,203** | 86,079 | 90,792 |
| Other debt issues | | **2,502** | 2,514 | 2,627 |
| Defined benefit pension scheme liabilities | | **522** | 593 | 584 |
| External unitholders' liability | **14** | **10,241** | 8,969 | 7,458 |
| Deferred tax liabilities | | **19** | 1,009 | 793 |
| Other liabilities | | **19,401** | 17,355 | 14,021 |
| **Total liabilities** | | **646,998** | 612,161 | 616,285 |
| **Net assets** | | **38,954** | 38,199 | 37,835 |
| **Equity** | | | | |
| Contributed equity | **12** | **23,551** | 23,363 | 22,781 |
| Reserves | **12** | **(639)** | (879) | (976) |
| Retained profits | **12** | **16,028** | 15,693 | 16,010 |
| **Total equity (parent entity interest)** | | **38,940** | 38,177 | 37,815 |
| Non-controlling interest in controlled entities | | **14** | 22 | 20 |
| **Total equity** | | **38,954** | 38,199 | 37,835 |

# Consolidated Cash Flow Statement

| | Note | Year to Sep 10 $m | Year to Sep 09 $m | Half Year to Sep 10 $m | Half Year to Mar 10 $m |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Interest received | | **28,499** | 31,600 | **15,201** | 13,298 |
| Interest paid | | **(16,299)** | (20,406) | **(8,750)** | (7,549) |
| Dividends received | | **16** | 7 | **12** | 4 |
| Life insurance | | | | | |
| Premiums and other revenue received | | **8,859** | 8,564 | **5,270** | 3,589 |
| Investment revenue received | | **2,376** | 1,614 | **483** | 1,893 |
| Policy and other payments | | **(6,275)** | (7,030) | **(3,067)** | (3,208) |
| Fees and commissions paid | | **(483)** | (400) | **(270)** | (213) |
| Net trading revenue received | | **233** | 1,223 | **228** | 5 |
| Other operating income received | | **4,679** | 3,873 | **2,422** | 2,257 |
| Cash payments to employees and suppliers | | | | | |
| Personnel expenses paid | | **(4,256)** | (3,979) | **(1,984)** | (2,272) |
| Other operating expenses paid | | **(3,654)** | (3,877) | **(1,917)** | (1,737) |
| Net goods and services tax paid | | **(32)** | (30) | **(17)** | (15) |
| Cash payments for income taxes | | **(1,186)** | (1,419) | **(530)** | (656) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **12,477** | 9,740 | **7,081** | 5,396 |
| **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 | | **(24)** | (20) | **(8)** | (16) |
| Net payments for and receipts from transactions in acceptances | | **1,023** | (864) | **(193)** | 1,216 |
| Net funds advanced to and receipts from customers for loans and advances | | **(14,744)** | (11,018) | **(11,139)** | (3,605) |
| Net acceptance from and repayment of deposits and other borrowings | | **26,620** | 25,459 | **19,607** | 7,013 |
| Net movement in life insurance business investments | | **(2,141)** | (1,625) | **(328)** | (1,813) |
| Net movement in other life insurance assets and liabilities | | **(311)** | (701) | **21** | (332) |
| Net receipts from and payments for transactions in treasury bills and other eligible bills held for trading and not part of cash equivalents | | **(360)** | (845) | **(1,116)** | 756 |
| Net payments for and receipts from transactions in trading securities | | **(6,138)** | (405) | **(2,362)** | (3,776) |
| Net payments for and receipts from trading derivatives | | **1,278** | 3,211 | **3,083** | (1,805) |
| Net funds advanced to and receipts from hedging derivative assets and other financial assets at fair value | | **(7,446)** | (4,219) | **(5,810)** | (1,636) |
| Net receipts from and payments for hedging derivative liabilities and other financial liabilities at fair value | | **(744)** | (391) | **206** | (950) |
| Net (increase)/decrease in other assets | | **(2,025)** | (1,819) | **(3,473)** | 1,448 |
| Net decrease in other liabilities | | **(1,600)** | (3,802) | **(103)** | (1,497) |
| **Net cash provided by operating activities** | **13(a)** | **5,865** | 12,701 | **5,466** | 399 |

| | | Year to | | Half Year to | |
|---|---|---|---|---|---|
| | Note | Sep 10 $m | Sep 09 $m | Sep 10 $m | Mar 10 $m |
| **Cash flows from investing activities** | | | | | |
| Movement in investments - available for sale | | | | | |
| Purchases | | **(19,994)** | (22,648) | **(14,113)** | (5,881) |
| Proceeds from disposal | | **1,130** | 618 | **773** | 357 |
| Proceeds on maturity | | **12,743** | 18,624 | **7,253** | 5,490 |
| Movement in investments - held to maturity | | | | | |
| Purchases | | **(24,466)** | (19,410) | **(10,637)** | (13,829) |
| Proceeds on maturity | | **27,984** | 20,177 | **10,801** | 17,183 |
| Purchase of controlled entities and business combinations, net of cash acquired | **13(d)** | **(4,994)** | 194 | **550** | (5,544) |
| Purchase of property, plant, equipment and software | | **(797)** | (951) | **(472)** | (325) |
| Proceeds from sale of property, plant, equipment and software, net of costs | | **26** | 208 | **22** | 4 |
| **Net cash used in investing activities** | | **(8,368)** | (3,188) | **(5,823)** | (2,545) |
| **Cash flows from financing activities** | | | | | |
| Repayments of bonds, notes and subordinated debt | | **(18,326)** | (33,287) | **(6,152)** | (12,174) |
| Proceeds from issue of bonds, notes and subordinated debt, net of costs | | **27,303** | 30,600 | **14,534** | 12,769 |
| Proceeds from issue of ordinary shares, net of costs | | **-** | 5,913 | **-** | - |
| Proceeds from issue of BNZ income securities, net of costs | | **-** | 203 | **-** | - |
| Proceeds from other debt issues, net of costs | | **-** | 1,082 | **-** | - |
| Dividends and distributions paid (excluding dividend reinvestment plan) | | **(2,500)** | (1,742) | **(1,407)** | (1,093) |
| **Net cash provided by/(used in) financing activities** | | **6,477** | 2,769 | **6,975** | (498) |
| Net increase/(decrease) in cash and cash equivalents | | **3,974** | 12,282 | **6,618** | (2,644) |
| Cash and cash equivalents at beginning of period | | **24,154** | 12,789 | **19,244** | 24,154 |
| Effects of exchange rate changes on balance of cash held in foreign currencies | | **(2,445)** | (917) | **(179)** | (2,266) |
| **Cash and cash equivalents at end of period** | **13(b)** | **25,683** | 24,154 | **25,683** | 19,244 |

# Consolidated Statement of Changes in Equity

| Year to 30 September 2009 | Contributed equity $m | Reserves $m | Retained profits $m | Total $m | Non-controlling interest in controlled entities $m | Total equity $m |
|---|---|---|---|---|---|---|
| **Balance at 1 October 2008** | 14,731 | 549 | 17,510 | 32,790 | 56 | **32,846** |
| Net profit for the period | - | - | 2,589 | 2,589 | - | **2,589** |
| Other comprehensive income for the period | - | (1,432) | (810) | (2,242) | - | **(2,242)** |
| Transactions with owners, recorded directly in equity: | | | | | | |
| Contributions by and distributions to owners | | | | | | |
| Issue of ordinary shares | 7,460 | - | - | 7,460 | - | **7,460** |
| Transfer from equity-based compensation reserve – issued shares | 267 | (267) | - | - | - | **-** |
| Transfer from equity-based compensation reserve – purchased shares | 86 | (86) | - | - | - | **-** |
| Net loss realised on treasury shares | (114) | - | - | (114) | - | **(114)** |
| Movement in treasury shares relating to life insurance business | 148 | - | | 148 | - | **148** |
| Issue of BNZ Income Securities 2 | 203 | - | - | 203 | - | **203** |
| Transfer from/(to) retained profits | - | 7 | (7) | - | - | **-** |
| Equity-based compensation | - | 244 | - | 244 | - | **244** |
| Tax on equity-based compensation | - | 6 | - | 6 | - | **6** |
| Dividends paid | - | - | (2,978) | (2,978) | - | **(2,978)** |
| Distributions on other equity instruments | - | - | (245) | (245) | - | **(245)** |
| Adjustment from adoption of new Accounting Standards | - | - | (49) | (49) | - | **(49)** |
| Other | - | 3 | - | 3 | - | **3** |
| Changes in ownership interests [(1)] | | | | | | |
| Movement of non-controlling interest in controlled entities | - | - | - | - | (36) | **(36)** |
| **Balance at 30 September 2009** | 22,781 | (976) | 16,010 | 37,815 | 20 | **37,835** |
| **Year to 30 September 2010** | | | | | | |
| Net profit for the period | - | - | 4,224 | 4,224 | 1 | **4,225** |
| Other comprehensive income for the period | - | (612) | (92) | (704) | - | **(704)** |
| Transactions with owners, recorded directly in equity: | | | | | | |
| Contributions by and distributions to owners | | | | | | |
| Issue of ordinary shares | 808 | - | - | 808 | - | **808** |
| Transfer from equity-based compensation reserve – issued shares | 84 | (84) | - | - | - | **-** |
| Transfer from equity-based compensation reserve – purchased shares | 17 | (17) | - | - | - | **-** |
| Net loss realised on treasury shares | (6) | - | - | (6) | - | **(6)** |
| Movement in treasury shares relating to life insurance business | (133) | - | - | (133) | - | **(133)** |
| Transfer from/(to) retained profits | - | 841 | (841) | - | - | **-** |
| Equity-based compensation | - | 213 | - | 213 | - | **213** |
| Tax on equity-based compensation | - | (4) | - | (4) | - | **(4)** |
| Dividends paid | - | - | (3,039) | (3,039) | - | **(3,039)** |
| Distributions on other equity instruments | - | - | (215) | (215) | - | **(215)** |
| Adjustment from adoption of new Accounting Standards | - | - | (19) | (19) | - | **(19)** |
| Changes in ownership interests [(1)] | | | | | | |
| Movement of non-controlling interest in controlled entities | - | - | - | - | (7) | **(7)** |
| **Balance at 30 September 2010** | 23,551 | (639) | 16,028 | 38,940 | 14 | **38,954** |

(1) *Change in ownership interests in controlled entities that does not result in a loss of control.*

# Consolidated Statement of Changes in Equity

| Half Year to 31 March 2010 | Contributed equity $m | Reserves $m | Retained profits $m | Total $m | Non-controlling interest in controlled entities $m | Total equity $m |
|---|---|---|---|---|---|---|
| **Balance at 1 October 2009** | 22,781 | (976) | 16,010 | 37,815 | 20 | **37,835** |
| Net profit for the period | - | - | 2,095 | 2,095 | 1 | **2,096** |
| Other comprehensive income for the period | - | (617) | (86) | (703) | - | **(703)** |
| Transactions with owners, recorded directly in equity: | | | | | | |
| Contributions by and distributions to owners | | | | | | |
| Issue of ordinary shares | 535 | - | - | 535 | - | **535** |
| Transfer from equity-based compensation reserve – issued shares | 73 | (73) | - | - | - | **-** |
| Transfer from equity-based compensation reserve – purchased shares | 16 | (16) | - | - | - | **-** |
| Net gain realised on treasury shares | 2 | - | - | 2 | - | **2** |
| Movement in treasury shares relating to life insurance business | (44) | - | - | (44) | - | **(44)** |
| Transfer from/(to) retained profits | - | 704 | (704) | - | - | **-** |
| Equity-based compensation | - | 102 | - | 102 | - | **102** |
| Tax on equity-based compensation | - | (3) | - | (3) | - | **(3)** |
| Dividends paid | - | - | (1,500) | (1,500) | - | **(1,500)** |
| Distributions on other equity instruments | - | - | (103) | (103) | - | **(103)** |
| Adjustment from adoption of new Accounting Standards | - | - | (19) | (19) | - | **(19)** |
| Changes in ownership interests [(1)] | | | | | | |
| Movement of non-controlling interest in controlled entities | - | - | - | - | 1 | **1** |
| **Balance at 31 March 2010** | 23,363 | (879) | 15,693 | 38,177 | 22 | **38,199** |
| **Half Year to 30 September 2010** | | | | | | |
| Net profit for the period | | - | 2,129 | 2,129 | | **2,129** |
| Other comprehensive income for the period | - | 5 | (6) | (1) | - | **(1)** |
| Transactions with owners, recorded directly in equity: | | | | | | |
| Contributions by and distributions to owners | | | | | | |
| Issue of ordinary shares | 273 | - | - | 273 | - | **273** |
| Transfer from equity-based compensation reserve – issued shares | 11 | (11) | - | - | - | **-** |
| Transfer from equity-based compensation reserve – purchased shares | 1 | (1) | - | - | - | **-** |
| Net loss realised on treasury shares | (8) | - | - | (8) | - | **(8)** |
| Movement in treasury shares relating to life insurance business | (89) | - | - | (89) | - | **(89)** |
| Transfer from/(to) retained profits | - | 137 | (137) | - | - | **-** |
| Equity-based compensation | - | 111 | - | 111 | - | **111** |
| Tax on equity-based compensation | - | (1) | - | (1) | - | **(1)** |
| Dividends paid | - | - | (1,539) | (1,539) | - | **(1,539)** |
| Distributions on other equity instruments | - | - | (112) | (112) | - | **(112)** |
| Changes in ownership interests [(1)] | | | | | | |
| Movement of non-controlling interest in controlled entities | - | - | - | - | (8) | **(8)** |
| **Balance at 30 September 2010** | 23,551 | (639) | 16,028 | 38,940 | 14 | **38,954** |

(1) *Change in ownership interests in controlled entities that does not result in a loss of control.*

## 1. Principal Accounting Policies

The preliminary final 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.

The 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 suitable substitute for the 2010 annual financial report.

This report should be read in conjunction with the 2009 annual financial report, the 2010 half year results and, when released, the 2010 annual financial report.

It has been prepared on a basis of accounting policies consistent with those applied in the 30 September 2009 annual financial report except as noted below:

The Group has adopted the following Australian Accounting Standards, Amending Pronouncements and Interpretations which are mandatory and applicable from 1 October 2009. None of the Accounting Standards, Amending Pronouncements and Interpretations have had a material impact on earnings per share.

- AASB 3 "Business Combinations" (revised 2008) and AASB 2008-3 "Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127" are applicable for business combinations occurring in the financial year commencing 1 October 2009. The change in accounting policy is applied prospectively. The Group has applied the acquisition method for the business combinations occurring after this date.
- AASB 127 "Consolidated and Separate Financial Statements" (revised 2008) is applicable for the acquisition of non-controlling interests from 1 October 2009. Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no additional goodwill is recognised as a result of such transactions. Previously, goodwill was recognised arising on the acquisition of a non-controlling interest in a subsidiary; and that represented the excess of the cost of the additional investment over the carrying amount of the interest in net assets acquired at the date of exchange. The change in accounting policy was applied prospectively.
- AASB 101 "Presentation of Financial Statements", AASB 2007-8 "Amendments to Australian Accounting Standards arising from AASB 101", AASB 2007-10 "Further Amendments arising from AASB 101" and AASB 2009-6 "Amendments to Australian Accounting Standards" are applicable from 1 October 2009. As a result, the Group presents owner changes in equity in the statement of changes in equity and non owner changes in equity separately in the new statement of changes in comprehensive income. The statement of comprehensive income presents all items of recognised income and expense which are not recognised in the income statement as required or permitted by other Accounting Standards. Comparative information has been re-presented so that it conforms with the revised requirements.
- AASB 2009-2 "Amendments to Australian Accounting Standards - Improving Disclosures about Financial Instruments" is applicable from 1 October 2009 and requires enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments. The amendments require that fair value measurement disclosures use a three-level fair value hierarchy reflecting the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy.
- AASB 2008-1 "Amendments to Australian Accounting Standard - Share based Payments: Vesting Conditions and Cancellations" amends AASB 2 to clarify that vesting conditions comprise service conditions and performance conditions only and that other features of a share based payment transaction are not vesting conditions. The amendments clarify that all cancellations should receive the same accounting treatment.
- AASB 2008-2 "Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations Arising on Liquidation" amends AASB 101 and AASB 132 to introduce an exception to the definition of a financial liability to classify as equity instruments certain puttable financial instruments that impose an obligation to deliver a pro-rata share of net assets to holders only upon liquidation.
- AASB 2008-5 "Amendments to Australian Accounting Standards arising from the Annual Improvements Project" and AASB 2008-6 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project" detail numerous changes to Accounting Standards arising from the IASB's annual improvements project.
- AASB 2008-7 "Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate" amends AASB 118, AASB 127 and AASB 136. AASB 118 is amended to remove the requirement to deduct dividends declared out of pre-acquisition profits from the cost of an investment in a subsidiary, jointly controlled entity or associate. AASB 127 is amended to require a new parent entity established in a group reorganisation to measure the cost of its investment at the carrying amount of equity of the original parent. AASB 136 is amended to include recognising a dividend together with the evidence as an indication of impairment.
- AASB 2008-8 "Amendments to Australian Accounting Standards - Eligible Hedged Items" amends AASB 139 to clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item should be applied in particular situations.
- AASB 2009-4 "Amendments to Australian Accounting Standards arising from the Annual Improvements Project" makes consequential amendments to AASB 2, AASB 138 and Interpretation 9 arising from the revision of AASB 3. It also amends the restriction on the entity that can hold hedging instruments in Interpretation 16.

- AASB 2009-7 “Amendments to Australian Accounting Standards” makes editorial amendments to AASB 5, AASB 7, AASB 139 and Interpretation 17 resulting from the issue of AASB 2008-12 and AASB 2008-13.
- AASB 2008-13 “Amendments to Australian Accounting Standards arising from AASB Interpretation 17 - Distributions of Non-cash Assets to Owners” and Interpretation 17 “Distributions of Non-cash Assets to Owners” clarifies that a non-cash dividend payable to owners should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. An entity should measure the dividend payable at the fair value of the net assets to be distributed. An entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in the income statement.

The preparation of financial statements in conformity with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards Board requires the use of critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Assumptions made at each balance sheet date (e.g. the calculation of provision for doubtful debts, defined benefit pensions and fair value adjustments) 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.

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. These accounting policies have been consistently applied throughout the Group.

All amounts are expressed in Australian dollars unless otherwise stated.

## 2. Segment Information

The Group evaluates its reportable segments performance on the basis of cash earnings and return on equity. Cash earnings represents the net profit attributable to owners of the Company, adjusted for certain non-cash items, distributions, and significant items.

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.

### Reportable Segments

| | Year ended 30 September 2010 | | | |
|---|---|---|---|---|
| | Cash Earnings $m | Net interest income $m | Total other operating and MLC & NAB Wealth income $m | Total assets $m |
| Business Banking | 2,193 | 4,664 | 955 | 187,115 |
| Personal Banking | 743 | 2,501 | 604 | 118,850 |
| Wholesale Banking | 705 | 1,189 | 739 | 196,046 |
| MLC & NAB Wealth | 609 | 295 | 1,546 | 92,433 |
| NZ Banking | 416 | 978 | 351 | 43,958 |
| UK Banking | 204 | 1,665 | 452 | 72,691 |
| Specialised Group Assets | (262) | 178 | (268) | 12,572 |
| Great Western Bank | 74 | 245 | 72 | 8,570 |
| Corporate Functions & Other | 114 | 573 | 16 | 8,525 |
| Distributions/Eliminations | (215) | - | (117) | (54,808) |
| **Total** | **4,581** | **12,288** | **4,350** | **685,952** |

| | Year ended 30 September 2009 | | | |
|---|---|---|---|---|
| | Cash Earnings $m | Net interest income $m | Total other operating and MLC & NAB Wealth income $m | Total assets $m |
| Business Banking | 1,599 | 4,305 | 917 | 180,690 |
| Personal Banking | 875 | 2,468 | 807 | 99,005 |
| Wholesale Banking | 1,148 | 1,467 | 1,377 | 194,135 |
| MLC & NAB Wealth | 437 | 286 | 1,126 | 80,480 |
| NZ Banking | 422 | 947 | 391 | 47,949 |
| UK Banking | 162 | 1,866 | 669 | 78,134 |
| Specialised Group Assets | (577) | 220 | (469) | 17,380 |
| Great Western Bank | 73 | 196 | 56 | 5,927 |
| Corporate Functions & Other | (53) | 317 | 57 | 16,095 |
| Distributions/Eliminations | (245) | - | (97) | (65,675) |
| **Total** | **3,841** | **12,072** | **4,834** | **654,120** |

| | Half year ended 30 September 2010 | | | |
|---|---|---|---|---|
| | Cash Earnings $m | Net interest income $m | Total other operating and MLC & NAB Wealth income $m | Total assets $m |
| Business Banking | 1,098 | 2,352 | 485 | 187,115 |
| Personal Banking | 426 | 1,286 | 303 | 118,850 |
| Wholesale Banking | 302 | 573 | 322 | 196,046 |
| MLC & NAB Wealth | 311 | 153 | 780 | 92,433 |
| NZ Banking | 214 | 506 | 178 | 43,958 |
| UK Banking | 97 | 801 | 229 | 72,691 |
| Specialised Group Assets | (45) | 73 | (55) | 12,572 |
| Great Western Bank | 41 | 145 | 43 | 8,570 |
| Corporate Functions & Other | 56 | 285 | (2) | 8,525 |
| Distributions/Eliminations | (112) | - | (56) | (54,808) |
| **Total** | **2,388** | **6,174** | **2,227** | **685,952** |

| | Half year ended 31 March 2010 | | | |
|---|---|---|---|---|
| | Cash Earnings $m | Net interest income $m | Total other operating and MLC & NAB Wealth income $m | Total assets $m |
| Business Banking | 1,095 | 2,312 | 470 | 184,505 |
| Personal Banking | 317 | 1,215 | 301 | 108,577 |
| Wholesale Banking | 403 | 616 | 417 | 174,426 |
| MLC & NAB Wealth | 298 | 142 | 766 | 88,465 |
| NZ Banking | 202 | 472 | 173 | 44,518 |
| UK Banking | 107 | 864 | 223 | 72,676 |
| Specialised Group Assets | (217) | 105 | (213) | 14,397 |
| Great Western Bank | 33 | 100 | 29 | 6,087 |
| Corporate Functions & Other | 58 | 288 | 18 | 856 |
| Distributions/Eliminations | (103) | - | (61) | (44,147) |
| **Total** | **2,193** | **6,114** | **2,123** | **650,360** |

| | Year to | | Half Year to | |
|---|---|---|---|---|
| **Reconciliation of cash earnings to net profit attributable to owners of the Company** | **Sep 10 $m** | **Sep 09 $m** | **Sep 10 $m** | **Mar 10 $m** |
| Cash earnings [1] | **4,581** | 3,841 | **2,388** | 2,193 |
| *Non cash earnings items (after tax):* | | | | |
| Distributions | **215** | 245 | **112** | 103 |
| Treasury shares | **106** | (256) | **39** | 67 |
| Fair value and hedge ineffectiveness | **(353)** | (79) | **(132)** | (221) |
| IoRE discount rate variation | **34** | (4) | **43** | (9) |
| Efficiency, quality and service initiatives | **(237)** | (179) | **(170)** | (67) |
| Litigation expense | **(12)** | (110) | **(12)** | - |
| Property revaluation | **(4)** | - | **(4)** | - |
| Provision for tax - NZ structured finance transactions | **128** | (542) | **-** | 128 |
| MLC reinsurance dispute | **(36)** | - | **(1)** | (35) |
| ExCaps taxation assessment | **-** | (309) | **-** | - |
| Amortisation of acquired intangible assets | **(73)** | (6) | **(43)** | (30) |
| Due diligence, acquisition and integration costs | **(125)** | (12) | **(91)** | (34) |
| **Net profit attributable to owners of the Company** | **4,224** | 2,589 | **2,129** | 2,095 |

(1) *Includes distributions.*

| Reconciliation of net interest income | Year to Sep 10 $m | Year to Sep 09 $m | Half Year to Sep 10 $m | Half Year to Mar 10 $m |
|---|---|---|---|---|
| Net interest income for reportable segments | **12,288** | 12,072 | **6,174** | 6,114 |
| MLC & NAB Wealth net adjustment | **(32)** | (4) | **(15)** | (17) |
| **Net interest income** | **12,256** | 12,068 | **6,159** | 6,097 |

| Reconciliation of other operating and MLC & NAB Wealth income | Year to Sep 10 $m | Year to Sep 09 $m | Half Year to Sep 10 $m | Half Year to Mar 10 $m |
|---|---|---|---|---|
| Total other operating and MLC & NAB Wealth income [1] | **4,350** | 4,834 | **2,227** | 2,123 |
| MLC & NAB Wealth net adjustment | **190** | 307 | **(34)** | 224 |
| Treasury shares | **133** | (311) | **50** | 83 |
| Fair value and hedge ineffectiveness | **(501)** | (115) | **(180)** | (321) |
| IoRE discount rate variation | **48** | (6) | **61** | (13) |
| Gain on bargain purchase | **4** | - | **4** | - |
| Recovery on SCDO risk mitigation trades | **528** | - | **39** | 489 |
| **Total other operating and MLC & NAB Wealth income** | **4,752** | 4,709 | **2,167** | 2,585 |

[1] *Includes distributions.*

## 3. Other Income

| | Year to | | Half Year to | |
|---|---|---|---|---|
| | **Sep 10 $m** | **Sep 09 $m** | **Sep 10 $m** | **Mar 10 $m** |
| **Gains less losses on financial instruments at fair value** | | | | |
| Trading securities | **713** | 551 | **392** | 321 |
| Trading derivatives | | | | |
| Trading purposes | **(630)** | 380 | **(316)** | (314) |
| Recovery on SCDO risk mitigation trades | **528** | - | **39** | 489 |
| Risk management purposes [1] | **(285)** | (499) | **(291)** | 6 |
| Assets, liabilities and derivatives designated in hedge relationships [2] | **(308)** | (51) | **(85)** | (223) |
| Assets and liabilities designated at fair value [1] | **92** | 435 | **196** | (104) |
| Impairment of investments - available for sale | **(3)** | (52) | **(3)** | - |
| Other | **15** | (99) | **22** | (7) |
| | **122** | 665 | **(46)** | 168 |
| **Other operating income** | | | | |
| Dividend revenue | **16** | 7 | **12** | 4 |
| Gains from sale of investments - available for sale | **28** | 12 | **14** | 14 |
| Gains from sale of loans and advances | **3** | - | **-** | 3 |
| Gains from sale of property, plant and equipment and other assets | **10** | 25 | **9** | 1 |
| Banking fees | **930** | 1,018 | **470** | 460 |
| Money transfer fees | **652** | 693 | **329** | 323 |
| Fees and commissions | **1,733** | 1,525 | **784** | 949 |
| Investment management fees | **305** | 338 | **155** | 150 |
| Fleet management fees | **22** | 18 | **12** | 10 |
| Rentals received on leased vehicle assets | **19** | 28 | **9** | 10 |
| Revaluation gains/(losses) on investment properties | **6** | (15) | **-** | 6 |
| Other income | **93** | 38 | **59** | 34 |
| | **3,817** | 3,687 | **1,853** | 1,964 |
| **Total other income** | **3,939** | 4,352 | **1,807** | 2,132 |

[1] *The impact on net profit of assets and liabilities designated at fair value is the sum of 'Gains less losses on trading derivatives - risk management purposes' and 'Assets and liabilities designated at fair value'.*

[2] *Represents hedge ineffectiveness of designated hedging relationships, plus economic hedges of long-term funding that do not meet the requirements for hedge accounting.*

## 4. Operating Expenses

| | Year to | | Half Year to | |
|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 $m | Mar 10 $m |
| **Personnel expenses** | | | | |
| Salaries and related on-costs | **3,089** | 3,020 | **1,579** | 1,510 |
| Superannuation costs - defined contribution plans | **235** | 214 | **122** | 113 |
| Superannuation costs - defined benefit plans | **52** | 11 | **24** | 28 |
| Performance-based compensation | | | | |
| Cash | **491** | 413 | **260** | 231 |
| Equity-based compensation | **208** | 230 | **106** | 102 |
| Other expenses | **569** | 514 | **289** | 280 |
| | **4,644** | 4,402 | **2,380** | 2,264 |
| **Occupancy-related expenses** | | | | |
| Operating lease rental expense | **385** | 372 | **169** | 216 |
| Other expenses | **207** | 183 | **116** | 91 |
| | **592** | 555 | **285** | 307 |
| **General expenses** | | | | |
| Fees and commission expense | **275** | 262 | **58** | 217 |
| Depreciation and amortisation of property, plant and equipment | **304** | 295 | **152** | 152 |
| Amortisation of intangible assets | **357** | 280 | **189** | 168 |
| Depreciation on leased vehicle assets | **9** | 9 | **5** | 4 |
| Operating lease rental expense | **36** | 30 | **22** | 14 |
| Advertising and marketing | **228** | 219 | **120** | 108 |
| Charge to provide for operational risk event losses | **56** | 209 | **48** | 8 |
| Communications, postage and stationery | **300** | 329 | **157** | 143 |
| Computer equipment and software | **342** | 316 | **179** | 163 |
| Data communication and processing charges | **124** | 140 | **62** | 62 |
| Transport expenses | **71** | 74 | **37** | 34 |
| Professional fees | **460** | 324 | **270** | 190 |
| Travel | **98** | 82 | **59** | 39 |
| Loss on disposal of property, plant and equipment and other assets | **36** | 18 | **20** | 16 |
| Impairment losses recognised | **7** | 19 | **(1)** | 8 |
| Other expenses | **602** | 416 | **376** | 226 |
| | **3,305** | 3,022 | **1,753** | 1,552 |
| **Total** | **8,541** | 7,979 | **4,418** | 4,123 |

## 5. Income Tax Expense

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

| | Year to | | Half Year to | |
|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 $m | Mar 10 $m |
| **Profit before income tax expense** | 5,676 | 4,983 | 2,836 | 2,840 |
| Deduct profit before income tax expense attributable to the life insurance statutory funds and their controlled trusts | (690) | (673) | (316) | (374) |
| **Total profit excluding that attributable to the statutory funds of the life insurance business, before income tax expense** | 4,986 | 4,310 | 2,520 | 2,466 |
| **Prima facie income tax at 30%** | 1,496 | 1,293 | 756 | 740 |
| Add/(deduct): Tax effect of amounts not deductible/(assessable) | | | | |
| Assessable foreign income | 8 | 8 | 4 | 4 |
| Restatement of deferred tax balances for changes in UK and NZ tax rates | 5 | (5) | 5 | - |
| Depreciation on buildings not deductible | 3 | 5 | 1 | 2 |
| Impairment of exchangeable capital units tax receivable | - | 309 | - | - |
| Provision for New Zealand structured finance tax case | (66) | 339 | - | (66) |
| Provision for interest on New Zealand structured finance tax case | (66) | 200 | - | (66) |
| Over provision in prior years | (52) | (54) | (46) | (6) |
| Foreign branch income not assessable | (44) | (65) | (22) | (22) |
| Foreign tax rate differences | (15) | 13 | (21) | 6 |
| Offshore banking unit income | (14) | (24) | (4) | (10) |
| Treasury shares adjustment | (13) | 38 | (5) | (8) |
| Investment allowance | (5) | (24) | (1) | (4) |
| Dividend income adjustments | - | (1) | - | - |
| Other | (37) | (43) | (20) | (17) |
| **Total income tax expense on profit excluding that attributable to the statutory funds of the life insurance business** | 1,200 | 1,989 | 647 | 553 |
| Income tax expense attributable to the statutory funds of the life insurance business | 251 | 405 | 60 | 191 |
| **Total income tax expense** | 1,451 | 2,394 | 707 | 744 |
| **Effective tax rate, excluding statutory funds attributable to the life insurance business** | 24.1% | 46.1% | 25.7% | 22.4% |

## 6. Dividends and Distributions

| Dividends on ordinary shares | Amount per share cents | Franked amount per share % | Total amount $m |
|---|---|---|---|
| Final dividend declared in respect of the year ended 30 September 2010 | 78 | 100 | **1,664** |
| Interim dividend paid in respect of the six months ended 31 March 2010 | 74 | 100 | **1,570** |
| **Total dividends paid or payable in respect of the year ended 30 September 2010** | 152 | | **3,234** |

The record date for determining entitlements to the 2010 final dividend is 18 November 2010.
The final dividend has been declared by the directors of the Company and is payable on 17 December 2010.

| | | | |
|---|---|---|---|
| Final dividend paid in respect of the year ended 30 September 2009 | 73 | 100 | **1,532** |
| Interim dividend paid in respect of the six months ended 31 March 2009 | 73 | 100 | **1,400** |
| **Total dividends paid or payable in respect of the year ended 30 September 2009** | 146 | | **2,932** |

| | Year to | | | |
|---|---|---|---|---|
| | 30 Sep 10 | | 30 Sep 09 | |
| | Amount per security | Total amount | Amount per security | Total amount |
| **Dividends on preference shares** | cents(1) | $m | cents (1) | $m |
| BNZ Income Securities | 5.56 | **25** | 5.56 | 25 |
| BNZ Income Securities 2 | 5.00 | **13** | 1.15 | 3 |
| **Total dividends on preference shares** | | **38** | | 28 |

(1) *$A equivalent*

| | Year to | | | |
|---|---|---|---|---|
| | 30 Sep 10 | | 30 Sep 09 | |
| | Amount per security | Total amount | Amount per security | Total amount |
| **Distributions on other equity instruments** | $ | $m | $ | $m |
| National Income Securities | 5.35 | **107** | 5.80 | 116 |
| Trust Preferred Securities | 97.50 | **39** | 120.00 | 48 |
| Trust Preferred Securities II | 61.25 | **49** | 75.00 | 60 |
| National Capital Instruments | 2,500.00 | **20** | 2,625.00 | 21 |
| **Total distributions** | | **215** | | 245 |

### Dividend and distribution plans

The dividend is paid in cash or as part of a dividend plan. Cash dividends are paid by way of cash or cash equivalents and direct credit. The dividend plans in operation are the Dividend Reinvestment Plan, the Bonus Share Plan (closed to new participants), and the United Kingdom Dividend Plan, which 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 plan is 18 November 2010, 5pm (Melbourne time).

## 7. Net Tangible Assets

| | As at | | |
|---|---|---|---|
| | 30 Sep 10 | 31 Mar 10 | 30 Sep 09 |
| Net tangible assets per ordinary share ($) | **12.63** | 12.41 | 12.72 |

## 8. Loans and Advances including Acceptances

| | As at | | |
|---|---|---|---|
| | **30 Sep 10 $m** | **31 Mar 10 $m** | **30 Sep 09 $m** |
| Overdrafts | **15,407** | 15,324 | 16,196 |
| Credit card outstandings | **7,427** | 7,416 | 7,338 |
| Asset and lease financing | **16,109** | 16,550 | 17,350 |
| Housing loans | **224,900** | 211,014 | 202,538 |
| Other term lending | **126,402** | 123,549 | 128,605 |
| Other | **6,642** | 6,793 | 8,288 |
| Fair value adjustment | **1,416** | 1,131 | 1,220 |
| **Gross loans and advances** | **398,303** | 381,777 | 381,535 |
| Acceptances | **49,678** | 52,699 | 55,035 |
| **Gross loans and advances including acceptances** | **447,981** | 434,476 | 436,570 |
| *Represented by:* | | | |
| Loans at fair value [1] | **36,700** | 30,909 | 29,567 |
| Loans at amortised cost | **361,603** | 350,868 | 351,968 |
| Acceptances | **49,678** | 52,699 | 55,035 |
| **Gross loans and advances including acceptances** | **447,981** | 434,476 | 436,570 |
| Unearned income and deferred net fee income | **(2,494)** | (2,497) | (2,793) |
| Provision for doubtful debts | **(4,274)** | (4,491) | (4,401) |
| **Net loans and advances including acceptances [2]** | **441,213** | 427,488 | 429,376 |
| **Securitised loans [2]** | **4,731** | 5,269 | 6,283 |

[1] *On the balance sheet this amount is included within 'Other financial assets at fair value'. This amount is included in the product and geographical analysis below.*

[2] *Securitised loans are included within the balance of 'Net loans and advances including acceptances'.*

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

| By product and geographic location | Australia $m | Europe $m | New Zealand $m | United States $m | Asia $m | Total Group $m |
|---|---|---|---|---|---|---|
| **As at 31 March 2010** | | | | | | |
| Overdrafts | 7,456 | 6,182 | 1,648 | 7 | 31 | **15,324** |
| Credit card outstandings | 5,530 | 835 | 1,046 | 5 | - | **7,416** |
| Asset and lease financing | 13,664 | 2,856 | 21 | - | 9 | **16,550** |
| Housing loans | 169,060 | 20,581 | 20,108 | 259 | 1,006 | **211,014** |
| Other term lending | 66,623 | 30,936 | 19,540 | 4,735 | 1,715 | **123,549** |
| Other | 4,120 | 1,560 | 112 | 976 | 25 | **6,793** |
| Fair value adjustment | 201 | 763 | 167 | - | - | **1,131** |
| **Gross loans and advances** | 266,654 | 63,713 | 42,642 | 5,982 | 2,786 | **381,777** |
| Acceptances | 52,689 | 10 | - | - | - | **52,699** |
| **Gross loans and advances including acceptances** | 319,343 | 63,723 | 42,642 | 5,982 | 2,786 | **434,476** |
| *Represented by:* | | | | | | |
| Loans at fair value | 7,889 | 8,351 | 14,669 | - | - | **30,909** |
| Loans at amortised cost | 258,765 | 55,362 | 27,973 | 5,982 | 2,786 | **350,868** |
| Acceptances | 52,689 | 10 | - | - | - | **52,699** |
| **Gross loans and advances including acceptances** | 319,343 | 63,723 | 42,642 | 5,982 | 2,786 | **434,476** |

| By product and geographic location | Australia $m | Europe $m | New Zealand $m | United States $m | Asia $m | Total Group $m |
|---|---|---|---|---|---|---|
| **As at 30 September 2009** | | | | | | |
| Overdrafts | 7,009 | 7,132 | 2,018 | 8 | 29 | **16,196** |
| Credit card outstandings | 5,325 | 950 | 1,058 | 5 | - | **7,338** |
| Asset and lease financing | 13,878 | 3,447 | 25 | - | - | **17,350** |
| Housing loans | 157,817 | 22,483 | 20,989 | 292 | 957 | **202,538** |
| Other term lending | 65,694 | 35,330 | 21,064 | 4,850 | 1,667 | **128,605** |
| Other | 4,283 | 2,715 | 114 | 1,176 | - | **8,288** |
| Fair value adjustment | 184 | 803 | 233 | - | - | **1,220** |
| **Gross loans and advances** | 254,190 | 72,860 | 45,501 | 6,331 | 2,653 | **381,535** |
| Acceptances | 55,031 | 4 | - | - | - | **55,035** |
| **Gross loans and advances including acceptances** | 309,221 | 72,864 | 45,501 | 6,331 | 2,653 | **436,570** |
| *Represented by:* | | | | | | |
| Loans at fair value | 4,039 | 9,716 | 15,812 | - | - | **29,567** |
| Loans at amortised cost | 250,151 | 63,144 | 29,689 | 6,331 | 2,653 | **351,968** |
| Acceptances | 55,031 | 4 | - | - | - | **55,035** |
| **Gross loans and advances including acceptances** | 309,221 | 72,864 | 45,501 | 6,331 | 2,653 | **436,570** |

| | Increase / (Decrease) from 31 Mar 10 | | | | | |
|---|---|---|---|---|---|---|
| **Movement from 31 March 2010 excluding foreign exchange** | **Australia %** | **Europe %** | **New Zealand %** | **United States %** | **Asia %** | **Total Group %** |
| Overdrafts | 2.6 | (1.0) | 0.4 | large | (13.8) | **1.0** |
| Credit card outstandings | (0.2) | 3.7 | 1.5 | 20.0 | - | **0.5** |
| Asset and lease financing | (1.8) | (6.1) | (14.3) | - | - | **(2.6)** |
| Housing loans | 7.7 | 2.3 | 1.8 | large | 14.2 | **6.9** |
| Other term lending | 7.8 | (5.9) | (0.8) | 22.2 | (30.6) | **3.0** |
| Other | 6.1 | 8.6 | 13.5 | (29.2) | large | **2.6** |
| **Total gross loans and advances** | 6.9 | (2.1) | 0.7 | 22.4 | (14.8) | **4.8** |

| | Increase / (Decrease) from 30 Sep 09 | | | | | |
|---|---|---|---|---|---|---|
| **Movement from 30 September 2009 excluding foreign exchange** | **Australia %** | **Europe %** | **New Zealand %** | **United States %** | **Asia %** | **Total Group %** |
| Overdrafts | 9.1 | (4.9) | (13.2) | large | (3.8) | **0.6** |
| Credit card outstandings | 3.6 | 1.1 | 6.2 | 20.0 | - | **3.7** |
| Asset and lease financing | (3.3) | (13.9) | (21.7) | - | large | **(5.2)** |
| Housing loans | 15.3 | 3.7 | 3.2 | large | 24.8 | **13.2** |
| Other term lending | 9.3 | (8.8) | (2.6) | 24.2 | (25.7) | **2.8** |
| Other | 2.6 | (20.6) | (3.4) | (38.8) | - | **(10.7)** |
| **Total gross loans and advances** | 12.1 | (5.2) | (0.2) | 20.3 | (6.9) | **7.6** |

## 9. Doubtful Debts

| | As at | | |
|---|---|---|---|
| | **30 Sep 10 $m** | **31 Mar 10 $m** | **30 Sep 09 $m** |
| Specific provision for doubtful debts | **1,409** | 1,479 | 1,453 |
| Collective provision for doubtful debts | **2,865** | 3,012 | 2,948 |
| **Total provision for doubtful debts** | **4,274** | 4,491 | 4,401 |
| Specific provision on loans at fair value (1) | **115** | 111 | 98 |
| Collective provision on loans at fair value (1) | **356** | 222 | 247 |
| Collective provision on derivatives at fair value (2) | **349** | 376 | 358 |
| **Total provision for doubtful debts and provisions held on assets at fair value (3)** | **5,094** | 5,200 | 5,104 |

(1) *Included within the carrying value of loans recorded at fair value.*

(2) *Included within the carrying value of trading derivatives. Included within this balance for September 2010 is a management overlay in relation to conduit assets and derivatives of $160 million (March 2010 $160 million, September 2009 $160 million).*

(3) *Not included in total provisions for doubtful debts are provisions on investments - held to maturity of $181 million (March 2010 $175 million, September 2009 $170 million)*

### Movement in provisions for doubtful debts

| | Year to Sep 10 | | | Year to Sep 09 | | |
|---|---|---|---|---|---|---|
| | **Specific $m** | **Collective $m** | **Total $m** | **Specific $m** | **Collective $m** | **Total $m** |
| **Opening balance** | **1,453** | **2,948** | **4,401** | 645 | 2,318 | 2,963 |
| Acquisition of controlled entities | **-** | **9** | **9** | - | - | - |
| Transfer to/(from) specific/collective provision | **2,235** | **(2,235)** | **-** | 2,975 | (2,975) | - |
| Bad debts recovered | **177** | **-** | **177** | 165 | - | 165 |
| Bad debts written off | **(2,424)** | **-** | **(2,424)** | (2,282) | - | (2,282) |
| Charge to income statement (1) | **-** | **2,236** | **2,236** | - | 3,763 | 3,763 |
| Foreign currency translation and other adjustments | **(32)** | **(93)** | **(125)** | (50) | (158) | (208) |
| **Total provision for doubtful debts** | **1,409** | **2,865** | **4,274** | 1,453 | 2,948 | 4,401 |

(1) *Excludes $555 million of impairment charges on Investments - held to maturity for the year to September 2010 (September 2009 $52 million).*

| | Half Year to Sep 10 | | | Half Year to Mar 10 | | |
|---|---|---|---|---|---|---|
| | **Specific $m** | **Collective $m** | **Total $m** | **Specific $m** | **Collective $m** | **Total $m** |
| **Opening balance** | **1,479** | **3,012** | **4,491** | 1,453 | 2,948 | 4,401 |
| Acquisition of controlled entities | **-** | **-** | **-** | - | 9 | 9 |
| Transfer to/(from) specific/collective provision | **1,152** | **(1,152)** | **-** | 1,083 | (1,083) | - |
| Bad debts recovered | **103** | **-** | **103** | 74 | - | 74 |
| Bad debts written off | **(1,324)** | **-** | **(1,324)** | (1,100) | - | (1,100) |
| Charge to income statement (1) | **-** | **1,018** | **1,018** | - | 1,218 | 1,218 |
| Foreign currency translation and other adjustments | **(1)** | **(13)** | **(14)** | (31) | (80) | (111) |
| **Total provision for doubtful debts** | **1,409** | **2,865** | **4,274** | 1,479 | 3,012 | 4,491 |

(1) *Excludes $54 million of impairment charges on Investments - held to maturity for the half year to September 2010 (March 2010 $501 million).*

| | Year to | | Half Year to | |
|---|---|---|---|---|
| **Total charge for doubtful debts by geographic location** | **Sep 10 $m** | **Sep 09 $m** | **Sep 10 $m** | **Mar 10 $m** |
| Australia | **1,204** | 2,244 | **549** | 655 |
| Europe | **806** | 1,297 | **359** | 447 |
| New Zealand | **148** | 155 | **78** | 70 |
| United States | **78** | 57 | **31** | 47 |
| Asia | **-** | 10 | **1** | (1) |
| **Total charge to provide for doubtful debts - recognised in provision** | **2,236** | 3,763 | **1,018** | 1,218 |
| Total charge on investments - held to maturity | **555** | 52 | **54** | 501 |
| **Total charge to provide for doubtful debts - recognised in income statement** | **2,791** | 3,815 | **1,072** | 1,719 |

## 10. Asset Quality

| Summary of total impaired assets | As at 30 Sep 10 $m | 31 Mar 10 $m | 30 Sep 09 $m |
|---|---|---|---|
| Impaired assets [1] [2] [3] [4] | **5,809** | 5,384 | 5,116 |
| Restructured loans [5] | **239** | 465 | 384 |
| Gross total impaired assets | **6,048** | 5,849 | 5,500 |
| Less: Specific provisions - total impaired assets [6] | **(1,524)** | (1,590) | (1,551) |
| **Net total impaired assets** | **4,524** | 4,259 | 3,949 |

(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 assets classified as Investments - held to maturity in the balance sheet. There were $233 million of impaired conduit assets within this category at 30 September 2010 (March 2010: $248 million, September 2009: $266 million). The movement is attributable to changes in foreign exchange.*

(3) *Gross impaired assets for September 2010 includes $284 million of Gross impaired fair value assets (March 2010: $344 million, September 2009: $366 million).*

(4) *In the United States there is US$133 million (March 2010: US$9 million, September 2009: US$5 million) of "Other Real Estate Owned" assets where the Group assumed ownership or foreclosed in the settlement of debt. Of this amount, US$111 million (March 2010: US$nil, September 2009: US$nil) is covered by the Federal Deposit Insurance Corporation (FDIC) Loss Sharing Agreement, where the FDIC will absorb 80% of any losses arising in recovery of these assets. The real estate assets are included in other assets and are not included in impaired assets.*

(5) *These loans represent facilities which have been classified as restructured for reasons relating to the financial difficulty of the counterparty.*

(6) *Specific provisions - total impaired assets for September 2010 include $115 million of specific provisions on impaired fair value assets (March 2010: $111 million, September 2009: $98 million).*

| Movement in gross impaired assets | Australia $m | Europe $m | New Zealand $m | United States $m | Asia $m | Total Group $m |
|---|---|---|---|---|---|---|
| **Balance at 31 March 2009** | 2,316 | 1,221 | 313 | 75 | 2 | **3,927** |
| Opening Adjustment for fair value impaired assets | - | 210 | 156 | - | - | **366** |
| New | 2,247 | 1,119 | 171 | 172 | - | **3,709** |
| Written off | (750) | (566) | (37) | (20) | - | **(1,373)** |
| Returned to performing or repaid | (618) | (138) | (80) | (93) | (2) | **(931)** |
| Foreign currency translation adjustments | - | (173) | - | (25) | - | **(198)** |
| **Balance at 30 September 2009** | 3,195 | 1,673 | 523 | 109 | - | **5,500** |
| New | 1,381 | 941 | 243 | 63 | - | **2,628** |
| Written off | (456) | (340) | (58) | (73) | - | **(927)** |
| Returned to performing or repaid | (627) | (390) | (108) | (19) | - | **(1,144)** |
| Foreign currency translation adjustments | - | (175) | (30) | (3) | - | **(208)** |
| **Balance at 31 March 2010** | 3,493 | 1,709 | 570 | 77 | - | **5,849** |
| New | 1,469 | 930 | 228 | 116 | - | **2,743** |
| Written off | (618) | (403) | (81) | (21) | - | **(1,123)** |
| Returned to performing or repaid | (776) | (410) | (114) | (92) | - | **(1,392)** |
| Foreign currency translation adjustments | - | (13) | (12) | (4) | - | **(29)** |
| **Gross impaired assets at 30 September 2010** | 3,568 | 1,813 | 591 | 76 | - | **6,048** |

| Gross impaired assets to gross loans & acceptances - by geographic location | As at 30 Sep 10 % | 31 Mar 10 % | 30 Sep 09 % |
|---|---|---|---|
| Australia | **1.07** | 1.09 | 1.03 |
| Europe | **2.92** | 2.68 | 2.30 |
| New Zealand | **1.40** | 1.34 | 1.15 |
| United States | **1.10** | 1.29 | 1.72 |
| **Total gross impaired assets to gross loans & acceptances** | **1.35** | 1.35 | 1.26 |

| Group coverage ratios | 30 Sep 10 | 31 Mar 10 | 30 Sep 09 |
|---|---|---|---|
| Net impaired assets to total equity (1) (2) | **11.6** | 11.2 | 10.4 |
| Specific provision to gross impaired assets (3) (4) | **25.2** | 27.2 | 28.2 |
| Collective provision to credit risk-weighted assets (excluding housing) (5) | **1.48** | 1.55 | 1.46 |
| 90+ days past due plus gross impaired assets to gross loans and acceptances (4) | **1.88** | 1.86 | 1.75 |
| Net write-offs to gross loans and acceptances (annualised) | **0.50** | 0.47 | 0.48 |
| Total provision as a percentage of net write-offs (6) | **227** | 253 | 241 |
| Total provision to gross loans and acceptances (6) | **1.14** | 1.20 | 1.17 |

(1) *Total equity of the parent.*

(2) *Net impaired assets for September 2010 includes $169 million of Net impaired fair value assets (March 2010: $233 million, September 2009: $268 million).*

(3) *Specific provisions - impaired assets for September 2010 include $115 million of specific provisions on impaired fair value assets (March 2010: $111 million, September 2009: $98 million).*

(4) *Gross impaired assets for September 2010 includes $284 million of gross impaired fair value assets (March 2010: $344 million, September 2009: $366 million).*

(5) *Includes economic cycle adjustment, doubtful debt provision against loans at amortised cost and collective provisions held on assets at fair value.*

(6) *Includes economic cycle adjustment, doubtful debt provision against loans at amortised cost and total provisions held on assets at fair value.*

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

| Summary of non-impaired loans 90+ days past due | As at 30 Sep 10 $m | 31 Mar 10 $m | 30 Sep 09 $m |
|---|---|---|---|
| Total non-impaired assets past due 90 days or more with adequate security | **1,953** | 2,032 | 1,905 |
| Total non-impaired portfolio managed facilities past due 90 to 180 days | **413** | 214 | 229 |
| **Total 90+ days past due loans** | **2,366** | 2,246 | 2,134 |
| Total 90+ days past due loans to gross loans and acceptances (%) | **0.53** | 0.52 | 0.49 |

| Non-impaired loans 90+ days past due - by geographic location | As at 30 Sep 10 $m | 31 Mar 10 $m | 30 Sep 09 $m |
|---|---|---|---|
| Australia | **1,556** | 1,544 | 1,445 |
| Europe | **434** | 481 | 517 |
| New Zealand | **148** | 221 | 172 |
| United States (1) | **228** | - | - |
| **Total 90+ day past due loans** | **2,366** | 2,246 | 2,134 |

(1) *GWB, as a result of the acquisition of TierOne Bank in June 2010, had 90+ DPD loans of $228 million as at September 2010. There is an agreement with the Federal Deposit Insurance Corporation (FDIC) where the FDIC absorbs 80% of credit losses arising on the loan portfolio and related assets acquired from TierOne Bank. The agreement excludes approximately US$127 million in agricultural loans and US$44 million in consumer loans, as at June 2010, from the total lending portfolio.*

## 11. Deposits and Other Borrowings

| | As at | | |
|---|---|---|---|
| | 30 Sep 10 $m | 31 Mar 10 $m | 30 Sep 09 $m |
| Deposits not bearing interest | **17,393** | 15,027 | 14,309 |
| On-demand and short-term deposits | **134,250** | 126,312 | 126,088 |
| Certificates of deposit | **60,178** | 57,150 | 66,827 |
| Term deposits | **131,520** | 126,423 | 117,647 |
| **Total deposits** | **343,341** | 324,912 | 324,871 |
| Securities sold under agreements to repurchase | **4,410** | 2,942 | 1,283 |
| Borrowings | **15,474** | 13,998 | 20,242 |
| Fair value adjustment | **219** | 168 | 157 |
| **Total deposits and other borrowings** | **363,444** | 342,020 | 346,553 |
| *Represented by:* | | | |
| Total deposits and other borrowings at fair value [1] | **10,212** | 9,523 | 10,365 |
| Total deposits and other borrowings at cost | **353,232** | 332,497 | 336,188 |
| **Total deposits and other borrowings** | **363,444** | 342,020 | 346,553 |

[1] *On the balance sheet this amount is included within 'Other financial liabilities at fair value'. This amount is included in the product and geographical analysis below.*

| **By product and geographic location** | Australia $m | Europe $m | New Zealand $m | United States $m | Asia $m | Total Group $m |
|---|---|---|---|---|---|---|
| **As at 30 September 2010** | | | | | | |
| Deposits not bearing interest | 13,715 | 1,975 | 609 | 1,092 | 2 | **17,393** |
| On-demand and short-term deposits | 91,175 | 31,176 | 8,223 | 3,437 | 239 | **134,250** |
| Certificates of deposit | 23,360 | 27,174 | 1,338 | 8,306 | - | **60,178** |
| Term deposits | 88,066 | 15,908 | 14,740 | 5,019 | 7,787 | **131,520** |
| **Total deposits** | 216,316 | 76,233 | 24,910 | 17,854 | 8,028 | **343,341** |
| Securities sold under agreements to repurchase | 1,248 | 218 | - | 2,944 | - | **4,410** |
| Borrowings | 4,949 | - | 5,631 | 4,894 | - | **15,474** |
| Fair value adjustment | - | 209 | 4 | 6 | - | **219** |
| **Total deposits and other borrowings** | 222,513 | 76,660 | 30,545 | 25,698 | 8,028 | **363,444** |
| *Represented by:* | | | | | | |
| Total deposits and other borrowings at fair value | - | 1,139 | 9,067 | 6 | - | **10,212** |
| Total deposits and other borrowings at cost | 222,513 | 75,521 | 21,478 | 25,692 | 8,028 | **353,232** |
| **Total deposits and other borrowings** | 222,513 | 76,660 | 30,545 | 25,698 | 8,028 | **363,444** |

| **By product and geographic location** | Australia $m | Europe $m | New Zealand $m | United States $m | Asia $m | Total Group $m |
|---|---|---|---|---|---|---|
| **As at 31 March 2010** | | | | | | |
| Deposits not bearing interest | 11,827 | 1,780 | 539 | 879 | 2 | **15,027** |
| On-demand and short-term deposits | 85,857 | 28,183 | 8,331 | 3,679 | 262 | **126,312** |
| Certificates of deposit | 22,766 | 28,502 | 2,175 | 3,707 | - | **57,150** |
| Term deposits | 84,394 | 15,953 | 14,195 | 3,085 | 8,796 | **126,423** |
| **Total deposits** | 204,844 | 74,418 | 25,240 | 11,350 | 9,060 | **324,912** |
| Securities sold under agreements to repurchase | 659 | 720 | - | 1,563 | - | **2,942** |
| Borrowings | 4,113 | - | 4,430 | 5,455 | - | **13,998** |
| Fair value adjustment | - | 164 | 4 | - | - | **168** |
| **Total deposits and other borrowings** | 209,616 | 75,302 | 29,674 | 18,368 | 9,060 | **342,020** |
| *Represented by:* | | | | | | |
| Total deposits and other borrowings at fair value | - | 1,097 | 8,426 | - | - | **9,523** |
| Total deposits and other borrowings at cost | 209,616 | 74,205 | 21,248 | 18,368 | 9,060 | **332,497** |
| **Total deposits and other borrowings** | 209,616 | 75,302 | 29,674 | 18,368 | 9,060 | **342,020** |

| By product and geographic location | Australia $m | Europe $m | New Zealand $m | United States $m | Asia $m | Total Group $m |
|---|---|---|---|---|---|---|
| **As at 30 September 2009** | | | | | | |
| Deposits not bearing interest | 11,087 | 1,795 | 551 | 875 | 1 | **14,309** |
| On-demand and short-term deposits | 84,541 | 30,490 | 8,370 | 2,497 | 190 | **126,088** |
| Certificates of deposit | 23,305 | 36,394 | 2,143 | 4,985 | - | **66,827** |
| Term deposits | 73,549 | 17,856 | 14,576 | 2,973 | 8,693 | **117,647** |
| **Total deposits** | 192,482 | 86,535 | 25,640 | 11,330 | 8,884 | **324,871** |
| Securities sold under agreements to repurchase | 584 | - | - | 699 | - | **1,283** |
| Borrowings | 6,242 | - | 5,118 | 8,882 | - | **20,242** |
| Fair value adjustment | - | 154 | 3 | - | - | **157** |
| **Total deposits and other borrowings** | 199,308 | 86,689 | 30,761 | 20,911 | 8,884 | **346,553** |
| *Represented by:* | | | | | | |
| Total deposits and other borrowings at fair value | - | 1,515 | 8,850 | - | - | **10,365** |
| Total deposits and other borrowings at cost | 199,308 | 85,174 | 21,911 | 20,911 | 8,884 | **336,188** |
| **Total deposits and other borrowings** | 199,308 | 86,689 | 30,761 | 20,911 | 8,884 | **346,553** |

| | Increase / (Decrease) from 31 Mar 10 | | | | | |
|---|---|---|---|---|---|---|
| **Movement from 31 March 2010 excluding foreign exchange** | **Australia %** | **Europe %** | **New Zealand %** | **United States %** | **Asia %** | **Total Group %** |
| Deposits not bearing interest | 16.0 | 11.5 | 15.3 | 31.1 | - | **16.3** |
| On-demand and short-term deposits | 6.2 | 11.2 | 0.6 | (1.4) | (3.6) | **6.7** |
| Certificates of deposit | 2.6 | (4.2) | (37.3) | large | - | **6.0** |
| Term deposits | 4.4 | 0.5 | 5.8 | 71.9 | (6.6) | **4.9** |
| **Total deposits** | 5.6 | 3.0 | 0.6 | 66.0 | (6.5) | **6.3** |
| Securities sold under agreements to repurchase | 89.4 | (69.6) | - | 98.8 | - | **54.4** |
| Borrowings | 20.3 | - | 29.5 | (5.3) | - | **13.5** |
| **Total deposits and other borrowings** | 6.2 | 2.3 | 4.9 | 47.7 | (6.5) | **7.0** |

| | Increase / (Decrease) from 30 Sep 09 | | | | | |
|---|---|---|---|---|---|---|
| **Movement from 30 September 2009 excluding foreign exchange** | **Australia %** | **Europe %** | **New Zealand %** | **United States %** | **Asia %** | **Total Group %** |
| Deposits not bearing interest | 23.7 | 22.4 | 19.4 | 37.0 | large | **24.2** |
| On-demand and short-term deposits | 7.8 | 13.8 | 5.9 | 51.1 | 38.2 | **9.9** |
| Certificates of deposit | 0.2 | (16.9) | (32.7) | 83.0 | - | **(3.8)** |
| Term deposits | 19.7 | (0.4) | 9.0 | 85.6 | (1.6) | **15.7** |
| **Total deposits** | 12.4 | (1.9) | 4.7 | 73.0 | (0.8) | **9.9** |
| Securities sold under agreements to repurchase | large | large | - | large | - | **large** |
| Borrowings | (20.7) | - | 18.6 | (39.5) | - | **(18.9)** |
| **Total deposits and other borrowings** | 11.6 | (1.6) | 7.0 | 34.9 | (0.8) | **9.2** |

## 12. Contributed Equity and Reserves

| Contributed equity | 30 Sep 10 $m | 31 Mar 10 $m | 30 Sep 09 $m |
|---|---|---|---|
| | As at | | |
| **Issued and paid-up ordinary share capital** | | | |
| Ordinary shares, fully paid | **18,637** | 18,449 | 17,867 |
| **Issued and paid-up preference share capital** | | | |
| BNZ Income Securities | **380** | 380 | 380 |
| BNZ Income Securities 2 | **203** | 203 | 203 |
| **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** | **23,551** | 23,363 | 22,781 |

| | Year to | | Half Year to | |
|---|---|---|---|---|
| **Movements in contributed equity** | **Sep 10 $m** | **Sep 09 $m** | **Sep 10 $m** | **Mar 10 $m** |
| **Ordinary share capital** | | | | |
| Balance at beginning of period | **17,867** | 10,020 | **18,449** | 17,867 |
| Shares issued | | | | |
| Dividend reinvestment plan | **808** | 1,540 | **273** | 535 |
| Shares issued under placement | **-** | 4,914 | **-** | - |
| Share purchase plan | **-** | 999 | **-** | - |
| Employee share savings plan | **-** | 7 | **-** | - |
| Transfer from equity-based compensation reserve – issued shares | **84** | 267 | **11** | 73 |
| Transfer from equity-based compensation reserve – purchased shares | **17** | 86 | **1** | 16 |
| Net (loss)/gain realised on treasury shares | **(6)** | (114) | **(8)** | 2 |
| Movement in treasury shares relating to life insurance business | **(133)** | 148 | **(89)** | (44) |
| **Balance at end of period** | **18,637** | 17,867 | **18,637** | 18,449 |
| | | | | |
| **BNZ Income Securities** | | | | |
| Balance at beginning of period | **380** | 380 | **380** | 380 |
| Movement during period | **-** | - | **-** | - |
| **Balance at end of period** | **380** | 380 | **380** | 380 |
| | | | | |
| **BNZ Income Securities 2** | | | | |
| Balance at beginning of period | **203** | - | **203** | 203 |
| Movement during period | **-** | 203 | **-** | - |
| **Balance at end of period** | **203** | 203 | **203** | 203 |
| | | | | |
| **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 |

| | As at | | |
|---|---|---|---|
| **Reserves** | **30 Sep 10 $m** | **31 Mar 10 $m** | **30 Sep 09 $m** |
| General reserve | **1,166** | 975 | 1,009 |
| Asset revaluation reserve | **68** | 76 | 76 |
| Foreign currency translation reserve | **(3,494)** | (3,261) | (2,525) |
| Cash flow hedge reserve | **182** | (32) | (142) |
| Equity-based compensation reserve | **668** | 570 | 560 |
| General reserve for credit losses | **698** | 738 | - |
| Available for sale investments reserve | **73** | 55 | 46 |
| **Total reserves** | **(639)** | (879) | (976) |

| | Year to | | Half Year to | |
|---|---|---|---|---|
| **Movements in reserves** | **Sep 10 $m** | **Sep 09 $m** | **Sep 10 $m** | **Mar 10 $m** |
| **General reserve** | | | | |
| Balance at beginning of period | **1,009** | 997 | **975** | 1,009 |
| Transfer from/(to) retained profits | **157** | 12 | **191** | (34) |
| **Balance at end of period** | **1,166** | 1,009 | **1,166** | 975 |
| **Asset revaluation reserve** | | | | |
| Balance at beginning of period | **76** | 76 | **76** | 76 |
| Revaluation of land and buildings | **9** | 3 | **9** | - |
| Transfer to retained profits | **(14)** | (2) | **(14)** | - |
| Tax on revaluation adjustments | **(3)** | (1) | **(3)** | - |
| **Balance at end of period** | **68** | 76 | **68** | 76 |
| **Foreign currency translation reserve** | | | | |
| Balance at beginning of period | **(2,525)** | (1,040) | **(3,261)** | (2,525) |
| Currency translation adjustments | **(969)** | (1,485) | **(233)** | (736) |
| **Balance at end of period** | **(3,494)** | (2,525) | **(3,494)** | (3,261) |
| **Cash flow hedge reserve** | | | | |
| Balance at beginning of period | **(142)** | (178) | **(32)** | (142) |
| Gains/(losses) on cash flow hedging instruments | **424** | (24) | **254** | 170 |
| Losses/(gains)/transferred to the income statement | **3** | 66 | **14** | (11) |
| Tax on cash flow hedging instruments | **(103)** | (6) | **(54)** | (49) |
| **Balance at end of period** | **182** | (142) | **182** | (32) |
| **Equity-based compensation reserve** | | | | |
| Balance at beginning of period | **560** | 663 | **570** | 560 |
| Equity-based compensation | **213** | 244 | **111** | 102 |
| Transfer to contributed equity – issued shares | **(84)** | (267) | **(11)** | (73) |
| Transfer to contributed equity – purchased shares | **(17)** | (86) | **(1)** | (16) |
| Tax on equity-based compensation | **(4)** | 6 | **(1)** | (3) |
| **Balance at end of period** | **668** | 560 | **668** | 570 |

| | Year to | | Half Year to | |
|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 $m | Mar 10 $m |
| **General reserve for credit losses** | | | | |
| Balance at beginning of period | - | - | 738 | - |
| Transfer from/(to) retained profits [1] | 698 | - | (40) | 738 |
| **Balance at end of period** | 698 | - | 698 | 738 |

*[1] The Group has created a general reserve from retained profits to meet prudential requirements relating to a general reserve for credit losses.*

| | Year to | | Half Year to | |
|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 $m | Mar 10 $m |
| **Available for sale investments reserve** | | | | |
| Balance at beginning of period | 46 | 31 | 55 | 46 |
| Revaluation gains/(losses) | 60 | (6) | 41 | 19 |
| Gains from sale transferred to the income statement | (28) | (12) | (14) | (14) |
| Impairment transferred to the income statement | 3 | 52 | 3 | - |
| Tax on available for sale investments reserve | (8) | (19) | (12) | 4 |
| **Balance at end of period** | 73 | 46 | 73 | 55 |

| | Year to | | Half Year to | |
|---|---|---|---|---|
| **Reconciliation of movement in retained profits** | Sep 10 $m | Sep 09 $m | Sep 10 $m | Mar 10 $m |
| Balance at beginning of period | 16,010 | 17,510 | 15,693 | 16,010 |
| Adjustment from adoption of new Accounting Standards | (19) | (49) | - | (19) |
| Actuarial (losses)/gains on defined benefit pension scheme | (114) | (1,125) | 6 | (120) |
| Tax on items transferred directly to/(from) equity | 22 | 315 | (12) | 34 |
| Net profit attributable to owners of the Company | 4,224 | 2,589 | 2,129 | 2,095 |
| **Total available for appropriation** | 20,123 | 19,240 | 17,816 | 18,000 |
| Transfer from foreign currency translation reserve | - | 3 | - | - |
| Transfer (to)/from general reserve for credit losses | (698) | - | 40 | (738) |
| Transfer (to)/from general reserves | (157) | (12) | (191) | 34 |
| Transfer from asset revaluation reserve | 14 | 2 | 14 | - |
| Dividends paid | (3,039) | (2,978) | (1,539) | (1,500) |
| Distributions on other equity instruments | (215) | (245) | (112) | (103) |
| **Balance at end of period** | 16,028 | 16,010 | 16,028 | 15,693 |

## 13. Notes to the Cash Flow Statement

### (a) Reconciliation of net profit attributable to owners of the Company to net cash provided by operating activities

| | Year to | | Half Year to | |
|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 $m | Mar 10 $m |
| Net profit attributable to owners of the Company | 4,224 | 2,589 | 2,129 | 2,095 |
| (Deduct)/add non-cash items in the income statement: | | | | |
| (Increase)/decrease in interest receivable | (1,090) | 1,008 | (475) | (615) |
| Increase/(decrease) in interest payable | 1,269 | (1,372) | 774 | 495 |
| Decrease in unearned income and deferred net fee income | (235) | (510) | (7) | (228) |
| Fair value movements: | | | | |
| Assets, liabilities and derivatives held at fair value | 123 | 407 | 293 | (170) |
| Net adjustment to bid/offer valuation | (15) | 99 | (22) | 7 |
| Increase/(decrease) in personnel provisions | 131 | 162 | 275 | (144) |
| (Decrease)/increase in other operating provisions | (285) | 54 | 130 | (415) |
| Equity-based compensation recognised in equity or reserves | 213 | 244 | 110 | 103 |
| Superannuation costs - defined benefit pension scheme | 52 | 11 | 24 | 28 |
| Impairment losses/(gains) on non-financial assets | 7 | 19 | (1) | 8 |
| Impairment losses on financial assets | 3 | 52 | 3 | - |
| Charge to provide for bad and doubtful debts | 2,791 | 3,815 | 1,072 | 1,719 |
| Depreciation and amortisation expense | 670 | 584 | 346 | 324 |
| Gain on bargain purchase | (4) | - | (4) | - |
| Movement in life insurance policyholder liabilities | 3,230 | 1,099 | 1,317 | 1,913 |
| Unrealised losses/(gains) on investments relating to life insurance business | 85 | 589 | 555 | (470) |
| Decrease in other assets | 787 | 541 | 558 | 229 |
| Increase/(decrease) in other liabilities | 258 | (607) | (170) | 428 |
| Increase in income tax payable | 328 | 545 | 286 | 42 |
| (Decrease)/increase in deferred tax liabilities | (17) | 1,087 | (120) | 103 |
| (Increase)/decrease in deferred tax assets | (46) | (657) | 11 | (57) |
| Operating cash flow items not included in profit | (6,612) | 2,961 | (1,615) | (4,997) |
| Investing or financing cash flows included in profit: | | | | |
| Profit on investments classified as available for sale | (28) | (12) | (14) | (14) |
| Loss/(profit) on sale of property, plant, equipment and other assets | 26 | (7) | 11 | 15 |
| **Net cash provided by operating activities** | 5,865 | 12,701 | 5,466 | 399 |

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

Cash and cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash within three months and are subject to an insignificant risk of change in value. They are held for the purposes of meeting short-term cash commitments (rather than for investment or other purposes) and include cash and liquid assets, amounts due from other banks including securities held under reverse repurchase agreements, and short-term government securities.

Cash and cash equivalents as shown in the cash flow statement is reconciled to the related items on the balance sheet as follows:

| | Year to | | Half Year to | |
|---|---|---|---|---|
| **Cash and cash equivalents** | Sep 10 $m | Sep 09 $m | Sep 10 $m | Mar 10 $m |
| **Assets** | | | | |
| Cash and liquid assets | 26,072 | 25,834 | 26,072 | 23,819 |
| Treasury and other eligible bills | 157 | 1,283 | 157 | 619 |
| Due from other banks (excluding mandatory deposits with supervisory central banks) | 34,148 | 33,185 | 34,148 | 38,541 |
| | 60,377 | 60,302 | 60,377 | 62,979 |
| **Liabilities** | | | | |
| Due to other banks | (34,694) | (36,148) | (34,694) | (43,735) |
| **Total cash and cash equivalents** | 25,683 | 24,154 | 25,683 | 19,244 |

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

| | Year to | | Half Year to | |
|---|---|---|---|---|
| | Sep 10 $m | Sep 09 $m | Sep 10 $m | Mar 10 $m |
| **New share issues** | | | | |
| Dividend reinvestment plan | **808** | 1,540 | **273** | 535 |
| Bonus share plan | **46** | 60 | **21** | 25 |
| Movement in assets under finance lease | **(14)** | (16) | **(7)** | (7) |

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

The following acquisitions were made during the year to September 2010:

- on 28 June 2010, the Group acquired 100% of the issued share capital of Presima Inc, a manager of listed real estate investment trusts based in Montreal, Canada. The acquisition expands the nabInvest division of MLC & NAB Wealth's direct asset management operations;
- on 4 June 2010, Great Western Bank (GWB) acquired the banking franchise including all deposits and loans of TierOne Bank in Nebraska, United States of America from the Federal Deposit Insurance Corporation. The acquisition expanded the GWB footprint in the key region of Nebraska;
- on 23 April 2010, GWB acquired all 10 branches of F&M Bank. The acquisition establishes a strong foothold for GWB's operations in the Midwest States of the United States of America and provides the opportunity to leverage existing financial stability and expand, particularly in the areas of consumer, business and agricultural banking. No goodwill was recorded as part of this transaction and a gain on bargain purchase has been reflected within other income in the income statement;
- on 4 November 2009, the Group acquired 100% of the issued share capital of Hong Kong based investment advisory firm Calibre Asset Management Ltd as its first expansion into the Asian asset management industry to increase its offering to customers;
- on 1 November 2009, National Wealth Management Holdings Limited acquired 80.1% of Goldman Sachs JBWere's (GSJBW) private wealth management business in Australia and New Zealand which has subsequently been rebranded as JBWere. The alliance incorporates a strategic distribution relationship which enables GSJBW to distribute certain products to JBWere on an exclusive or preferred basis and creates a highly competitive expanded offering for their clients. The acquisition enhances the Group's service offering in delivering advice and wealth solutions to high net worth clients. The JBWere acquisition agreement contains a put and call option whereby the Group will acquire, or GSJBW will sell to the Group, the remaining 19.9% of JBWere for an agreed consideration of $20 million. The fair value of this option has been assessed as $16 million as at acquisition date. The option can be exercised by either GSJBW (put option) or the Group (call option) after a minimum 3 year period from the acquisition date. The option will result in the Group acquiring the remaining 19.9% of JBWere from GSJBW by the exercise of either the put or the call option by the relevant party. Accordingly, for accounting purposes, the Group controls and consolidates 100% of JBWere's assets, liabilities and profits from 1 November 2009. The acquisition agreement also contains provision for contingent cash consideration of up to $80 million to be payable to GSJBW based on the net revenue performance of JBWere over each of the 3 years following the acquisition date. The fair value of this contingent consideration has been assessed as nil as at acquisition date. As at 30 September 2010 there has been no change in the recognised amount of the contingent consideration;
- on 30 October 2009, the Group acquired 100% of the issued share capital of mortgage management business, Challenger Mortgage Management Holdings Pty Ltd. The acquisition enhances the Group's organic growth possibilities as it provides additional distribution and capability in Australian mortgages and increases the Group's presence in the broker distribution segment. The name of the company has subsequently been changed to Advantedge Financial Services Holdings Pty Ltd (Advantedge). As part of the transaction, on 4 November 2009 the Group also acquired a select portfolio of $4.5 billion residential mortgage loans; and
- on 1 October 2009, the Group acquired 100% of the issued share capital of life insurance and investment management business, Aviva Australia Holdings Limited. The acquisition enhances the Group's offering in key wealth segments including insurance and investment platforms, adding scale, efficiency and new capabilities to the operations. The name of the company has subsequently been changed to MLC Wealth Management Limited (MLC Wealth).

With the exception of the acquisition of F&M Bank, goodwill arose in all acquisitions as they included a premium for the intrinsic value in the expanded distribution networks and capabilities which resulted in an expanded offering to customers. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred or licensed or exchanged, either individually or together.

None of the goodwill arising from these acquisitions is expected to be deductible for tax purposes.

Accounting for the acquisitions of Presima Inc, TierOne Bank and F&M Bank have only been provisionally determined as at 30 September 2010.

Since their respective acquisition dates, the acquired businesses have contributed the following to net operating income and net profit to the Group:

- MLC Wealth: net operating income of $254 million and net profit of $128 million;
- JBWere: net operating income of $125 million and net loss of $19 million;
- Advantedge: net operating income of $149 million and net profit of $53 million; and
- TierOne: net operating income of $48 million and net profit of $11 million.

The net operating income and net profit contributed by the other acquired businesses for the period from acquisition to 30 September 2010 is immaterial.

As the acquisitions of MLC Wealth, JBWere, Advantedge and Calibre occurred near the beginning of the reporting period there would have been no material difference to the amounts above had the acquisitions occurred on 1 October 2009.

If the remaining acquisitions had been effected at 1 October 2009, the net operating income and net profit of the Group for the year ended 30 September 2010 is estimated to have been $111 million and $23 million higher respectively.

During the year to 30 September 2009 GWB acquired $662 million of assets and assumed $686 million of liabilities of First Community Bank, headquartered in New Mexico in the United States of America, for nil consideration. The assets acquired consisted of $194 million of cash and cash equivalents and $468 million of other assets.

| | Year to | | Half Year to | |
|---|---|---|---|---|
| **Consideration transferred** | **Sep 10 $m** | **Sep 09 $m** | **Sep 10 $m** | **Mar 10 $m** |
| Cash paid | **6,016** | - | **152** | 5,864 |
| Deferred consideration | **21** | - | **5** | 16 |
| Total consideration transferred | **6,037** | - | **157** | 5,880 |

| | Year to | | Half Year to | |
|---|---|---|---|---|
| **Recognised amounts of identifiable assets acquired and liabilities assumed** | **Sep 10 $m** | **Sep 09 $m** | **Sep 10 $m** | **Mar 10 $m** |
| Cash and liquid assets | **859** | 194 | **539** | 320 |
| Due from other banks | **163** | - | **163** | - |
| Trading derivatives | **3** | - | **-** | 3 |
| Investments - available for sale | **287** | - | **269** | 18 |
| Investments relating to life insurance business | **4,553** | - | **-** | 4,553 |
| Loans and advances | **6,615** | 434 | **2,093** | 4,522 |
| Property, plant and equipment | **20** | 26 | **13** | 7 |
| Goodwill and other intangible assets | **552** | 8 | **135** | 417 |
| Deferred tax assets | **50** | - | **-** | 50 |
| Other assets | **491** | - | **354** | 137 |
| Deposits and other borrowings | **(3,385)** | (679) | **(3,385)** | - |
| Life policy liabilities | **(3,784)** | - | **(4)** | (3,780) |
| Current tax liabilities | **(12)** | - | **1** | (13) |
| Provisions | **(66)** | - | **7** | (73) |
| External unitholders' liability | **(434)** | - | **-** | (434) |
| Deferred tax liabilities | **(146)** | - | **(26)** | (120) |
| Other liabilities | **(164)** | (7) | **(35)** | (129) |
| Net identifiable assets and liabilities | **5,602** | (24) | **124** | 5,478 |
| Goodwill on acquisition | **439** | 24 | **37** | 402 |
| Gain on bargain purchase | **(4)** | - | **(4)** | - |
| Total purchase consideration | **6,037** | - | **157** | 5,880 |
| Less: Deferred consideration | **(21)** | - | **(5)** | (16) |
| *Less: Cash and cash equivalents acquired* | | | | |
| Cash and liquid assets | **(859)** | (194) | **(539)** | (320) |
| Due from other banks | **(163)** | - | **(163)** | - |
| **Net cash outflow/(inflow)** | **4,994** | (194) | **(550)** | 5,544 |

| Consideration transferred | Advant-edge $m | JBWere $m | MLC Wealth $m | TierOne Bank $m | F&M Bank $m | Other busi-nesses $m | Total $m |
|---|---|---|---|---|---|---|---|
| | Year to Sep 10 | | | | | | |
| Cash paid | 4,888 | 84 | 902 | 106 | 34 | 2 | **6,016** |
| Deferred cash consideration | - | 16 | - | - | - | 5 | **21** |
| **Total consideration transferred** | 4,888 | 100 | 902 | 106 | 34 | 7 | **6,037** |

| | Advant-edge $m | JBWere $m | MLC Wealth $m | TierOne Bank $m | F&M Bank $m | Other busi-nesses $m | Total $m |
|---|---|---|---|---|---|---|---|
| | Year to Sep 10 | | | | | | |
| Cash and liquid assets | 20 | - | 300 | 530 | 7 | 2 | **859** |
| Due from other banks | - | - | - | - | 163 | - | **163** |
| Trading derivatives | - | - | 3 | - | - | - | **3** |
| Investments - available for sale | - | - | 18 | 97 | 172 | - | **287** |
| Investments relating to life insurance business | - | - | 4,553 | - | - | - | **4,553** |
| Loans and advances (1) | 4,517 | - | 5 | 1,974 | 119 | - | **6,615** |
| Property, plant and equipment | 2 | - | 7 | 1 | 10 | - | **20** |
| Goodwill and other intangible assets | 124 | 46 | 323 | 54 | 5 | - | **552** |
| Deferred tax assets | 3 | - | 47 | - | - | - | **50** |
| Other assets | 9 | - | 130 | 341 | 10 | 1 | **491** |
| Deposits and other borrowings | - | - | - | (2,941) | (444) | - | **(3,385)** |
| Life policy liabilities | - | - | (3,784) | - | - | - | **(3,784)** |
| Current tax liabilities | (1) | - | (11) | - | - | - | **(12)** |
| Provisions | (4) | - | (62) | - | - | - | **(66)** |
| External unitholders' liability | - | - | (434) | - | - | - | **(434)** |
| Deferred tax liabilities | (37) | (14) | (93) | - | (2) | - | **(146)** |
| Other liabilities | (24) | - | (113) | (24) | (2) | (1) | **(164)** |
| Net identifiable assets and liabilities | 4,609 | 32 | 889 | 32 | 38 | 2 | **5,602** |
| Goodwill on acquisition | 279 | 68 | 13 | 74 | - | 5 | **439** |
| Gain on bargain purchase | - | - | - | - | (4) | - | **(4)** |
| Total purchase consideration | 4,888 | 100 | 902 | 106 | 34 | 7 | **6,037** |
| Less: Deferred consideration | - | (16) | - | - | - | (5) | **(21)** |
| *Less: Cash and cash equivalents acquired* | | | | | | | |
| Cash and liquid assets | (20) | - | (300) | (530) | (7) | (2) | **(859)** |
| Due from other banks | - | - | - | - | (163) | - | **(163)** |
| **Net cash outflow/(inflow)** | 4,868 | 84 | 602 | (424) | (136) | - | **4,994** |

(1) *At the date of the respective acquisitions, loans and advances acquired had gross contractual amounts receivable of $4,526 million for Advantedge, $6 million for MLC Wealth, $2,223 million for TierOne Bank and $119 million for F&M Bank. At the date of the respective acquisitions, the best estimate of the contractual cash flows not expected to be collected was $9 million for Advantedge, $1 million for MLC Wealth and $2 million for F&M Bank. At the date of the TierOne Bank acquisition, the best estimate of the contractual cash flows not expected to be collected was $249 million, in respect of which an indemnification asset was recognised and included in other assets for $209 million in relation to the loss sharing agreement entered into with the Federal Deposit Insurance Corporation as part of the acquisition.*

The Group holds no material interests in associates or joint ventures as at 30 September 2010.

### (e) Reconciliation of goodwill

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

| Movements in goodwill | Year to Sep 10 $m | Year to Sep 09 $m | Half Year to Sep 10 $m | Half Year to Mar 10 $m |
|---|---|---|---|---|
| Balance at beginning of period | **5,182** | 5,227 | **5,554** | 5,182 |
| Additions from the acquisition of controlled entities and business combinations | **439** | 24 | **37** | 402 |
| Foreign currency translation adjustments | **(75)** | (69) | **(45)** | (30) |
| **Balance at end of period** | **5,546** | 5,182 | **5,546** | 5,554 |

## 14. Life Insurance Operations

| Income statement items | Year to Sep 10 $m | Year to Sep 09 $m | Half Year to Sep 10 $m | Half Year to Mar 10 $m |
|---|---|---|---|---|
| Premium and related revenue | **1,294** | 846 | **674** | 620 |
| Investment revenue | **2,769** | 726 | **(10)** | 2,779 |
| Fee income | **479** | 439 | **243** | 236 |
| Claims expense | **(695)** | (477) | **(367)** | (328) |
| Change in policy liabilities | **(1,724)** | (373) | **336** | (2,060) |
| Policy acquisition and maintenance expense | **(930)** | (755) | **(490)** | (440) |
| Investment management expense | **(35)** | (37) | **(14)** | (21) |
| Movement in external unitholders' liability | **(345)** | (12) | **(12)** | (333) |
| **Net life insurance income** | **813** | 357 | **360** | 453 |
| Profit before income tax expense attributable to the life insurance statutory funds and their controlled trusts | **690** | 673 | **316** | 374 |
| Income tax expense attributable to the statutory funds of the life insurance business | **251** | 405 | **60** | 191 |

| Related balance sheet items | As at 30 Sep 10 $m | As at 31 Mar 10 $m | As at 30 Sep 09 $m |
|---|---|---|---|
| Investments relating to life insurance business | **64,560** | 61,990 | 54,254 |
| Life policy liabilities | **54,354** | 53,058 | 47,314 |
| External unitholders' liability | **10,241** | 8,969 | 7,458 |

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 external unitholders' liability on issue represent amounts owed to policyholders and unitholders of consolidated trusts. Movements in these liabilities reflect policy and unit holders' share in the performance of investment assets and their share of net life insurance income.

The results presented above incorporate the life insurance operations of Aviva, acquired on 1 October 2009. This has driven the increases in premium and related revenue, claims expense and policy acquisition and maintenance expense.

Overall positive investment market experience within domestic and global financial markets over the course of the financial year, has affected individual components of the Group's life insurance operations as follows:

- positive investment revenue attributable to unit linked investments and life insurance business that is largely offset by movements in amounts owing to policy holders.
- positive investment revenue attributable to equity investment holdings in consolidated trusts. The external unitholders' of the trusts share in these gains; their share is reflected as the movement in external unitholders' liability.
- the income tax expense attributable to life insurance business includes both policyholder and shareholder tax across a range of products and is impacted by the positive 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.

### Tax Dispute - Exchangeable Capital Units Capital Raising

The Australian Taxation Office (ATO) has disallowed various deductions made by the Group in relation to exchangeable capital units (ExCaps) for the tax years 1997 to 2003. As at 30 September 2010, the maximum aggregate contingent exposure for the 1997 to 2003 tax years is approximately $486 million, being $309 million primary tax and $177 million interest and penalties (after tax). The Group has paid approximately $309 million of that exposure to the ATO in accordance with ATO practice on disputed assessments which was recognised in tax expense during 2009.

The Group did not claim tax deductions on outgoings in relation to the ExCaps after 1 October 2003 whilst the tax treatment was in dispute, and the ExCaps were redeemed during the 2007 year.

The Group disputes the ATO's tax treatment of the ExCaps and has appealed.

### Investigation of Potential Class Actions

In April 2009, Maurice Blackburn Lawyers (an Australian law firm) announced that it was investigating a potential class action against the Group for alleged non-disclosures relating to the Group's exposure to Asset Backed Securities Collateralised Debt Obligations. The Group has received no detailed information from Maurice Blackburn Lawyers as to the nature of the possible claim. No proceeding has been initiated. If it is, it will be vigorously defended.

On 12 May 2010, Maurice Blackburn Lawyers announced that it was investigating a potential class action against all major Australian banks, including NAB, in relation to the payment of exception fees. On 22 September 2010, proceedings were issued against Australia & New Zealand Banking Group Limited. The Group has received no detailed information from Maurice Blackburn Lawyers as to the nature of the possible claim against the Group. No proceeding has been initiated. If it is, it will be vigorously defended.

### United Kingdom Financial Services Compensation Scheme

The UK Financial Services Compensation Scheme (FSCS) provides compensation to depositors in the event that a financial institution is unable to repay amounts due. Following the failure of a number of financial institutions, the FSCS has raised borrowings from the UK Government to cover compensation in relation to protected deposits. These borrowings are anticipated to be repaid from the realisation of the assets of the institutions. In the interim the FSCS has estimated levies due to 31 March 2011 from the banking industry to support interest payments on the borrowings, and an accrued expense of £5.1 million is presently held for the Group's calculated liability for this period. If the assets of the failed institutions are insufficient to repay the Government loan, additional levies will become payable in future periods.

### Claims for potential mis-selling of Payment Protection Insurance (PPI)

Market-wide issues relating to Payment Protection Insurance (PPI) claims handling are ongoing. On 8 October 2010 the British Bankers Association (BBA) filed papers with the High Court asking for a review of proposals by the Financial Services Authority contained in new rules that are due to be implemented at the end of this year. On behalf of the industry the BBA alleges that the rules require banks to apply sales standards retrospectively to a period before their introduction. Provision has been made for costs arising from claims received, although at this stage there remains uncertainty surrounding the potential impact.

## 16. Events Subsequent to Balance Date

No matter, item, transaction or event of a material or unusual nature has arisen in the interval between the end of the financial year and the date of this report that, in the opinion of the directors, has significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future years.

# Compliance Statement

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.

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

Michaela Healey

Company Secretary

27 October 2010

Section 6

## Supplementary Information

## 1. Disclosures on Special Purpose Entities

The following supplementary disclosures are based on Financial Stability Board (FSB) recommendations that were included in a report entitled *Enhancing Market and Institutional Resilience*.

### (a) Special Purpose Entities (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 programs (both on and off balance sheet) including:

- Securitisation SPEs.
- Funding program SPEs.
- Other SPEs.

### (b) Securitisation SPEs

#### Objectives

The Group engages in securitisation activities for two purposes:

- Securitisation activities for business purposes, including arranging and managing securitisations for third parties (clients) as well as securities arbitrage (funding of purchased assets) activities [1], primarily through SPEs that provide funding for single or multiple transactions.
- Securitisation of its own assets for funding and liquidity purposes, primarily for risk and capital management reasons. These transactions have always been recorded on the balance sheet since the adoption of AIFRS as the derecognition criteria is not met.

The first category represents third party asset securitisation SPEs. The Group's participation in these SPEs is discussed below.

#### Third party asset securitisation SPEs

*NAB sponsored securitisation SPEs for client securitisation assets and third party transactions*

For these transactions, securitisation structures are established by the Group, comprising one or numerous SPEs to purchase and fund customer assets, including in securitised form. Previously, securitisation structures also included purchasing of rated securities arbitrage assets (purchased assets). Securities arbitrage activities have been discontinued by the Group. Each SPE funds the acquisition of assets or securities backed by the assets by:

- The issuance of debt securities (medium term notes or MTN) directly into the market (term securitisation); or
- The issuance of debt securities (asset backed commercial paper or ABCP) via an issuing entity (ABCP conduit funding). Standby liquidity facilities are typically made available to the ABCP conduits to fund acquired assets in the event that ABCP cannot be rolled or reissued to external investors; or
- The drawdown under funding facilities (securitisation funding facilities and warehouse facilities) provided by the Group directly to the SPE.

Ordinary equity in the securitisation SPE is typically held by a third party.

Most of the transactions in which the Group gains exposure to the securitisation SPEs are transactions funded through its sponsored multi-seller ABCP conduits and by securitisation funding facilities and warehouse facilities provided to the NAB sponsored SPEs established under Titan Securitisation, TSL (USA) Inc, Quasar Securitisation, CentreStar and MiraStar Securitisation. The Group undertakes one or more of the following roles of arranger, manager (through wholly-owned subsidiaries), standby liquidity provider, securitisation funding facility provider, asset liquidity provider, warehouse facility provider, derivative provider and dealer.

The NAB sponsored securitisation SPEs are consolidated in the financial statements.

*Non-NAB sponsored securitisation SPEs for third party securitisation assets*

For these transactions, securitisation SPEs are established by market participants, other than the Group, to acquire and fund various assets by issuing securities to external investors. The Group's exposures to these SPEs arise from provision of standby liquidity facilities that can be drawn in the event that ABCP cannot be rolled or reissued to external investors and, in some cases, other facilities provided to fund and support acquired assets. These entities are generally not consolidated, with facilities provided by the Group (and drawn) being included in loans and advances.

#### Securitisation funding and standby liquidity facilities

The Group's securitisation SPE exposures fall into two categories: purchased assets, which were acquired on set investment criteria to seed a new ABCP conduit or achieve critical mass; and client originated assets, which were originated as part of a broader client relationship. Within these categories the SPE exposures are categorised by asset class, resulting in the grouping of the exposures based on common features and risks.

*Table 1* summarises the Group's exposures to both NAB sponsored and non-NAB sponsored SPEs via securitisation funding facilities and standby liquidity facilities provided to ABCP conduits. *Table 2* separates those exposures which are managed by Specialised Group Assets (SGA) and Wholesale Banking. Both tables show the facility limits extended by the Group, the amount drawn and available to be drawn under the respective facilities, and related provisions. It also shows the total securities issued by the relevant SPEs including ABCP and MTN, the carrying value of the SPE assets (other than cash), and the associated fair value.

Note: The standby liquidity facilities are only available to fund repayment of outstanding ABCP in cases where it cannot be rolled or reissued to external investors. For these facilities, the unutilised limit over and above the drawn and available amount cannot be accessed to fund additional assets until ABCP is reissued.

Selected comparative information for 31 March 2010 is provided, with further detail available in the 2010 half year results.

(1) *Securities arbitrage (funding of purchased assets) activities have been discontinued by the Group and, along with several client originated SPE exposures no longer deemed part of the Group's core activities (largely Northern Hemisphere originated exposures), are being managed separately as part of the Specialised Group Assets division.*

| Table 1<br>As at 30 September 2010 | Group facilities<br>Limit<br>$m | <br>Drawn & Available[1]<br>$m | <br>Drawn-down<br>$m | <br>Provisions[2]<br>$m | SPE<br>Securities on issue[3]<br>$m | <br>Total asset value[4]<br>$m | <br>Fair value[5]<br>$m |
|---|---|---|---|---|---|---|---|
| SPE purchased ABS CDOs: | | | | | | | |
| Senior tranche ABS CDO | 233 | **233** | 233 | (109) | - | 233 | 76 |
| Mezzanine tranche ABS CDO | - | **-** | - | - | - | - | 2 |
| Total SPE purchased ABS CDOs [6] | 233 | **233** | 233 | (109) | - | 233 | 78 |
| SPE other purchased assets: | | | | | | | |
| Infrastructure (credit wrapped bonds) [7] | 260 | **260** | 260 | - | - | 260 | 248 |
| Leveraged loans (CLOs) | 1,432 | **1,432** | 1,432 | - | - | 1,432 | 1,284 |
| Commercial property (CMBS) | 595 | **595** | 595 | - | - | 595 | 480 |
| Corporates (SCDO) [8] | 1,501 | **1,501** | 1,501 | - | - | 1,501 | 1,044 |
| Total SPE other purchased assets | 3,788 | **3,788** | 3,788 | - | - | 3,788 | 3,056 |
| NAB client originated assets: | | | | | | | |
| Auto / Equipment | 204 | **109** | 109 | (4) | 100 | 209 | 203 |
| Credit wrapped bonds | 758 | **697** | 697 | - | 464 | 1,161 | 1,039 |
| Prime residential mortgages | 2,651 | **2,449** | 1,589 | - | 1,514 | 3,103 | 3,103 |
| Non-conforming residential mortgages | 393 | **370** | 370 | - | 130 | 500 | 489 |
| Sub-prime residential mortgages | 119 | **119** | 119 | - | - | 119 | 108 |
| Subscription loans | 713 | **569** | 569 | - | - | 569 | 569 |
| Commercial Property (CMBS) | 148 | **148** | 148 | - | 119 | 267 | 264 |
| NAB CLO | 424 | **424** | 424 | - | - | 424 | 424 |
| Credit wrapped ABS | 639 | **639** | 639 | - | - | 639 | 337 |
| Other[9] | 616 | **424** | 424 | - | 11 | 435 | 420 |
| Total NAB client originated assets | 6,665 | **5,948** | 5,088 | (4) | 2,338 | 7,426 | 6,956 |
| *Represented by:* | | | | | | | |
| NAB sponsored SPEs | 4,275 | **4,027** | 4,027 | - | 676 | 4,703 | 4,237 |
| Non-NAB sponsored SPEs | 2,390 | **1,921** | 1,061 | - | 1,662 | 2,723 | 2,719 |
| Total NAB client originated assets | 6,665 | **5,948** | 5,088 | (84) | 2,338 | 7,426 | 6,956 |
| **Total standby liquidity facilities [10]** | 10,686 | **9,969** | 9,109 | (197) | 2,338 | 11,447 | 10,090 |

| As at 31 March 2010 | Group facilities | | | | SPE | | |
|---|---|---|---|---|---|---|---|
| | Limit $m | Drawn & Available(1) $m | Drawn-down $m | Provisions(2) $m | Securi-ties on issue(3) $m | Total asset value(4) $m | Fair value(5) $m |
| Total SPE purchased ABS CDOs (6) | 248 | **248** | 248 | (114) | - | 248 | 72 |
| Total SPE other purchased assets | 4,020 | **4,020** | 4,020 | - | - | 4,020 | 3,223 |
| Total NAB client originated assets | 7,640 | **6,653** | 4,819 | (9) | 3,701 | 8,520 | 7,968 |
| *Represented by:* | | | | | | | |
| NAB sponsored SPEs | 5,252 | **4,952** | 3,986 | - | 1,697 | 5,683 | 5,140 |
| Non-NAB sponsored SPEs | 2,388 | **1,701** | 833 | - | 2,004 | 2,837 | 2,828 |
| Total NAB client originated assets | 7,640 | **6,653** | 4,819 | (95) | 3,701 | 8,520 | 7,968 |
| **Total standby liquidity facilities (10)** | 11,908 | **10,921** | 9,087 | (218) | 3,701 | 12,788 | 11,263 |

(1) *Drawn and available represents amounts drawn-down under the facility, and amounts currently available to be drawn (for standby liquidity facilities, this is limited to the amounts that maybe required to repay maturing ABCP if it cannot be rolled).*

(2) *Includes both specific and collective provisions. Provisions include exchange rate movements. The provisions disclosed are shown net of any expected recoveries under the risk mitigation strategy (refer "Protection purchased to hedge exposure to SPE other purchased assets"). A separate management overlay of $160 million still exists in respect of conduit related assets and derivative transactions to reflect the uncertainty created by the deteriorating economic conditions and impact of any potential default.*

(3) *Securities on issue exclude amounts drawn under the facilities and include ABCP issued of $860 million of which $349 million is held by the Group and medium term notes of $1,478 million.*

(4) *Comprises total gross non-cash assets before provisions of the SPEs. For non-NAB sponsored SPEs, this only includes that portion of the SPE assets to which the Group is exposed through the securitisation funding facilities or the standby liquidity facilities. The drawn-down amounts on these facilities are recorded on the Group's balance sheet.*

(5) *The estimated fair values are based on relevant information at 30 September 2010 and 31 March 2010 respectively. These estimates involve matters of judgement, as changes in assumptions could have a material impact on the amounts estimated. There are various limitations inherent in this fair value disclosure particularly in the current market where, due to the uncertainty in the market, prices may not represent the underlying value. Not all of the Group's financial instruments can be exchanged in an active trading market. The Group obtains the fair values for investment securities from quoted market prices, where available. Where securities are unlisted and quoted market prices are not available, the Group obtains the fair value by means of anticipated discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity. In addition, it is the Group's intent to hold its financial instruments to maturity. The difference to fair value represents the significant change in discount rates in the current depressed markets. This is relevant in a trading environment, but is not relevant to assets held to maturity and loans and advances. This is consistent with the treatment of assets of the wider Group. The fair value of the SCDOs reflects the Group's exposure subsequent to the purchase of additional protection (refer "Protection purchased to hedge exposure to SPE other purchased assets" for further information). The fair value of infrastructure (credit wrapped bonds), credit wrapped bonds and credit wrapped ABS ascribes minimal value to the protection afforded by insurance policies from financial guarantee (monoline) insurers.*

(6) *SGA has exposure to a portfolio of ABS CDOs that contain exposure to US sub-prime mortgage assets. Provisions in the aggregate of $1,011 million were taken in 2008 to reflect expected losses on this portfolio. While most assets within this portfolio were written off in full, a single asset remains. The specific provision against this asset is approximately 46.8% of its current balance.*

(7) *The total asset value of infrastructure (credit wrapped bonds) purchased by other SPEs is substantially funded by facilities provided by the Group.*

(8) *The limit, drawn and available and drawn amounts includes exposures which have been subject to recovery under the risk mitigation strategy (refer "Protection purchased to hedge exposure to SPE other purchased assets"). During the year $528 million in write-offs were recovered under the risk mitigation strategy.*

(9) *Other exposures include trade receivable and other asset backed securities.*

(10) *The movement from 31 March 2010 to 30 September 2010 is comprised of a reduction for repayments and restructured facilities of $1.0 billion, decrease for exchange rate movements of $0.3 billion and an increase for redraws, limit increases or new transactions of $0.3 billion.*

*Table 2* shows the SPE exposures, related provisions, carrying value of the SPE assets (other than cash) and the associated fair value by Division.

| Table 2 Divisional distribution [1] | Group facilities | | | | SPE | | |
|---|---|---|---|---|---|---|---|
| | Limit $m | Drawn & Available $m | Drawn-down $m | Provisions[2] $m | Securities on issue $m | Total asset value $m | Fair value $m |
| **As at 30 September 2010** | | | | | | | |
| **Specialised Group Assets managed:** | | | | | | | |
| Senior tranche ABS CDO | 233 | **233** | 233 | (109) | - | 233 | 76 |
| Mezzanine tranche ABS CDO | - | **-** | - | - | - | - | 2 |
| Leveraged loans (CLOs) | 1,432 | **1,432** | 1,432 | - | - | 1,432 | 1,284 |
| Commercial property (CMBS) | 647 | **647** | 647 | - | - | 647 | 529 |
| Corporates (SCDO) | 1,501 | **1,501** | 1,501 | - | - | 1,501 | 1,044 |
| Infrastructure (credit wrapped bonds) | 260 | **260** | 260 | - | - | 260 | 248 |
| Credit wrapped bonds | 758 | **697** | 697 | - | - | 697 | 616 |
| Credit wrapped ABS | 639 | **639** | 639 | - | - | 639 | 337 |
| Auto / Equipment | 95 | **-** | - | - | - | - | - |
| Non-conforming residential mortgages | 142 | **142** | 142 | - | - | 142 | 131 |
| Sub-prime residential mortgages | 119 | **119** | 119 | - | - | 119 | 108 |
| Subscription loans | 713 | **569** | 569 | - | - | 569 | 569 |
| NAB CLO | 424 | **424** | 424 | - | - | 424 | 424 |
| Other | 36 | **36** | 36 | - | - | 36 | 22 |
| **Total Specialised Group Assets [3]** | 6,999 | **6,699** | 6,699 | (109) | - | 6,699 | 5,390 |
| Represented by: | | | | | | | |
| NAB sponsored SPEs | 6,904 | **6,699** | 6,699 | - | - | 6,699 | 5,390 |
| Non-NAB sponsored SPEs | 95 | **-** | - | - | - | - | - |
| **Total Specialised Group Assets [2] [3]** | 6,999 | **6,699** | 6,699 | (192) | - | 6,699 | 5,390 |
| **Wholesale Banking managed:** | | | | | | | |
| Auto / Equipment | 109 | **109** | 109 | (4) | 100 | 209 | 203 |
| Commercial property (CMBS) | 96 | **96** | 96 | - | 119 | 215 | 215 |
| Prime residential mortgages | 2,651 | **2,449** | 1,589 | - | 1,514 | 3,103 | 3,103 |
| Non-conforming residential mortgages | 251 | **228** | 228 | - | 130 | 358 | 358 |
| Credit wrapped bonds [4] | - | **-** | - | - | 464 | 464 | 423 |
| Other | 580 | **388** | 388 | - | 11 | 399 | 398 |
| **Total Wholesale Banking [5]** | 3,687 | **3,270** | 2,410 | (4) | 2,338 | 4,748 | 4,700 |
| *Represented by:* | | | | | | | |
| NAB sponsored SPEs | 1,392 | **1,349** | 1,349 | - | 676 | 2,025 | 1,981 |
| Non-NAB sponsored SPEs | 2,295 | **1,921** | 1,061 | - | 1,662 | 2,723 | 2,719 |
| **Total Wholesale Banking [2] [5]** | 3,687 | **3,270** | 2,410 | (5) | 2,338 | 4,748 | 4,700 |
| **Total exposure to standby liquidity facilities** | 10,686 | **9,969** | 9,109 | (197) | 2,338 | 11,447 | 10,090 |

| As at 31 March 2010 | Group facilities | | | | SPE | | |
|---|---|---|---|---|---|---|---|
| | Limit $m | Drawn & Available $m | Drawn-down $m | Provisions[2] $m | Securities on issue $m | Total asset value $m | Fair value $m |
| **Specialised Group Assets managed:** | | | | | | | |
| *Represented by:* | | | | | | | |
| NAB sponsored SPEs | 7,728 | **7,489** | 6,523 | - | 966 | 7,489 | 6,011 |
| Non-NAB sponsored SPEs | 215 | **-** | - | - | - | - | - |
| **Total Specialised Group Assets [3]** | 7,943 | **7,489** | 6,523 | (206) | 966 | 7,489 | 6,011 |
| **Wholesale Banking managed:** | | | | | | | |
| *Represented by:* | | | | | | | |
| NAB sponsored SPEs | 1,792 | **1,731** | 1,731 | - | 731 | 2,462 | 2,424 |
| Non-NAB sponsored SPEs | 2,173 | **1,701** | 833 | - | 2,004 | 2,837 | 2,828 |
| **Total Wholesale Banking [5]** | 3,965 | **3,432** | 2,564 | (12) | 2,735 | 5,299 | 5,252 |
| **Total exposure to standby liquidity facilities** | 11,908 | **10,921** | 9,087 | (218) | 3,701 | 12,788 | 11,263 |

(1) *Management of underlying exposure i.e. the management of the exposure between Wholesale Banking and Specialised Group Assets.*

(2) *Provisions include both specific and collective provisions. Collective provisions for SGA ($83 million) and Wholesale Banking ($1 million) have been calculated across the portfolio of NAB sponsored and non-NAB sponsored assets. The specific provisions have been allocated against the specific asset classes whilst the collective provisions have been included in the totals.*

(3) *The movement from 31 March 2010 to 30 September 2010 is comprised of a reduction for repayments and restructured facilities of $0.5 billion and a decrease for exchange rate movements of $0.3 billion.*

(4) *A consolidated NAB sponsored SPE issued medium term notes to investors. The investors are exposed to all the risk and NAB only provides a standby letter of credit of $209,000 to fund unexpected expenses. The facility has never been drawn.*

(5) *The movement from 31 March 2010 to 30 September 2010 is comprised of a reduction for repayments and restructured facilities of $0.5 billion and an increase for redraws, limit increases or new transactions of $0.3 billion.*

*Table 3* shows the total drawn and available securitisation funding and standby liquidity facility of the Group to all securitisation SPEs by Geography.

| **Table 3 Geographic distribution**[1] | **Australia & New Zealand $m** | **Europe $m** | **United States $m** | **Asia & Other $m** | **Total drawn & available $m** | **Weighted Average Term to Maturity**[2] **yrs** |
|---|---|---|---|---|---|---|
| **As at 30 September 2010** | | | | | | |
| SPE purchased ABS CDOs: | | | | | | |
| Senior tranche ABS CDO | - | - | 233 | - | **233** | 27.1 |
| Mezzanine tranche ABS CDO | - | - | - | - | **-** | - |
| Total SPE purchased ABS CDOs | - | - | 233 | - | **233** | 27.1 |
| SPE other purchased assets: | | | | | | |
| Infrastructure (credit wrapped bonds) [3] | 150 | 110 | - | - | **260** | 1.5 |
| Leveraged loans (CLOs) [4] | - | 724 | 706 | 2 | **1,432** | 4.4 |
| Commercial property (CMBS) [5] | - | 595 | - | - | **595** | 3.0 |
| Corporates (SCDO) [6] | 53 | 568 | 793 | 87 | **1,501** | 5.2 |
| Total SPE other purchased assets | 203 | 1,997 | 1,499 | 89 | **3,788** | 4.3 |
| NAB client originated assets: | | | | | | |
| Auto / Equipment | 109 | - | - | - | **109** | 1.8 |
| Credit wrapped bonds [3] | 697 | - | - | - | **697** | 7.2 |
| Prime residential mortgages | 2,449 | - | - | - | **2,449** | 21.4 |
| Non-conforming residential mortgages | 228 | 142 | - | - | **370** | 23.1 |
| Sub-prime residential mortgages | - | - | 119 | - | **119** | 24.2 |
| Subscription loans | 8 | 128 | 356 | 77 | **569** | 1.3 |
| Commercial Property (CMBS) | 96 | - | 52 | - | **148** | 2.1 |
| NAB CLO | 332 | 59 | 21 | 12 | **424** | 1.0 |
| Credit wrapped ABS [3] | - | - | 615 | 24 | **639** | 24.6 |
| Other | 388 | - | 36 | - | **424** | 3.7 |
| Total NAB client originated assets | 4,307 | 329 | 1,199 | 113 | **5,948** | 14.8 |
| **Total exposure to standby liquidity facilities** | 4,510 | 2,326 | 2,931 | 202 | **9,969** | 10.4 |
| **Managed within:** | | | | | | |
| Wholesale Banking | 3,270 | - | - | - | **3,270** | 18.7 |
| Specialised Group Assets | 1,240 | 2,326 | 2,931 | 202 | **6,699** | 7.3 |
| **Total exposure to standby liquidity facilities** | 4,510 | 2,326 | 2,931 | 202 | **9,969** | 10.4 |

| **As at 31 March 2010** | **Australia & New Zealand $m** | **Europe $m** | **United States $m** | **Asia & Other $m** | **Total drawn & available $m** | **Weighted Average Term to Maturity yrs** |
|---|---|---|---|---|---|---|
| Total SPE purchased ABS CDOs | - | - | 248 | - | **248** | 27.5 |
| Total SPE other purchased assets | 321 | 1,982 | 1,622 | 95 | **4,020** | 4.5 |
| Total NAB client originated assets | 4,487 | 464 | 1,586 | 116 | **6,653** | 14.7 |
| **Total exposure to standby liquidity facilities** | 4,808 | 2,446 | 3,456 | 211 | **10,921** | 10.6 |

(1) *Location of underlying exposure i.e. the location of the ultimate borrower/reference entity within the portfolios on a look through basis.*

(2) *Reflects the weighted average contractual maturity of the underlying exposure of the SPE on a look through basis.*

(3) *Credit wrapped bonds and ABS are wrapped by financial guarantee (monoline) insurers.*

(4) *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 defaults to date range from 3-15% with modest realised losses on underlying corporate loan collateral. Excess spread available to cover ongoing losses generally exceeds 1% per annum of the current principal balance of each CLO transaction.*

(5) *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 60-83%. In general, the properties securing larger loans are let with quality tenants, have low vacancy rates and good lease profiles. The loan vintages are generally 2006 and 2007.*

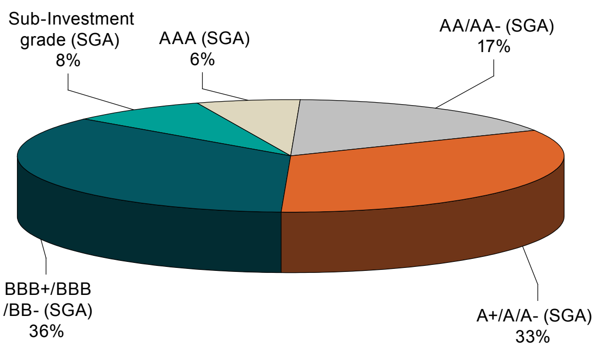
(6) *Includes six credit linked notes backed by six single tranche corporate credit CDOs (portfolios of credit default swaps) and collateral. The drawn and available amount includes exposures which have been subject to recovery under the risk mitigation strategy (refer "Protection purchased to hedge exposure to SPE other purchased assets"). During the year $528m in write-offs were recovered under the risk mitigation strategy.*

## Further analysis of facilities

*Rating analysis*

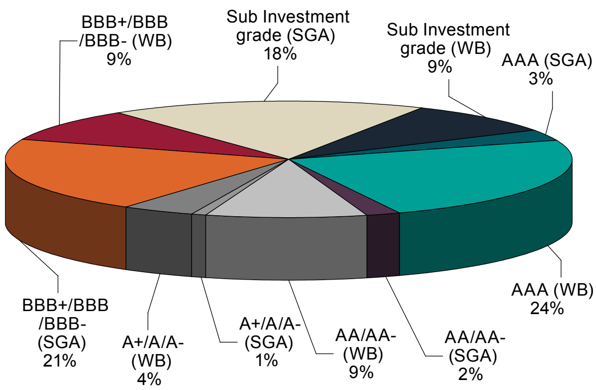
The ABS CDO of $233 million not written off is currently rated CC by S&P and Ca by Moody's.

**Current S&P equivalent ratings - $3.8 billion SPE other purchased assets (1)**




(1) *Includes internally rated assets mapped to S&P risk grades, taking into account the risk mitigation strategy on the SCDO's. These exposures only exist within SGA.*

**Current S&P equivalent ratings - $5.9 billion NAB client originated assets split by business (1) (2)**




(1) *Includes NAB internally rated assets mapped to S&P risk grades.*
(2) *The current ratings of credit wrapped bonds are based on the BBB+ ratings of the underlying assets.*

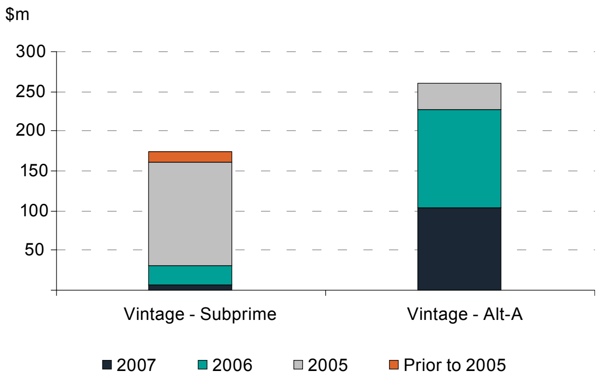
*Asset Quality information relevant to specific exposures*

*Table 4* shows asset quality and past due analysis of underlying collateral of NAB client originated assets.

| **Table 4 As at 30 September 2010** | **Weighted average current LVR %** | **Mortgage Insurance coverage %** | **Days Past Due 31-60 %** | **Days Past Due 61-90 %** | **Days Past Due >90 %** |
|---|---|---|---|---|---|
| **Specialised Group Assets managed:** | | | | | |
| Auto / Equipment (1) | n/a | n/a | 1.85% | 0.21% | 0.41% |
| Non-conforming residential mortgages (2) | 83.16% | - | 4.24% | 2.98% | 18.51% |
| Sub-prime residential mortgages (2) | 82.46% | 51.61% | 4.37% | 2.46% | 11.67% |
| **Wholesale Banking managed:** | | | | | |
| Auto / Equipment (1) | n/a | n/a | 1.52% | 0.65% | 1.23% |
| Prime residential mortgages | 70.09% | 90.39% | 1.08% | 0.41% | 1.21% |
| Non-conforming residential mortgages | 62.94% | 1.88% | 1.26% | 0.77% | 4.07% |

(1) *All auto/equipment transactions benefit from various types of credit enhancements including subordination and excess spread.*
(2) *Current mortgage insurance coverage on sub-prime residential mortgages is shown. The >90 days percentage for sub-prime residential mortgages does not include loans in foreclosure or homes foreclosed upon but not liquidated. Total sub-prime foreclosure represent an additional 22.98% of the current principal balance. Foreclosures and repossessed properties for non-conforming residential mortgages represent 1.82% of the current principal balance which together with >90 days represents 20.33% of the current principal balance.*

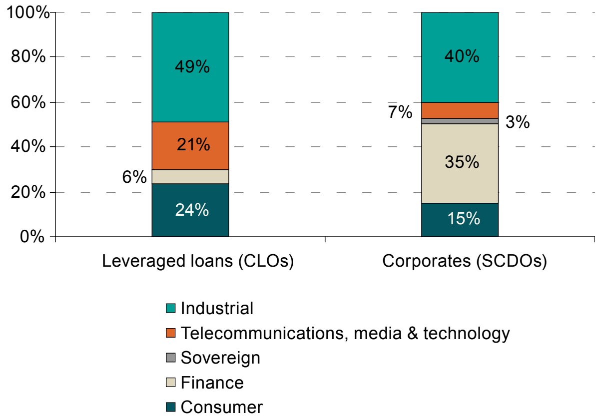
## Vintage of sub-prime and Alt-A exposures [(1)] [(2)]




(1) *US sub-prime exposure of the Group was $175 million as at 30 September 2010. This amount represents $16 million included in ABS CDOs not written off, $119 million of sub-prime residential mortgage backed securities and $40 million as part of credit wrapped ABS in the NAB client originated assets. These exposures only exist within SGA.*

(2) *US Alt-A exposure of the Group was $260 million as at 30 September 2010. This amount represents $114 million included in ABS CDOs not written off, and $146 million as part of credit wrapped ABS in the NAB client originated assets. These exposures only exist within SGA.*

## Industry splits - SPE other purchased assets [(1)] [(2)]




(1) *Leverage loans (CLOs) total $1.4 billion.*

(2) *Corporates (SCDOs) total $1.5 billion.*

## Securitisation SPE credit exposure to the financial guarantor sector (monoline insurers)

*Table 5* summarises the indirect exposures to third party transactions supported by monoline financial guarantees 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.

| | Exposures to monoline insurers | |
|---|---|---|
| **Table 5** | **Sep 10 $m** | **Mar 10 $m** |
| **Specialised Group Assets managed:** | | |
| Infrastructure (credit wrapped bonds) [(1)] | 260 | 375 |
| Guaranteed investment contracts (provided to SCDOs) [(2)] | 271 | 395 |
| Credit wrapped bonds [(1)] | 758 | 764 |
| Credit wrapped ABS [(3)] | 639 | 712 |
| Other | 36 | 38 |
| **Total Specialised Group Assets [(4)]** | 1,964 | 2,284 |

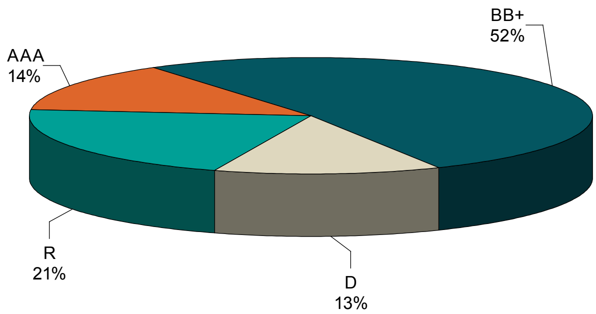
(1) *These bonds include those issued by well known essential infrastructure and energy borrowers and are themselves high quality investment grade assets.*

(2) *Funds invested by SPEs in two 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.*

(4) *There are no Wholesale Banking exposures which rely on monoline insurers.*

## Current S&P rating of monolines [(1)]




(1) *The D rated monoline provides a guarantee for one of the credit wrapped bonds. The rating of the underlying asset is BBB+. The R rated (regulatory action under an order of rehabilitation or liquidation) monoline provides a guarantee for three of the credit wrapped securities, two of these are rated higher than the monoline provider. The ratings of the two underlying assets are rated between BB+ and BBB+.*

## Protection purchased to hedge exposure to SPE other purchased assets

In September 2008 the Group completed a risk mitigation strategy in relation to its exposure to Corporates (SCDO) within its securitisation SPE portfolio. As a result, long-dated hedges were entered into with a large, highly reputable, global bank counterparty which strengthened the Group's position and substantially reduced the likelihood of loss arising from the SCDOs. Subordination was improved as a result of risk mitigation activities, and the portfolio is managed to maintain the credit quality of the tranche.

During the year the Group recovered losses of $528 million relating to write downs of the underlying notes as a result of credit events within the portfolio. Consistent with the Group's expectation and the above risk mitigation strategy the Group has recovered all of its losses on the original investment associated with this write down. The recovery under the hedging strategy is recognised within other income in the Income Statement.

Further ratings migration and defaults are expected. The exposure is being managed by a dedicated specialised team together with input from an external portfolio manager. Additional modest hedging may be considered from time to time. The SCDOs are currently rated between A- and BB. During the prior year a management overlay of $160 million was taken in respect of conduit related assets and derivative transactions to reflect the uncertainty created by the deteriorating economic conditions and any potential default. This management overlay remains on the Group's balance sheet.

### Other exposures

In addition to securitisation funding facilities and standby liquidity facilities discussed above, there are securitisation SPE exposures arising from warehouse facilities (refer Table 6), asset liquidity facilities ($488 million), credit enhancements ($66 million) investments in non-NAB sponsored SPEs ($2,221 million), derivatives ($2 million) and redraw facilities ($17 million).

Derivative transactions include interest rate and currency derivatives provided to securitisation SPEs.

Warehouse facilities are funding facilities provided to SPEs holding client assets until such time as the facility is refinanced by ABCP conduits or the term securitisation market. Typically these facilities are reviewed annually.

These facilities are in addition to securitisation funding facilities and standby liquidity facilities.

*Table 6* shows the limit and drawn amount under the facility. The undrawn limit is available to fund additional assets.

| **Table 6**<br>**As at 30 September 2010** | **Limit**<br>**$m** | **Drawn-down**<br>**$m** |
|---|---|---|
| **Specialised Group Assets managed:** | | |
| Non-conforming residential mortgages | 303 | 303 |
| **Wholesale Banking managed:** | | |
| Prime residential mortgages | 2,750 | 1,974 |
| Non-conforming residential mortgages | 1,282 | 1,050 |
| Total warehouse facilities - Wholesale Banking [(1)] | 4,032 | 3,024 |
| **Total warehouse facilities** | 4,335 | 3,327 |

| **As at 31 March 2010** | **Limit**<br>**$m** | **Drawn-down**<br>**$m** |
|---|---|---|
| Total warehouse facilities - Specialised Group Assets | 321 | 321 |
| Total warehouse facilities - Wholesale Banking | 3,775 | 2,286 |
| **Total warehouse facilities** | 4,096 | 2,607 |

(1) *Of the drawn-down amount $1.6 billion (March 2010 $1.3 billion) is via consolidated NAB-sponsored SPEs resulting in the recognition of the underlying assets on the balance sheet.*

*Table 7* shows the available asset quality and past due analysis of underlying collateral of warehouse facilities.

| **Table 7**<br>**As at 30 September 2010** | **Weighted average current LVR**<br>**%** | **Mortgage Insurance coverage**<br>**%** | **Days Past Due**<br>**31-60**<br>**%** | **Days Past Due**<br>**61-90**<br>**%** | **Days Past Due**<br>**> 90**<br>**%** |
|---|---|---|---|---|---|
| Specialised group assets managed | | | | | |
| Non-conforming residential mortgages | 56.37% | - | 6.35% | 3.63% | 3.64% |
| Wholesale Banking managed | | | | | |
| Prime residential mortgages [(1)] | 67.70% | 96.23% | 0.16% | 0.09% | 0.35% |
| Non-conforming residential mortgages | 72.98% | - | 1.29% | 1.16% | 1.12% |

(1) *Includes a senior most position in a transaction structured to invest in fully insured non-performing prime mortgages.*

## Risk Weights for Securitisation Exposure

*Table 8* shows the risk weights for securitisation exposures as calculated under the Australian Prudential Standard for Securitisation (APS 120), predominately using the Standardised Approach and includes conduit exposures (table 1), warehouse facilities (table 6) and other securitisation SPE exposures disclosed in the "Other Exposures" section above. The table separates the risk weights between SGA and Wholesale Banking.

| | Sep 10 | | Mar 10 | |
|---|---|---|---|---|
| **Table 8** | **Exposure [1] $m** | **RWA $m** | **Exposure [1] $m** | **RWA $m** |
| Specialised Group Assets managed: | | | | |
| ≤ 10% | - | - | - | - |
| > 10% ≤ 25% | 1,465 | 277 | 1,923 | 364 |
| > 25% ≤ 35% | 206 | 72 | 129 | 45 |
| > 35% ≤ 50% | 991 | 495 | 988 | 493 |
| > 50% ≤ 75% | 199 | 141 | 209 | 146 |
| > 75% ≤ 100% | 2,068 | 2,068 | 2,517 | 2,517 |
| >100% ≤ 650% | 2,140 | 6,872 | 2,256 | 7,338 |
| Deductions | 126 | - | 142 | - |
| Total Specialised Group Assets | 7,195 | 9,925 | 8,164 | 10,903 |
| Wholesale Banking managed: | | | | |
| ≤ 10% | 6,143 | 444 | 3,938 | 280 |
| > 10% ≤ 25% | 2,801 | 389 | 3,000 | 449 |
| > 25% ≤ 35% | 47 | 15 | 81 | 26 |
| > 35% ≤ 50% | - | - | - | - |
| > 50% ≤ 75% | 179 | 129 | 110 | 82 |
| > 75% ≤ 100% | 158 | 158 | 286 | 286 |
| >100% ≤ 650% | 10 | 43 | 3 | 16 |
| Deductions | 126 | - | 148 | - |
| Total Wholesale Banking [2] | 9,464 | 1,178 | 7,566 | 1,139 |
| **Total securitisation exposure** | 16,659 | 11,103 | 15,730 | 12,042 |

(1) *Refer to table 9 for further details on how the exposures relate to the other tables within the FSB report.*

(2) *Wholesale Banking includes BNZ exposures of $72 million (March 2010 $145 million). The risk weighted assets for these exposures are $42 million (March 2010 $125 million).*

## Securitisation Exposures

*Table 9* shows how the various securitisation exposures as disclosed in the FSB reconcile to the above securitisation exposure as calculated under APS 120.

| | Sep 10 | Mar 10 |
|---|---|---|
| **Table 9** | **$m** | **$m** |
| Total group facilities (table 1) | 10,686 | 11,908 |
| Total warehouse facilities (table 6) | 4,335 | 4,096 |
| Total other exposures [1] | 2,794 | 996 |
| **Less:** | | |
| Other banking book exposures [2] | (1,043) | (1,147) |
| Specific provisions (table 1) [3] | (113) | (123) |
| Total securitisation exposures | 16,659 | 15,730 |

(1) *The other exposures includes asset liquidity facilities $488 million (March 2010 $500 million), redrawn facilities $17 million (March 2010 $17 million), derivative transactions $2 million (March 2010 $9 million), credit enhancements $66 million (March 2010 $70 million) and investments in securitisation debt securities $2,221 million (March 2010 $400 million). The significant increase in investments is within Wholesale Banking.*

(2) *The banking book exposures relate to those exposures which are treated as mortgages from a prudential standard perspective and therefore excluded from the securitisation exposures under APS 120.*

(3) *The specific provisions relate to the ABS CDO and Auto/Equipment asset classes as discussed in table 1.*

## Roles in securitisation

The Group may undertake any of the following roles in its third party asset securitisation activities:

- Arranger (the structurer of securitisation transactions);
- Sponsor (the entity that established the securitisation SPEs and often provides other services. NAB sponsored SPEs are established under Titan Securitisation, TSL (USA) Inc, Quasar Securitisation, CentreStar and MiraStar Securitisation legal structures);
- Manager (operator of securitisation SPEs including managing assets and liabilities and providing accounting and administrative services);
- Securitisation funding facility provider (a lender to securitisation SPEs where tenor of the funding extends beyond 1 year and may match the expected redemption date of the underlying security held by the SPE);
- Standby liquidity provider (a provider of liquidity available to repay ABCP if unable to reissue);
- Asset liquidity provider (a provider of liquidity to cover mismatches in cashflow for securitisation structures)
- Warehouse facility provider (a lender to securitisation SPEs pending refinance via issuance of securities);
- Derivative provider;
- Investor in securities issued;
- Letter of credit provider (a provider of credit enhancement to securitisation structures); 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. Most of these facilities fund NAB sponsored securitisation SPEs which are consolidated by the Group. On consolidation the facilities are eliminated and the underlying liabilities and assets, including investments held to maturity in the SPEs, are brought into the Group's balance sheet. Investments held to maturity are accounted for at amortised cost, net of any provision for impairment.

Derivatives such as interest rate swaps, basis swaps or cross-currency swaps have the same accounting treatment as non-securitisation derivatives.

### (c) Funding program SPEs

The Group has established programs to raise funding from the issue of equity instruments.

Material funding programs of the Group that use SPEs are as follows:

| Table 10 | Sep 10 $m | Mar 10 $m |
|---|---|---|
| Trust Preferred Securities | 975 | 975 |
| Trust Preferred Securities II | 1,014 | 1,014 |
| National Capital Instruments | 397 | 397 |
| BNZ Income Securities | 380 | 380 |
| BNZ Income Securities 2 | 203 | 203 |

The SPEs used in the above funding programs are controlled by the Group under Australian Accounting Standards and the International Financial Reporting Standards as issued by the IASB 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.

### (d) Other SPEs

The Group is involved in transactions that involve the use of SPEs. All of these SPEs are recorded on the balance sheet.

| Table 11 | Sep 10 $m | Mar 10 $m |
|---|---|---|
| Consolidated SPEs | | |
| **Group exposure excluding SGA** | | |
| Investments in debt securities | 800 | 856 |
| Investments in property trusts | 142 | 144 |
| Funding transactions | (1,147) | (1,153) |
| Lease finance | 75 | 78 |
| **SGA Exposure** | | |
| Lease finance | 889 | 923 |

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 and other equity related investments as well as a means to access alternate sources of funding.

Lease Financing involves extending finance to clients in order to meet their particular asset financing requirements mainly in the mining, mobile infrastructure and transport industries.

## 2. Net Interest Margins and Spreads

| Group | Year to Sep 10 % | Year to Sep 09 % | Year to Sep 10 v Sep 09 | Half Year to Sep 10 % | Half Year to Mar 10 % | Half Year to Sep 10 v Mar 10 |
|---|---|---|---|---|---|---|
| **Net interest spread** [(1)] | **1.93** | 1.94 | (1 bps) | **1.88** | 1.97 | (9 bps) |
| Benefit of net free liabilities, provisions and equity | **0.31** | 0.22 | 9 bps | **0.35** | 0.28 | 7 bps |
| **Net interest margin** [(2)] **- statutory basis** | **2.24** | 2.16 | 8 bps | **2.23** | 2.25 | (2 bps) |

(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.*

| Average interest earning assets | Year to Sep 10 $bn | Year to Sep 10 Mix % | Year to Sep 09 $bn | Year to Sep 09 Mix % | Movement in mix % of Group AIEA |
|---|---|---|---|---|---|
| Business Banking | **186.1** | **34.0** | 183.5 | 32.8 | 1.2 |
| Personal Banking | **108.5** | **19.8** | 96.1 | 17.2 | 2.6 |
| Wholesale Banking | **144.8** | **26.5** | 168.8 | 30.2 | (3.7) |
| NZ Banking | **45.3** | **8.3** | 46.0 | 8.2 | 0.1 |
| UK Banking | **71.2** | **13.0** | 82.8 | 14.8 | (1.8) |
| Specialised Group Assets | **15.6** | **2.9** | 21.3 | 3.8 | (0.9) |
| Great Western Bank | **6.1** | **1.1** | 5.1 | 0.9 | 0.2 |
| Other [(1)] | **(31.0)** | **(5.6)** | (44.2) | (7.9) | 2.3 |
| **Group** | **546.6** | **100.0** | 559.4 | 100.0 | – |

| Net interest income and margins | Year to Sep 10 $m | Year to Sep 10 NIM % | Year to Sep 09 $m | Year to Sep 09 NIM % | NIM Change |
|---|---|---|---|---|---|
| Business Banking | **4,664** | **2.51** | 4,305 | 2.35 | 16 bps |
| Personal Banking | **2,501** | **2.31** | 2,468 | 2.57 | (26 bps) |
| Wholesale Banking | **1,189** | **0.82** | 1,467 | 0.87 | (5 bps) |
| NZ Banking | **978** | **2.16** | 947 | 2.06 | 10 bps |
| UK Banking | **1,665** | **2.34** | 1,866 | 2.25 | 9 bps |
| Specialised Group Assets | **178** | **1.14** | 220 | 1.03 | 11 bps |
| Great Western Bank | **245** | **4.02** | 196 | 3.76 | 26 bps |
| Other [(1)] | **868** | **n/a** | 603 | n/a | n/a |
| **Group - cash earnings basis** | **12,288** | **2.25** | 12,072 | 2.16 | 9 bps |
| MLC net interest income | **(32)** | **(0.01)** | (4) | - | (1 bps) |
| **Group - statutory basis** | **12,256** | **2.24** | 12,068 | 2.16 | 8 bps |

| Contribution to Group Margin | Impact of Change in NIM [(2)] | Impact of Change in Mix [(3)] | Impact on Group NIM |
|---|---|---|---|
| Business Banking | 5 bps | 0 bps | **5 bps** |
| Personal Banking | (3 bps) | 0 bps | **(3 bps)** |
| Wholesale Banking | (2 bps) | 5 bps | **3 bps** |
| NZ Banking | 1 bps | 0 bps | **1 bps** |
| UK Banking | 1 bps | 0 bps | **1 bps** |
| Specialised Group Assets | 0 bps | 1 bps | **1 bps** |
| Great Western Bank | 0 bps | 1 bps | **1 bps** |
| Other [(1)] | 11 bps | (11 bps) | **0 bps** |
| **Group - cash earnings basis** | 13 bps | (4 bps) | **9 bps** |
| MLC net interest income | (1 bps) | 0 bps | **(1 bps)** |
| **Group - statutory basis** | 12 bps | (4 bps) | **8 bps** |

(1) *Includes MLC & NAB Wealth, Group Funding, other supporting units, and eliminations.*

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

(3) *The increase/(decrease) in net interest margin caused by changes in divisional mix of AIEA.*

## 3. Loans and Advances by Industry and Geography

| As at 30 September 2010 | Australia $m | Europe $m | New Zealand $m | United States $m | Asia $m | Total $m |
|---|---|---|---|---|---|---|
| Government and public authorities | 1,473 | 60 | 429 | 133 | 7 | **2,102** |
| Agriculture, forestry, fishing and mining | 15,898 | 2,987 | 7,426 | 1,045 | 20 | **27,376** |
| Financial, investment and insurance | 10,208 | 2,809 | 871 | 1,141 | 36 | **15,065** |
| Real estate - construction | 1,990 | 1,519 | 426 | 660 | - | **4,595** |
| Manufacturing | 7,364 | 2,086 | 1,615 | 40 | 69 | **11,174** |
| Instalment loans to individuals and other personal lending (including credit cards) | 9,204 | 4,498 | 1,708 | 160 | 7 | **15,577** |
| Real estate - mortgage | 181,997 | 20,941 | 20,101 | 772 | 1,089 | **224,900** |
| Asset and lease financing | 13,415 | 2,667 | 18 | - | 9 | **16,109** |
| Commercial property services | 47,255 | 13,099 | 5,253 | 26 | 227 | **65,860** |
| Other commercial and industrial | 45,824 | 11,371 | 4,282 | 2,959 | 787 | **65,223** |
| **Gross loans and advances including acceptances** [(1)] | 334,628 | 62,037 | 42,129 | 6,936 | 2,251 | **447,981** |
| Deduct: | | | | | | |
| Unearned income and deferred net fee income | (1,898) | (539) | (34) | (14) | (9) | **(2,494)** |
| Provisions for doubtful debts | (2,984) | (937) | (267) | (75) | (11) | **(4,274)** |
| **Total net loans and advances including acceptances** | 329,746 | 60,561 | 41,828 | 6,847 | 2,231 | **441,213** |

| As at 31 March 2010 | Australia $m | Europe $m | New Zealand $m | United States $m | Asia $m | Total $m |
|---|---|---|---|---|---|---|
| Government and public authorities | 1,268 | 64 | 500 | 138 | - | **1,970** |
| Agriculture, forestry, fishing and mining | 15,295 | 3,071 | 7,423 | 734 | 7 | **26,530** |
| Financial, investment and insurance | 9,684 | 3,208 | 994 | 1,757 | 62 | **15,705** |
| Real estate - construction | 1,940 | 1,564 | 434 | 330 | - | **4,268** |
| Manufacturing | 7,327 | 1,956 | 1,906 | 122 | 63 | **11,374** |
| Instalment loans to individuals and other personal lending (including credit cards) | 9,266 | 4,594 | 1,443 | 377 | 8 | **15,688** |
| Real estate - mortgage | 169,060 | 20,581 | 20,108 | 259 | 1,006 | **211,014** |
| Asset and lease financing | 13,664 | 2,856 | 21 | - | 9 | **16,550** |
| Commercial property services | 48,559 | 14,054 | 5,711 | - | 857 | **69,181** |
| Other commercial and industrial | 43,280 | 11,775 | 4,102 | 2,265 | 774 | **62,196** |
| **Gross loans and advances including acceptances** [(1)] | 319,343 | 63,723 | 42,642 | 5,982 | 2,786 | **434,476** |
| Deduct: | | | | | | |
| Unearned income and deferred net fee income | (1,877) | (564) | (34) | (13) | (9) | **(2,497)** |
| Provisions for doubtful debts | (3,177) | (959) | (259) | (83) | (13) | **(4,491)** |
| **Total net loans and advances including acceptances** | 314,289 | 62,200 | 42,349 | 5,886 | 2,764 | **427,488** |

| As at 30 September 2009 | Australia $m | Europe $m | New Zealand $m | United States $m | Asia $m | Total $m |
|---|---|---|---|---|---|---|
| Government and public authorities | 1,273 | 65 | 576 | 129 | - | **2,043** |
| Agriculture, forestry, fishing and mining | 14,944 | 3,228 | 7,820 | 755 | 12 | **26,759** |
| Financial, investment and insurance | 10,698 | 4,738 | 1,288 | 2,006 | 64 | **18,794** |
| Real estate - construction | 1,869 | 2,008 | 384 | 479 | 56 | **4,796** |
| Manufacturing | 7,857 | 2,369 | 2,084 | 135 | 77 | **12,522** |
| Instalment loans to individuals and other personal lending (including credit cards) | 8,990 | 5,411 | 1,490 | 333 | 8 | **16,232** |
| Real estate - mortgage | 157,817 | 22,483 | 20,989 | 292 | 957 | **202,538** |
| Asset and lease financing | 13,878 | 3,447 | 25 | - | - | **17,350** |
| Commercial property services | 50,301 | 16,156 | 6,256 | - | 947 | **73,660** |
| Other commercial and industrial | 41,594 | 12,959 | 4,589 | 2,202 | 532 | **61,876** |
| **Gross loans and advances including acceptances** [(1)] | 309,221 | 72,864 | 45,501 | 6,331 | 2,653 | **436,570** |
| Deduct: | | | | | | |
| Unearned income and deferred net fee income | (2,072) | (669) | (31) | (14) | (7) | **(2,793)** |
| Provisions for doubtful debts | (3,087) | (955) | (256) | (89) | (14) | **(4,401)** |
| **Total net loans and advances including acceptances** | 304,062 | 71,240 | 45,214 | 6,228 | 2,632 | **429,376** |

(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 incurred 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 and interest bearing liabilities of the controlled entities and overseas branches domiciled in New Zealand, United States and Asia. Impaired assets are included within loans and advances in interest earning assets.

### Average assets and interest income

| | Year ended Sep 10 | | | Year ended Sep 09 | | |
|---|---|---|---|---|---|---|
| | Average balance $m | Interest $m | Average rate % | Average balance $m | Interest $m | Average rate % |
| **Average interest earning assets** | | | | | | |
| Due from other banks | | | | | | |
| Australia | **14,057** | **510** | **3.6** | 14,923 | 608 | 4.1 |
| Europe | **22,260** | **110** | **0.5** | 23,305 | 462 | 2.0 |
| Other International | **3,851** | **54** | **1.4** | 4,591 | 85 | 1.9 |
| Marketable debt securities | | | | | | |
| Australia | **24,197** | **973** | **4.0** | 29,239 | 1,595 | 5.5 |
| Europe | **13,756** | **144** | **1.0** | 14,498 | 347 | 2.4 |
| Other International | **10,174** | **218** | **2.1** | 12,881 | 378 | 2.9 |
| Loans and advances - housing | | | | | | |
| Australia | **169,455** | **10,428** | **6.2** | 153,565 | 9,375 | 6.1 |
| Europe | **21,682** | **735** | **3.4** | 25,333 | 982 | 3.9 |
| Other International | **21,932** | **1,377** | **6.3** | 21,634 | 1,572 | 7.3 |
| Loans and advances - non-housing | | | | | | |
| Australia | **96,214** | **7,197** | **7.5** | 93,275 | 6,680 | 7.2 |
| Europe | **44,860** | **1,827** | **4.1** | 58,738 | 2,903 | 4.9 |
| Other International | **31,176** | **1,576** | **5.1** | 33,176 | 1,914 | 5.8 |
| Acceptances | | | | | | |
| Australia | **52,948** | **3,919** | **7.4** | 55,303 | 3,604 | 6.5 |
| Europe | **9** | **-** | **-** | 4 | - | - |
| Other interest earning assets | | | | | | |
| Australia | **3,260** | **520** | **n/a** | 2,951 | 395 | n/a |
| Europe | **13,975** | **187** | **n/a** | 11,924 | 166 | n/a |
| Other International | **2,778** | **49** | **n/a** | 4,017 | 36 | n/a |
| **Total average interest earning assets and interest revenue by:** | | | | | | |
| **Australia** | **360,131** | **23,547** | **6.5** | 349,256 | 22,257 | 6.4 |
| **Europe** | **116,542** | **3,003** | **2.6** | 133,802 | 4,860 | 3.6 |
| **Other International** | **69,911** | **3,274** | **4.7** | 76,299 | 3,985 | 5.2 |
| **Total average interest earning assets and interest revenue** | **546,584** | **29,824** | **5.5** | 559,357 | 31,102 | 5.6 |

| | Year ended Sep 10 $m | Year ended Sep 09 $m |
|---|---|---|
| **Average non-interest earning assets** | | |
| Investments relating to life insurance business (1) | | |
| Australia | **60,304** | 48,853 |
| Other International | **42** | 38 |
| Other assets | **63,626** | 84,353 |
| **Total average non-interest earning assets** | **123,972** | 133,244 |
| Provision for doubtful debts | | |
| Australia | **(3,142)** | (2,532) |
| Europe (2) | **(991)** | (1,082) |
| Other International | **(361)** | (297) |
| **Total average assets** | **666,062** | 688,690 |
| Percentage of total average interest earning assets applicable to international operations | **34.1%** | 37.6% |

(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 (Cth).*

(2) *For the year ended 30 September 2009, an amount of $311 million has been reclassified to Other assets.*

## Average liabilities and interest expense

| | Year ended Sep 10 | | | Year ended Sep 09 | | |
|---|---|---|---|---|---|---|
| | Average balance $m | Interest $m | Average rate % | Average balance $m | Interest $m | Average rate % |
| **Average interest bearing liabilities** | | | | | | |
| Due to other banks | | | | | | |
| Australia | **17,452** | **688** | **3.9** | 17,641 | 684 | 3.9 |
| Europe | **15,861** | **27** | **0.2** | 23,625 | 402 | 1.7 |
| Other International | **5,154** | **80** | **1.6** | 9,958 | 186 | 1.9 |
| On-demand and short-term deposits | | | | | | |
| Australia | **87,052** | **2,775** | **3.2** | 85,852 | 2,313 | 2.7 |
| Europe | **29,884** | **147** | **0.5** | 32,359 | 284 | 0.9 |
| Other International | **13,496** | **178** | **1.3** | 12,505 | 232 | 1.9 |
| Certificates of deposit | | | | | | |
| Australia | **24,810** | **1,046** | **4.2** | 33,038 | 1,687 | 5.1 |
| Europe | **33,759** | **145** | **0.4** | 32,065 | 500 | 1.6 |
| Other International | **7,393** | **94** | **1.3** | 9,854 | 287 | 2.9 |
| Term deposits | | | | | | |
| Australia | **80,960** | **4,147** | **5.1** | 64,928 | 3,341 | 5.1 |
| Europe | **18,190** | **394** | **2.2** | 20,687 | 721 | 3.5 |
| Other International | **27,895** | **851** | **3.1** | 25,470 | 1,043 | 4.1 |
| Other borrowings | | | | | | |
| Australia | **8,199** | **318** | **3.9** | 12,417 | 576 | 4.6 |
| Europe | **144** | **1** | **0.7** | 145 | 5 | 3.5 |
| Other International | **13,409** | **53** | **0.4** | 16,630 | 251 | 1.5 |
| Liability on acceptances | | | | | | |
| Australia | **15,413** | **1,122** | **7.3** | 17,049 | 1,200 | 7.0 |
| Europe | **9** | **-** | **-** | 4 | - | - |
| Bonds, notes and subordinated debt | | | | | | |
| Australia (1) | **80,266** | **4,570** | **5.7** | 89,453 | 4,213 | 4.7 |
| Europe | **8,217** | **111** | **1.4** | 13,082 | 413 | 3.2 |
| Other International | **7,200** | **255** | **3.5** | 6,929 | 245 | 3.5 |
| Other interest bearing liabilities | | | | | | |
| Australia | **228** | **23** | **n/a** | 265 | 73 | n/a |
| Europe | **39** | **93** | **n/a** | 47 | 27 | n/a |
| Other International | **2,460** | **450** | **n/a** | 1,504 | 351 | n/a |
| **Total average interest bearing liabilities and interest expense by:** | | | | | | |
| **Australia** | **314,380** | **14,689** | **4.7** | 320,643 | 14,087 | 4.4 |
| **Europe** | **106,103** | **918** | **0.9** | 122,014 | 2,352 | 1.9 |
| **Other International** | **77,007** | **1,961** | **2.5** | 82,850 | 2,595 | 3.1 |
| **Total average interest bearing liabilities and interest expense** | **497,490** | **17,568** | **3.5** | 525,507 | 19,034 | 3.6 |

(1) *The movement in the average rate paid on long term borrowings has been affected by the classification of the principal amount of the cross-currency swaps that hedge against the underlying borrowings in Australia. The cross-currency swaps are classified as non-interest earning assets. If the cross-currency swaps were included in bonds, notes and subordinated debt, the average rate would be as follows: 5.4% for the year ended 30 September 2010 and 5.0% for the year ended 30 September 2009.*

## Average liabilities

| | Year to | |
|---|---|---|
| | Sep 10 $m | Sep 09 $m |
| **Average non-interest bearing liabilities** | | |
| Deposits not bearing interest | | |
| Australia | 11,909 | 9,894 |
| Europe | 1,889 | 1,942 |
| Other International | 1,452 | 1,444 |
| Life insurance policy liabilities | | |
| Australia | 51,702 | 42,950 |
| Other liabilities | 63,063 | 70,459 |
| **Total average non-interest bearing liabilities** | 130,015 | 126,689 |
| **Total average liabilities** | 627,505 | 652,196 |
| **Average equity** | | |
| Ordinary shares | 17,831 | 13,954 |
| Trust Preferred Securities | 975 | 975 |
| Trust Preferred Securities II | 1,014 | 1,014 |
| National Income Securities | 1,945 | 1,945 |
| National Capital Instruments | 397 | 397 |
| BNZ Income Securities | 380 | 380 |
| BNZ Income Securities 2 | 203 | 53 |
| Contributed equity | 22,745 | 18,718 |
| Reserves | (143) | 31 |
| Retained profits | 15,940 | 17,730 |
| Parent entity interest | 38,542 | 36,479 |
| Non-controlling interest in controlled entities | 15 | 15 |
| **Total average equity** | 38,557 | 36,494 |
| **Total average liabilities and equity** | 666,062 | 688,690 |
| Percentage of total average interest bearing liabilities applicable to international operations | 36.8% | 39.0% |

## 5. Capital Adequacy

Under APRA's Prudential Standards, life insurance and funds management activities are de-consolidated from the National Australia Bank Group for the purposes of calculating capital adequacy and excluded from the risk based capital adequacy framework. The intangible component of the investment in these controlled entities is deducted from Tier 1 capital, with the balance of the investment deducted 50% from Tier 1 and 50% from Tier 2 capital. Additionally, any profits from these activities included in the Group's results are excluded from the determination of Tier 1 capital to the extent that they have not been remitted to the company.

| | As at | | |
|---|---|---|---|
| **Reconciliation to shareholder's funds** | **30 Sep 10 $m** | **31 Mar 10 $m** | **30 Sep 09 $m** |
| Contributed equity | **23,551** | 23,363 | 22,781 |
| Reserves | **(639)** | (879) | (976) |
| Retained profits | **16,028** | 15,693 | 16,010 |
| Non-controlling interest | **14** | 22 | 20 |
| **Total equity per consolidated balance sheet** | **38,954** | 38,199 | 37,835 |
| Liability-accounted Residual Tier 1 hybrid capital (1) | **2,330** | 2,331 | 2,438 |
| Treasury shares | **1,064** | 1,056 | 1,188 |
| Eligible deferred fee income | **231** | 269 | 315 |
| Revaluation reserves | **(141)** | (131) | (122) |
| General reserve for credit losses (6) | **(698)** | (738) | - |
| Estimated final dividend | **(1,664)** | (1,570) | (1,532) |
| Estimated reinvestment under dividend reinvestment plan and bonus share plan | **582** | 314 | 459 |
| Deconsolidation of Wealth Management profits (net of dividends) | **(540)** | (343) | (419) |
| **Adjusted total equity for capital purposes** | **40,118** | 39,387 | 40,162 |
| Banking goodwill | **(1,747)** | (1,680) | (1,694) |
| Wealth Management goodwill and other intangibles | **(4,248)** | (4,307) | (4,211) |
| DTA (excluding DTA on the collective provision for doubtful debts) (2) | **(916)** | (1,008) | (1,209) |
| Non qualifying non-controlling interest | **(12)** | (19) | (17) |
| Capitalised expenses (3) | **(121)** | (151) | (132) |
| Capitalised software (excluding Wealth Management) | **(962)** | (880) | (928) |
| Defined benefit pension scheme surplus | **(12)** | (12) | (15) |
| Change in own creditworthiness | **(32)** | (29) | (31) |
| Cash flow hedge reserve (4) | **(146)** | 83 | 237 |
| Deductions taken 50% from Tier 1 and 50% from Tier 2 | | | |
| Investment in non-consolidated controlled entities (net of intangible component) | **(791)** | (891) | (881) |
| Expected loss in excess of eligible provisions | **(312)** | (96) | (355) |
| Other securitisation deductions | **(126)** | (145) | (239) |
| Residual Tier 1 capital in excess of APRA limits - qualifies as Upper Tier 2 capital | **-** | - | (13) |
| **Tier 1 capital** | **30,693** | 30,252 | 30,674 |

| | As at | | |
|---|---|---|---|
| | **30 Sep 10 $m** | **31 Mar 10 $m** | **30 Sep 09 $m** |
| Collective provision for doubtful debts [5] | **720** | 723 | 564 |
| Revaluation reserves | **64** | 59 | 55 |
| Perpetual floating rate notes | **173** | 183 | 190 |
| Residual Tier 1 capital in excess of APRA limits - qualifies as Upper Tier 2 capital | **-** | - | 13 |
| Eligible dated subordinated debt | **8,749** | 10,101 | 9,296 |
| Deductions taken 50% from Tier 1 and 50% from Tier 2 | | | |
| Investment in non-consolidated controlled entities (net of intangible component) | **(791)** | (891) | (881) |
| Expected loss in excess of eligible provisions | **(312)** | (96) | (355) |
| Other securitisation deductions | **(126)** | (145) | (239) |
| **Tier 2 capital** | **8,477** | 9,934 | 8,643 |
| **Total capital** | **39,170** | 40,186 | 39,317 |
| | | | |
| Risk-weighted assets - credit risk | **312,345** | 301,473 | 311,975 |
| Risk-weighted assets - market risk | **3,079** | 3,305 | 3,415 |
| Risk-weighted assets - operational risk | **22,234** | 22,402 | 22,972 |
| Risk-weighted assets - interest rate risk in the banking book | **7,000** | 5,653 | 4,160 |
| **Total risk-weighted assets** | **344,658** | 332,833 | 342,522 |
| **Risk adjusted capital ratios** | | | |
| Tier 1 | **8.91%** | 9.09% | 8.96% |
| **Total capital** | **11.36%** | 12.07% | 11.48% |

| | As at | | |
|---|---|---|---|
| **Regulatory capital summary** | **30 Sep 10 $m** | **31 Mar 10 $m** | **30 Sep 09 $m** |
| **Fundamental Tier 1 capital** | **32,874** | 32,141 | 32,810 |
| Non-innovative residual Tier 1 capital | **2,742** | 2,740 | 2,738 |
| Innovative residual Tier 1 capital | **4,502** | 4,506 | 4,614 |
| Residual Tier 1 capital in excess of APRA limits - qualifies as Upper Tier 2 capital | **-** | - | (13) |
| **Total residual Tier 1 capital** | **7,244** | 7,246 | 7,339 |
| Tier 1 deductions | **(9,425)** | (9,135) | (9,475) |
| **Tier 1 capital** | **30,693** | 30,252 | 30,674 |
| **Tier 2 capital** | **8,477** | 9,934 | 8,643 |
| **Total capital** | **39,170** | 40,186 | 39,317 |

(1) *Residual Tier 1 capital that is classified as debt for accounting purposes but qualifies as Tier 1 capital for regulatory purposes. This includes National Capital Instruments issued in September 2006, Residual Tier 1 Convertible Notes issued in September 2008, Residual Tier 1 Stapled Securities issued in September 2008 and September 2009, and Residual Tier 1 Capital Notes issued in September 2009.*

(2) *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.*

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

(4) *The regulatory capital treatment for the cash flow hedge reserve was changed to a pre-tax basis in September 2009.*

(5) *Under Basel II, this includes the component of the Group's collective provision relating to securitisation exposure and assets where RWAs are calculated under the standardised approach.*

(6) *Effective 31 December 2009, the Group changed the GRCL calculation methodology and created an additional reserve to cover credit losses, estimated but not certain to arise in the future, extending over the life of all facilities. The additional reserve has been reflected as a transfer from retained earnings, and the portion relating to the IRB portfolio added to eligible provisions for the purpose of calculating the eligible provisions to expected loss capital deduction.*

| Basel II | Risk-Weighted Assets as at 30 Sep 10 $m | 31 Mar 10 $m | 30 Sep 09 $m | Exposures as at 30 Sep 10 $m | 31 Mar 10 $m | 30 Sep 09 $m |
|---|---|---|---|---|---|---|
| **Credit risk** (1) | | | | | | |
| **IRB approach** | | | | | | |
| Corporate (including SME) | **116,128** | 124,314 | 137,460 | **168,186** | 179,582 | 195,289 |
| Sovereign (2) | **1,044** | 957 | 1,041 | **25,287** | 22,193 | 13,559 |
| Bank (3) | **5,842** | 5,560 | 6,914 | **65,009** | 68,969 | 61,697 |
| Residential Mortgage (3) | **48,909** | 45,932 | 47,924 | **226,507** | 213,635 | 208,419 |
| Qualifying revolving retail (3) | **3,991** | 4,110 | 4,031 | **10,277** | 10,120 | 9,987 |
| Retail SME | **9,174** | 7,973 | 6,994 | **20,181** | 16,949 | 15,171 |
| Other retail | **3,749** | 3,879 | 3,916 | **4,629** | 4,756 | 4,806 |
| **Total IRB approach** | **188,837** | 192,725 | 208,280 | **520,076** | 516,204 | 508,928 |
| **Specialised lending (SL)** (4) | **40,606** | 30,038 | 23,218 | **47,433** | 35,485 | 26,678 |
| **Standardised approach** | | | | | | |
| Australian and foreign governments | **41** | 41 | 91 | **3,864** | 2,765 | 5,827 |
| Bank | **270** | 312 | 777 | **7,613** | 11,199 | 13,391 |
| Residential mortgage | **22,944** | 22,910 | 20,336 | **40,155** | 38,850 | 31,633 |
| Corporate | **29,333** | 28,491 | 32,465 | **29,800** | 30,194 | 34,798 |
| Other (5) | **11,036** | 7,926 | 8,799 | **11,778** | 7,915 | 8,767 |
| **Total standardised approach** | **63,624** | 59,680 | 62,468 | **93,210** | 90,923 | 94,416 |
| **Other** | | | | | | |
| Securitisation | **11,103** | 12,048 | 10,968 | **16,659** | 15,731 | 17,630 |
| Equity | **1,342** | 1,261 | 1,030 | **362** | 331 | 266 |
| Other (6) | **6,833** | 5,721 | 6,011 | **10,039** | 8,840 | 7,366 |
| **Total Other** | **19,278** | 19,030 | 18,009 | **27,060** | 24,902 | 25,262 |
| **Total credit risk** | **312,345** | 301,473 | 311,975 | **687,779** | 667,514 | 655,284 |
| **Market risk** | **3,079** | 3,305 | 3,415 | | | |
| **Operational risk** | **22,234** | 22,402 | 22,972 | | | |
| **Interest rate risk in the banking book** | **7,000** | 5,653 | 4,160 | | | |
| **Total risk-weighted assets & exposures** | **344,658** | 332,833 | 342,522 | | | |

(1) *Risk-Weighted Assets ("RWA") which are calculated in accordance with APRA's requirements under Basel II, are required to incorporate a scaling factor of 1.06 to assets that are not subject to specific risk weights.*

(2) *'Sovereign' includes government guaranteed exposures.*

(3) *For IRB approach: 'Bank' includes ADIs, overseas banks and non-commercial public sector entities. 'Residential mortgage' includes exposures that are partly or fully secured by residential properties. 'Qualifying revolving retail' exposures are revolving, unsecured and unconditionally cancellable (both contractually and in practice), for individuals and not explicitly for business purposes.*

(4) *As part of an ongoing industry review with APRA, further changes to the classification of the commercial property portfolio meeting the slotting criteria were made in the June 2010 quarter. This resulted in the reclassification of some Corporate exposures to Specialised Lending (Income Producing Real Estate), resulting in a net increase to RWA of approximately $2 billion. Specialised Lending exposures are subject to slotting criteria.*

(5) *30 September 2010 RWA include the Great Western Bank acquisition of certain assets of TierOne Bank, as outlined in the National Australia Bank ASX announcement dated 5 June 2010.*

(6) *'Other' includes non-lending asset exposures.*

### Wealth Management capital adequacy position

The Group conservatively manages the capital adequacy and solvency position of its Wealth Management entities separately from that of the banking business by reference to regulatory and internal requirements. The principal National Wealth Management entities are separately regulated and need to meet APRA's capital adequacy and solvency standards. In addition, internal Board policy ensures that capital is held in excess of minimum regulatory capital requirements in order to provide a conservative buffer.

## 6. Earnings per Share

| Earnings per Share | Year to Sep 10 Basic | Sep 10 Diluted | Sep 09 Basic | Sep 09 Diluted [(1)] |
|---|---|---|---|---|
| **Earnings ($m)** | | | | |
| Net profit attributable to owners of the Company | 4,224 | 4,224 | 2,589 | 2,589 |
| Distributions on other equity instruments | (253) | (253) | (273) | (273) |
| Potential dilutive adjustments | | | | |
| Interest expense on convertible notes (after tax) | - | 75 | - | - |
| Adjusted earnings | 3,971 | 4,046 | 2,316 | 2,316 |
| **Weighted average ordinary shares (no. '000)** | | | | |
| Weighted average ordinary shares (net of treasury shares) | 2,070,897 | 2,070,897 | 1,876,821 | 1,886,054 |
| Potential dilutive ordinary shares | | | | |
| Performance options and performance rights | - | 3,065 | - | 895 |
| Partly paid ordinary shares | - | 118 | - | 117 |
| Employee share plans | - | 7,116 | - | 4,211 |
| Convertible notes | - | 41,589 | - | - |
| Total weighted average ordinary shares | 2,070,897 | 2,122,785 | 1,876,821 | 1,891,277 |
| **Earnings per share (cents)** | 191.8 | 190.6 | 123.4 | 122.5 |

(1) *During the year ended 30 September 2009 the impact of convertible notes has not been included in the diluted earnings per share because they were anti-dilutive.*

| Earnings per Share | Half Year to Sep 10 Basic | Sep 10 Diluted [(1)] | Mar 10 Basic | Mar 10 Diluted |
|---|---|---|---|---|
| **Earnings ($m)** | | | | |
| Net profit attributable to owners of the Company | 2,129 | 2,129 | 2,095 | 2,095 |
| Distributions on other equity instruments | (131) | (131) | (122) | (122) |
| Potential dilutive adjustments | | | | |
| Interest expense on convertible notes (after tax) | - | 20 | - | 35 |
| Adjusted earnings | 1,998 | 2,018 | 1,973 | 2,008 |
| **Weighted average ordinary shares (no. '000)** | | | | |
| Weighted average ordinary shares (net of treasury shares) | 2,082,328 | 2,082,328 | 2,065,864 | 2,065,864 |
| Potential dilutive ordinary shares | | | | |
| Performance options and performance rights | - | 3,012 | - | 623 |
| Partly paid ordinary shares | - | 123 | - | 125 |
| Employee share plans | - | 7,116 | - | 3,869 |
| Convertible notes | - | 22,625 | - | 39,697 |
| Total weighted average ordinary shares | 2,082,328 | 2,115,204 | 2,065,864 | 2,110,178 |
| **Earnings per share (cents)** | 96.0 | 95.4 | 95.5 | 95.1 |

(1) *During the half year ended 30 September 2010, the impact of some convertible notes have not been included in the diluted earnings per share because they were anti-dilutive.*

| Cash Earnings per Share | Year to Sep 10 Basic | Sep 10 Diluted | Sep 09 Basic | Sep 09 Diluted |
|---|---|---|---|---|
| **Earnings ($m)** | | | | |
| Cash earnings | 4,581 | 4,581 | 3,841 | 3,841 |
| Distributions on other equity instruments | (38) | (38) | (28) | (28) |
| Potential dilutive adjustments | | | | |
| Interest expense on convertible notes (after tax) | - | 75 | - | 36 |
| Adjusted cash earnings | 4,543 | 4,618 | 3,813 | 3,849 |
| **Weighted average ordinary shares (no. '000)** | | | | |
| Weighted average ordinary shares | 2,118,328 | 2,118,328 | 1,922,189 | 1,922,189 |
| Potential dilutive weighted average ordinary shares | | | | |
| Performance options and performance rights | - | 3,065 | - | 895 |
| Partly paid ordinary shares | - | 118 | - | 117 |
| Employee share plans | - | 7,116 | - | 4,211 |
| Convertible notes | - | 41,589 | - | 21,906 |
| Total weighted average ordinary shares | 2,118,328 | 2,170,216 | 1,922,189 | 1,949,318 |
| **Cash earnings per share (cents)** | 214.5 | 212.8 | 198.4 | 197.5 |

| Cash Earnings per Share | Half Year to Sep 10 Basic | Sep 10 Diluted | Mar 10 Basic | Mar 10 Diluted |
|---|---|---|---|---|
| **Earnings ($m)** | | | | |
| Cash earnings | 2,388 | 2,388 | 2,193 | 2,193 |
| Distributions on other equity instruments | (19) | (19) | (19) | (19) |
| Potential dilutive adjustments | | | | |
| Interest expense on convertible notes (after tax) | - | 40 | - | 35 |
| Adjusted cash earnings | 2,369 | 2,409 | 2,174 | 2,209 |
| **Weighted average ordinary shares (no. '000)** | | | | |
| Weighted average ordinary shares | 2,126,749 | 2,126,749 | 2,110,483 | 2,110,483 |
| Potential dilutive weighted average ordinary shares | | | | |
| Performance options and performance rights | - | 3,012 | - | 623 |
| Partly paid ordinary shares | - | 123 | - | 125 |
| Employee share plans | - | 7,116 | - | 3,869 |
| Convertible notes | - | 42,561 | - | 39,697 |
| Total weighted average ordinary shares | 2,126,749 | 2,179,561 | 2,110,483 | 2,154,797 |
| **Cash earnings per share (cents)** | 111.4 | 110.5 | 103.0 | 102.5 |

## 7. Number of Ordinary Shares

| | Year to Sep 10 No. '000 | Sep 09 No. '000 |
|---|---|---|
| **Ordinary shares, fully paid** | | |
| Balance at beginning of period | 2,095,595 | 1,717,627 |
| Shares issued | | |
| Dividend reinvestment plan | 30,185 | 74,899 |
| Bonus share plan | 1,730 | 2,953 |
| Employee share plans | 5,536 | 9,701 |
| Executive option plan no. 2 | 275 | 4 |
| Shares issued under placement | - | 243,023 |
| Share purchase plan | - | 47,366 |
| Paying up of partly paid shares | 20 | 22 |
| | 2,133,341 | 2,095,595 |
| **Ordinary shares, partly paid to 25 cents** | | |
| Balance at beginning of period | 203 | 225 |
| Paying up of partly paid shares | (20) | (22) |
| | 183 | 203 |
| **Total number of ordinary shares on issue at end of period (including treasury shares)** | 2,133,524 | 2,095,798 |
| Less: treasury shares | (47,232) | (47,629) |
| **Total number of ordinary shares on issue at end of period (excluding treasury shares)** | 2,086,292 | 2,048,169 |

| | Half Year to Sep 10 No. '000 | Mar 10 No. '000 |
|---|---|---|
| **Ordinary shares, fully paid** | | |
| Balance at beginning of period | 2,121,067 | 2,095,595 |
| Shares issued | | |
| Dividend reinvestment plan | 10,910 | 19,275 |
| Bonus share plan | 841 | 889 |
| Employee share plans | 334 | 5,202 |
| Executive option plan no. 2 | 184 | 91 |
| Paying up of partly paid shares | 5 | 15 |
| | 2,133,341 | 2,121,067 |
| **Ordinary shares, partly paid to 25 cents** | | |
| Balance at beginning of period | 188 | 203 |
| Paying up of partly paid shares | (5) | (15) |
| | 183 | 188 |
| **Total number of ordinary shares on issue at end of period (including treasury shares)** | 2,133,524 | 2,121,255 |
| Less: treasury shares | (47,232) | (41,610) |
| **Total number of ordinary shares on issue at end of period (excluding treasury shares)** | 2,086,292 | 2,079,645 |

## 8. Exchange Rates

| | Income Statement - average | | | | Balance Sheet - spot | | |
|---|---|---|---|---|---|---|---|
| | Year to | | Half Year to | | As at | | |
| One Australian Dollar equals | Sep 10 | Sep 09 | Sep 10 | Mar 10 | Sep 10 | Mar 10 | Sep 09 |
| British Pounds | **0.5776** | 0.4721 | **0.5874** | 0.5678 | **0.6103** | 0.6071 | 0.5483 |
| Euros | **0.6654** | 0.5397 | **0.6966** | 0.6341 | **0.7120** | 0.6826 | 0.6016 |
| United States Dollars | **0.9002** | 0.7321 | **0.8935** | 0.9069 | **0.9660** | 0.9153 | 0.8797 |
| New Zealand Dollars | **1.2609** | 1.2269 | **1.2599** | 1.2619 | **1.3138** | 1.2895 | 1.2188 |

## 9. Australian Life Company Margins

| | Year to | | | Half Year to | | |
|---|---|---|---|---|---|---|
| **Sources of Operating Profit from Australian Life Companies life insurance funds** | Sep 10 $m | Sep 09 $m | Sep 10 v Sep 09 % | Sep 10 $m | Mar 10 $m | Sep 10 v Mar 10 % |
| Life company - planned profit margins | **297** | 228 | 30.3 | **160** | 137 | 16.8 |
| Life company - experience profit [1] | **(16)** | (21) | 23.8 | **(8)** | (8) | - |
| Life company operating margins [2] | **281** | 207 | 35.7 | **152** | 129 | 17.8 |
| IoRE (after tax) [3] | **125** | 45 | large | **84** | 41 | large |
| **Net profit of life insurance funds after non-controlling interest** | **406** | 252 | 61.1 | **236** | 170 | 38.8 |

*(1) Life company - experience profits include $34.9 million from the settlement of a tax dispute with the ATO.*

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

*(3) Includes investment earnings on shareholders' retained profits and capital from life businesses after non-controlling interest of $91m (Sep 09 $49m; HY Sep 10 $41m; HY Mar 10 $50m) and IoRE discount rate variation of $34m (Sep 09 ($4m); HY Sep 10 $43m; HY Mar 10 ($9m); IoRE attributable to non life insurance funds of ($30m); (Sep 09 ($23m); HY Sep 10 ($15m); HY Mar 10 ($15m)) is excluded.*

## 10. ASX Appendix 4E

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

| Year ended 30 September 2010 | Statutory Profit $m | MLC Adj. [1] $m | Distributions $m | Treasury Shares $m | Fair Value and Hedge Ineffec. $m | IoRE Disc. Rate $m | Efficiency, quality and service initiatives $m | Litigation Expense $m | Property Revaluation $m | Provision for Tax on NZ Struct. Fin. Trans. $m | MLC Reinsurance Dispute - Interest & expenses $m | Hedging Recovery $m | Amortisation of acquired intangible assets $m | Due Diligence, Acquisition and Integration Costs $m | Cash Earnings $m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 12,256 | 32 | - | - | - | - | - | - | - | - | - | - | - | - | **12,288** |
| Net life insurance income | 813 | (632) | - | (133) | - | (48) | - | - | - | - | - | - | - | - | **-** |
| Other operating income | 3,939 | (1,070) | - | - | 501 | - | - | - | - | - | - | (528) | (4) | - | **2,838** |
| MLC net operating income | - | 1,512 | - | - | - | - | - | - | - | - | - | - | - | - | **1,512** |
| Net operating income | 17,008 | (158) | - | (133) | 501 | (48) | - | - | - | - | - | (528) | (4) | - | **16,638** |
| Operating expenses | (8,541) | 29 | - | - | - | - | 339 | 18 | 7 | 4 | - | - | 101 | 181 | **(7,862)** |
| Operating profit pre charge to provide for doubtful debts | 8,467 | (129) | - | (133) | 501 | (48) | 339 | 18 | 7 | 4 | - | (528) | 97 | 181 | **8,776** |
| Charge to provide for doubtful debts | (2,791) | - | - | - | - | - | - | - | - | - | - | 528 | - | - | **(2,263)** |
| Operating profit before tax | 5,676 | (129) | - | (133) | 501 | (48) | 339 | 18 | 7 | 4 | - | - | 97 | 181 | **6,513** |
| Income tax expense | (1,451) | 68 | - | 27 | (148) | 14 | (102) | (6) | (3) | (132) | 36 | - | (24) | (56) | **(1,777)** |
| **Operating profit before distributions and non-controlling interest** | 4,225 | (61) | - | (106) | 353 | (34) | 237 | 12 | 4 | (128) | 36 | - | 73 | 125 | **4,736** |
| Net profit - non-controlling interest | (1) | - | - | - | - | - | - | - | - | - | - | - | - | - | **(1)** |
| IoRE (after tax) | - | 61 | - | - | - | - | - | - | - | - | - | - | - | - | **61** |
| Distributions | - | - | (215) | - | - | - | - | - | - | - | - | - | - | - | **(215)** |
| **Net profit attributable to owners of the Company** | 4,224 | - | (215) | (106) | 353 | (34) | 237 | 12 | 4 | (128) | 36 | - | 73 | 125 | **4,581** |

(1) *Refer to Note 12 in Section 6 for further details regarding the MLC adjustment.*

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

| Year ended 30 September 2009 | Statutory Profit $m | MLC Adj. (1) $m | Distri-butions $m | Treasury Shares $m | Fair Value and Hedge Ineffec. $m | IoRE Disc. Rate $m | Efficiency, quality and service ini-tiatives $m | Litigation Expense $m | Provision for Tax on NZ Struct. Fin. Trans. $m | Amortisa-tion of intangible assets $m | ExCaps Taxation Assmt. $m | Due Diligence, Acquisition and Integra-tion Costs $m | Cash Earnings $m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 12,068 | 4 | - | - | - | - | - | - | - | - | - | - | **12,072** |
| Net life insurance income | 357 | (674) | - | 311 | - | 6 | - | - | - | - | - | - | **-** |
| Other operating income | 4,352 | (701) | - | - | 115 | - | - | - | - | - | - | - | **3,766** |
| MLC net operating income | - | 1,068 | - | - | - | - | - | - | - | - | - | - | **1,068** |
| Net operating income | 16,777 | (303) | - | 311 | 115 | 6 | - | - | - | - | - | - | **16,906** |
| Operating expenses | (7,979) | (42) | - | - | - | - | 254 | 157 | 5 | 7 | - | 18 | **(7,580)** |
| Operating profit pre charge to provide for doubtful debts | 8,798 | (345) | - | 311 | 115 | 6 | 254 | 157 | 5 | 7 | - | 18 | **9,326** |
| Charge to provide for doubtful debts | (3,815) | - | - | - | - | - | - | - | - | - | - | - | **(3,815)** |
| Operating profit before tax | 4,983 | (345) | - | 311 | 115 | 6 | 254 | 157 | 5 | 7 | - | 18 | **5,511** |
| Income tax expense | (2,394) | 319 | - | (55) | (36) | (2) | (75) | (47) | 537 | (1) | 309 | (6) | **(1,451)** |
| **Operating profit before distributions and non-controlling interest** | 2,589 | (26) | - | 256 | 79 | 4 | 179 | 110 | 542 | 6 | 309 | 12 | **4,060** |
| Net profit - non-controlling interest | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| IoRE (after tax) | - | 26 | - | - | - | - | - | - | - | - | - | - | **26** |
| Distributions | - | - | (245) | - | - | - | - | - | - | - | - | - | **(245)** |
| **Net profit attributable to owners of the Company** | 2,589 | - | (245) | 256 | 79 | 4 | 179 | 110 | 542 | 6 | 309 | 12 | **3,841** |

(1) *Refer to Note 12 in Section 6 for further details regarding the MLC adjustment.*

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

| Half Year ended 30 September 2010 | Statutory Profit $m | MLC Adj. [1] $m | Distri-butions $m | Treasury Shares $m | Fair Value and Hedge Ineffec. $m | IoRE Disc. Rate $m | Efficiency, quality and service initiatives $m | Litigation Expense $m | Property Revalua-tion $m | Provision for Tax on NZ Struct. Fin. Trans. $m | MLC Re-insurance Dispute - Interest & expenses $m | Hedging recovery $m | Amortisation of intangible assets $m | Due Diligence, Acquisition and Integration Costs $m | Cash Earnings $m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 6,159 | 15 | - | - | - | - | - | - | - | - | - | - | - | - | **6,174** |
| Net life insurance income | 360 | (249) | - | (50) | - | (61) | - | - | - | - | - | - | - | - | **-** |
| Other operating income | 1,807 | (481) | - | - | 180 | - | - | - | - | - | - | (39) | (4) | - | **1,463** |
| MLC net operating income | - | 764 | - | - | - | - | - | - | - | - | - | - | - | - | **764** |
| Net operating income | 8,326 | 49 | - | (50) | 180 | (61) | - | - | - | - | - | (39) | (4) | - | **8,401** |
| Operating expenses | (4,418) | (46) | - | - | - | - | 243 | 18 | 7 | - | - | - | 62 | 133 | **(4,001)** |
| Operating profit pre charge to provide for doubtful debts | 3,908 | 3 | - | (50) | 180 | (61) | 243 | 18 | 7 | - | - | (39) | 58 | 133 | **4,400** |
| Charge to provide for doubtful debts | (1,072) | - | - | - | - | - | - | - | - | - | - | 39 | - | - | **(1,033)** |
| Operating profit before tax | 2,836 | 3 | - | (50) | 180 | (61) | 243 | 18 | 7 | - | - | - | 58 | 133 | **3,367** |
| Income tax expense | (707) | (29) | - | 11 | (48) | 18 | (73) | (6) | (3) | - | 1 | - | (15) | (42) | **(893)** |
| **Operating profit before distributions and non-controlling interest** | 2,129 | (26) | - | (39) | 132 | (43) | 170 | 12 | 4 | - | 1 | - | 43 | 91 | **2,474** |
| Net profit - non-controlling interest | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| IoRE (after tax) | - | 26 | - | - | - | - | - | - | - | - | - | - | - | - | **26** |
| Distributions | - | - | (112) | - | - | - | - | - | - | - | - | - | - | - | **(112)** |
| **Net profit attributable to owners of the Company** | 2,129 | - | (112) | (39) | 132 | (43) | 170 | 12 | 4 | - | 1 | - | 43 | 91 | **2,388** |

(1) *Refer to Note 12 in Section 6 for further details regarding the MLC adjustment.*

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

| Half Year ended 31 March 2010 | Statutory Profit $m | MLC Adj. [1] $m | Distri-butions $m | Treasury Shares $m | Fair Value and Hedge Ineffec. $m | IoRE Disc. Rate $m | Efficiency, quality and service initiatives $m | Litigation Expense $m | Property Revalua-tion $m | Provision for Tax on NZ Struct. Fin. Trans. $m | MLC Re-insurance Dispute - Interest & ex-penses $m | Hedging recovery $m | Amortisa-tion of acquired intangible assets $m | ExCaps Taxa-tion Assmt. $m | Due Diligence, Acquisi-tion and Integration Costs $m | Cash Earn-ings $m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 6,097 | 17 | - | - | - | - | - | - | - | - | - | - | - | - | - | **6,114** |
| Net life insurance income | 453 | (383) | - | (83) | - | 13 | - | - | - | - | - | - | - | - | - | **-** |
| Other operating income | 2,132 | (589) | - | - | 321 | - | - | - | - | - | - | (489) | - | - | - | **1,375** |
| MLC net operating income | - | 748 | - | - | - | - | - | - | - | - | - | - | - | - | - | **748** |
| Net operating income | 8,682 | (207) | - | (83) | 321 | 13 | - | - | - | - | - | (489) | - | - | - | **8,237** |
| Operating expenses | (4,123) | 75 | - | - | - | - | 96 | - | - | 4 | - | - | 39 | - | 48 | **(3,861)** |
| Operating profit pre charge to provide for doubtful debts | 4,559 | (132) | - | (83) | 321 | 13 | 96 | - | - | 4 | - | (489) | 39 | - | 48 | **4,376** |
| Charge to provide for doubtful debts | (1,719) | - | - | - | - | - | - | - | - | - | - | 489 | - | - | - | **(1,230)** |
| Operating profit before tax | 2,840 | (132) | - | (83) | 321 | 13 | 96 | - | - | 4 | - | - | 39 | - | 48 | **3,146** |
| Income tax expense | (744) | 97 | - | 16 | (100) | (4) | (29) | - | - | (132) | 35 | - | (9) | - | (14) | **(884)** |
| **Operating profit before distributions and non-controlling interest** | 2,096 | (35) | - | (67) | 221 | 9 | 67 | - | - | (128) | 35 | - | 30 | - | 34 | **2,262** |
| Net profit - non-controlling interest | (1) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **(1)** |
| IoRE (after tax) | - | 35 | - | - | - | - | - | - | - | - | - | - | - | - | - | **35** |
| Distributions | - | - | (103) | - | - | - | - | - | - | - | - | - | - | - | - | **(103)** |
| **Net profit attributable to owners of the Company** | 2,095 | - | (103) | (67) | 221 | 9 | 67 | - | - | (128) | 35 | - | 30 | - | 34 | **2,193** |

[1] *Refer to Note 12 in Section 6 for further details regarding the MLC adjustment.*

## 12. MLC & NAB Wealth Reconciling Items

| Year ended 30 September 2010 | Life Reclassification (a): Cash IoRE (i) $m | Life Reclassification (a): Policy-holder tax (ii) $m | Life Reclassification (a): Other NLII reclassification (iii) $m | Non-Life Reclassification (b) $m | Other $m | MLC Adj $m |
|---|---|---|---|---|---|---|
| Net interest income | 44 | - | - | (12) | - | **32** |
| Net life insurance income | (134) | (15) | (483) | - | - | **(632)** |
| Other operating income | - | - | 40 | (1,112) | 2 | **(1,070)** |
| MLC net operating income | - | - | 797 | 714 | 1 | **1,512** |
| Net operating income | (90) | (15) | 354 | (410) | 3 | **(158)** |
| Operating expenses | - | - | (383) | 410 | 2 | **29** |
| Operating profit pre charge to provide for doubtful debts | (90) | (15) | (29) | - | 5 | **(129)** |
| Charge to provide for doubtful debts | - | - | - | - | - | **-** |
| Operating profit before tax | (90) | (15) | (29) | - | 5 | **(129)** |
| Income tax expense | 29 | 15 | 29 | - | (5) | **68** |
| **Operating profit before distributions and non-controlling interest** | (61) | - | - | - | - | **(61)** |
| Net profit - non-controlling interest | - | - | - | - | - | **-** |
| IoRE (after tax) | 61 | - | - | - | - | **61** |
| Distributions | - | - | - | - | - | **-** |
| **Net profit attributable to owners of the Company** | - | - | - | - | - | **-** |

| Year ended 30 September 2009 | Life Reclassification (a): Cash IoRE (i) $m | Life Reclassification (a): Policy-holder tax (ii) $m | Life Reclassification (a): Other NLII reclassification (iii) $m | Non-Life Reclassification (b) $m | Other $m | MLC Adj $m |
|---|---|---|---|---|---|---|
| Net interest income | 32 | - | - | (29) | 1 | **4** |
| Net life insurance income | (78) | (313) | (283) | - | - | **(674)** |
| Other operating income | - | - | 36 | (739) | 2 | **(701)** |
| MLC net operating income | - | - | 557 | 519 | (8) | **1,068** |
| Net operating income | (46) | (313) | 310 | (249) | (5) | **(303)** |
| Operating expenses | - | - | (298) | 249 | 7 | **(42)** |
| Operating profit pre charge to provide for doubtful debts | (46) | (313) | 12 | - | 2 | **(345)** |
| Charge to provide for doubtful debts | - | - | - | - | - | **-** |
| Operating profit before tax | (46) | (313) | 12 | - | 2 | **(345)** |
| Income tax expense | 20 | 313 | (12) | - | (2) | **319** |
| **Operating profit before distributions and non-controlling interest** | (26) | - | - | - | - | **(26)** |
| Net profit - non-controlling interest | - | - | - | - | - | **-** |
| IoRE (after tax) | 26 | - | - | - | - | **26** |
| Distributions | - | - | - | - | - | **-** |
| **Net profit attributable to owners of the Company** | - | - | - | - | - | **-** |

| Half Year ended 30 September 2010 | Life Reclassification (a) Cash IoRE (i) $m | Policy-holder tax (ii) $m | Other NLII reclassification (iii) $m | Non-Life Reclassification (b) $m | Other $m | MLC Adj $m |
|---|---|---|---|---|---|---|
| Net interest income | 21 | - | - | (6) | - | **15** |
| Net life insurance income | (64) | 53 | (239) | - | 1 | **(249)** |
| Other operating income | - | - | 20 | (502) | 1 | **(481)** |
| MLC net operating income | - | - | 431 | 324 | 9 | **764** |
| Net operating income | (43) | 53 | 212 | (184) | 11 | **49** |
| Operating expenses | - | - | (227) | 184 | (3) | **(46)** |
| Operating profit pre charge to provide for doubtful debts | (43) | 53 | (15) | - | 8 | **3** |
| Charge to provide for doubtful debts | - | - | - | - | - | **-** |
| Operating profit before tax | (43) | 53 | (15) | - | 8 | **3** |
| Income tax expense | 17 | (53) | 15 | - | (8) | **(29)** |
| **Operating profit before distributions and non-controlling interest** | (26) | - | - | - | - | **(26)** |
| Net profit - non-controlling interest | - | - | - | - | - | **-** |
| IoRE (after tax) | 26 | - | - | - | - | **26** |
| Distributions | - | - | - | - | - | **-** |
| **Net profit attributable to owners of the Company** | - | - | - | - | - | **-** |

| Half Year ended 31 March 2010 | Life Reclassification (a) Cash IoRE (i) $m | Policy-holder tax (ii) $m | Other NLII reclassification (iii) $m | Non-Life Reclassification (b) $m | Other $m | MLC Adj $m |
|---|---|---|---|---|---|---|
| Net interest income | 23 | - | - | (6) | - | **17** |
| Net life insurance income | (70) | (68) | (244) | - | (1) | **(383)** |
| Other operating income | - | - | 20 | (610) | 1 | **(589)** |
| MLC net operating income | - | - | 366 | 390 | (8) | **748** |
| Net operating income | (47) | (68) | 142 | (226) | (8) | **(207)** |
| Operating expenses | - | - | (156) | 226 | 5 | **75** |
| Operating profit pre charge to provide for doubtful debts | (47) | (68) | (14) | - | (3) | **(132)** |
| Charge to provide for doubtful debts | - | - | - | - | - | **-** |
| Operating profit before tax | (47) | (68) | (14) | - | (3) | **(132)** |
| Income tax expense | 12 | 68 | 14 | - | 3 | **97** |
| **Operating profit before distributions and non-controlling interest** | (35) | - | - | - | - | **(35)** |
| Net profit - non-controlling interest | - | - | - | - | - | **-** |
| IoRE (after tax) | 35 | - | - | - | - | **35** |
| Distributions | - | - | - | - | - | **-** |
| **Net profit attributable to owners of the Company** | - | - | - | - | - | **-** |

(a) *Reclassification of Net Life Insurance Income ("NLII"). NLII is a statutory disclosure only and as such all items shown under NLII are reclassified for management reporting purposes. A summary of the respective NLII adjustments is provided below:*

- (i) *Cash IoRE: Interest on Retained Earnings is a separate disclosable item for management reporting purposes. Under the statutory view, components of IoRE are disclosed in the following lines: - Net Interest income: this is the net interest cost of subordinated and senior debt raised for capital management purposes. - NLII: includes interest earnings on insurance VARC (Value of Acquisition Recovery Components) and investment earnings on surplus assets.*
- (ii) *Policyholder tax reclassification: The MLC investment linked business is written within statutory funds. As a result NLII includes both shareholder and policyholder amounts for statutory reporting purposes. For management reporting purposes only the shareholder component is disclosed. From a statutory reporting disclosure point of view all policyholder amounts offset within the NLII disclosure, except for tax on the investment-linked business. As a result there is a reclassification between NLII and tax for these amounts.*
- (iii) *Other NLII Reclassification: These are all other components of NLII, not adjusted for above, which are included in MLC net operating income, operating expenses and income tax expense in the management view. These include premiums, investment earnings, claims, change in policy liabilities, policy acquisition and maintenance costs and investments management costs.*

(b) *Non-Life Reclassifications: Non-life net interest income, other operating income and volume related expenses (included in operating expenses) are reclassified to MLC net operating income for management reporting purposes.*

## 13. Divisional Performance Summary Excluding Acquisitions

| Year ended 30 September 2010 | Business Banking $m | Personal Banking(2) $m | Wholesale Banking $m | MLC & NAB Wealth(2) $m | NZ Banking $m | UK Banking $m | Specialised Group Assets $m | GWB(2) $m | Corporate Functions & Other (1) $m | Elimi-nations $m | Group Cash Earnings(2) $m | Total Acquisition $m | Group Cash Earnings including Acquisitions $m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 4,664 | 2,425 | 1,189 | 295 | 978 | 1,665 | 178 | 177 | 573 | - | 12,144 | 144 | 12,288 |
| Other operating income | 955 | 531 | 739 | 34 | 351 | 452 | (268) | 55 | 16 | (117) | 2,748 | 90 | 2,838 |
| MLC net operating income | - | - | - | 1,133 | - | - | - | - | - | - | 1,133 | 379 | 1,512 |
| Net operating income | 5,619 | 2,956 | 1,928 | 1,462 | 1,329 | 2,117 | (90) | 232 | 589 | (117) | 16,025 | 613 | 16,638 |
| Operating expenses | (1,714) | (1,633) | (914) | (845) | (581) | (1,232) | (51) | (105) | (521) | 117 | (7,479) | (383) | (7,862) |
| Underlying profit | 3,905 | 1,323 | 1,014 | 617 | 748 | 885 | (141) | 127 | 68 | - | 8,546 | 230 | 8,776 |
| Charge to provide for doubtful debts | (791) | (343) | (45) | (9) | (148) | (601) | (268) | (46) | - | - | (2,251) | (12) | (2,263) |
| Cash earnings before tax, IoRE, distribution and non-controlling interest | 3,114 | 980 | 969 | 608 | 600 | 284 | (409) | 81 | 68 | - | 6,295 | 218 | 6,513 |
| Income tax expense | (921) | (292) | (264) | (136) | (184) | (80) | 147 | (27) | 46 | - | (1,711) | (66) | (1,777) |
| **Cash earnings before IoRE, distribution and non-controlling interest** | 2,193 | 688 | 705 | 472 | 416 | 204 | (262) | 54 | 114 | - | 4,584 | 152 | 4,736 |
| Net profit - non-controlling interest | - | - | - | (2) | - | - | - | - | - | - | (2) | 1 | (1) |
| IoRE | - | - | - | 35 | - | - | - | - | - | - | 35 | 26 | 61 |
| Distributions | - | - | - | - | - | - | - | - | - | (215) | (215) | - | (215) |
| **Cash earnings** | 2,193 | 688 | 705 | 505 | 416 | 204 | (262) | 54 | 114 | (215) | 4,402 | 179 | 4,581 |

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

(2) *Excluding acquisitions.*

## 13. Divisional Performance Summary Excluding Acquisitions

| Half year ended 31 March 2010 | Business Banking $m | Personal Banking [2] $m | Wholesale Banking $m | MLC & NAB Wealth [2] $m | NZ Banking $m | UK Banking $m | Specialised Group Assets $m | GWB [2] $m | Corporate Functions & Other [1] $m | Elimi-nations $m | Group Cash Earnings [2] $m | Total Acquisition $m | Group Cash Earnings including Acquisitions $m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 2,312 | 1,179 | 616 | 142 | 472 | 864 | 105 | 87 | 288 | - | 6,065 | 49 | 6,114 |
| Other operating income | 470 | 271 | 417 | 18 | 173 | 223 | (213) | 27 | 18 | (61) | 1,343 | 32 | 1,375 |
| MLC net operating income | - | - | - | 567 | - | - | - | - | - | - | 567 | 181 | 748 |
| Net operating income | 2,782 | 1,450 | 1,033 | 727 | 645 | 1,087 | (108) | 114 | 306 | (61) | 7,975 | 262 | 8,237 |
| Operating expenses | (843) | (806) | (447) | (415) | (289) | (622) | (27) | (49) | (260) | 61 | (3,697) | (164) | (3,861) |
| Underlying profit | 1,939 | 644 | 586 | 312 | 356 | 465 | (135) | 65 | 46 | - | 4,278 | 98 | 4,376 |
| Charge to provide for doubtful debts | (381) | (230) | (29) | (5) | (70) | (322) | (173) | (18) | 1 | - | (1,227) | (3) | (1,230) |
| Cash earnings before tax, IoRE, distribution and non-controlling interest | 1,558 | 414 | 557 | 307 | 286 | 143 | (308) | 47 | 47 | - | 3,051 | 95 | 3,146 |
| Income tax expense | (463) | (123) | (154) | (82) | (84) | (36) | 91 | (16) | 11 | - | (856) | (28) | (884) |
| **Cash earnings before IoRE, distribution and non-controlling interest** | 1,095 | 291 | 403 | 225 | 202 | 107 | (217) | 31 | 58 | - | 2,195 | 67 | 2,262 |
| Net profit - non-controlling interest | - | - | - | (1) | - | - | - | - | - | - | (1) | - | (1) |
| IoRE | - | - | - | 22 | - | - | - | - | - | - | 22 | 13 | 35 |
| Distributions | - | - | - | - | - | - | - | - | - | (103) | (103) | - | (103) |
| **Cash earnings** | 1,095 | 291 | 403 | 246 | 202 | 107 | (217) | 31 | 58 | (103) | 2,113 | 80 | 2,193 |

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

(2) *Excluding acquisitions*

## 13. Divisional Performance Summary Excluding Acquisitions

| Year ended 30 September 2010 at 30 September 2009 FX rates [3] | Business Banking $m | Personal Banking [2] $m | Wholesale Banking $m | MLC & NAB Wealth [2] $m | NZ Banking $m | UK Banking $m | Specialised Group Assets $m | GWB [2] $m | Corporate Functions and Other [1] $m | Eliminations $m | Group Cash Earnings [2] $m | Total Acquisition $m | Group Cash Earnings including Acquisition $m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 4,664 | 2,425 | 1,283 | 295 | 1,005 | 2,038 | 219 | 217 | 576 | - | 12,722 | 160 | 12,882 |
| Other operating income | 955 | 531 | 767 | 34 | 360 | 552 | (294) | 68 | 32 | (121) | 2,884 | 94 | 2,978 |
| MLC net operating income | - | - | - | 1,133 | - | - | - | - | - | - | 1,133 | 379 | 1,512 |
| Net operating income | 5,619 | 2,956 | 2,050 | 1,462 | 1,365 | 2,590 | (75) | 285 | 608 | (121) | 16,739 | 633 | 17,372 |
| Operating expenses | (1,714) | (1,633) | (965) | (845) | (597) | (1,507) | (57) | (129) | (542) | 121 | (7,868) | (393) | (8,261) |
| Underlying profit | 3,905 | 1,323 | 1,085 | 617 | 768 | 1,083 | (132) | 156 | 66 | - | 8,871 | 240 | 9,111 |
| Charge to provide for doubtful debts | (791) | (343) | (44) | (9) | (152) | (735) | (339) | (57) | 1 | - | (2,469) | (14) | (2,483) |
| Cash earnings before tax, IoRE, distribution and non-controlling interest | 3,114 | 980 | 1,041 | 608 | 616 | 348 | (471) | 99 | 67 | - | 6,402 | 226 | 6,628 |
| Income tax expense | (921) | (292) | (285) | (136) | (189) | (98) | 174 | (34) | 51 | - | (1,730) | (68) | (1,798) |
| **Cash earnings before IoRE, distribution and non-controlling interest** | 2,193 | 688 | 756 | 472 | 427 | 250 | (297) | 65 | 118 | - | 4,672 | 158 | 4,830 |
| Net profit - non-controlling interest | - | - | - | (2) | - | - | - | - | - | - | (2) | 1 | (1) |
| IoRE | - | - | - | 35 | - | - | - | - | - | - | 35 | 26 | 61 |
| Distributions | - | - | - | - | - | - | - | - | - | (240) | (240) | - | (240) |
| **Cash earnings** | 2,193 | 688 | 756 | 505 | 427 | 250 | (297) | 65 | 118 | (240) | 4,465 | 185 | 4,650 |

(1) *Corporate Functions and Other includes Group Funding, Group Business Services, other supporting units and Asia Banking.*
(2) *Excluding acquisitions.*
(3) *No adjustments have been made for foreign currency effects on foreign denominated balances within the Australian businesses.*

## 13. Divisional Performance Summary Excluding Acquisitions

| Half Year ended 30 September 2010 at 31 March 2010 FX rates [3] | Business Banking $m | Personal Banking [2] $m | Wholesale Banking $m | MLC & NAB Wealth[2] $m | NZ Banking $m | UK Banking $m | Specialised Group Assets $m | GWB[2] $m | Corporate Functions and Other [1] $m | Elimina-tions $m | Group Cash Earnings [2] $m | Total Acquisition $m | Group Cash Earnings including Acquisitions $m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 2,352 | 1,246 | 578 | 153 | 505 | 830 | 75 | 75 | 283 | - | 6,097 | 108 | 6,205 |
| Other operating income | 485 | 260 | 325 | 16 | 177 | 236 | (56) | 26 | (2) | (57) | 1,410 | 60 | 1,470 |
| MLC net operating income | - | - | - | 566 | - | - | - | - | - | - | 566 | 198 | 764 |
| Net operating income | 2,837 | 1,506 | 903 | 735 | 682 | 1,066 | 19 | 101 | 281 | (57) | 8,073 | 366 | 8,439 |
| Operating expenses | (871) | (827) | (469) | (430) | (291) | (631) | (24) | (46) | (263) | 57 | (3,795) | (228) | (4,023) |
| Underlying profit | 1,966 | 679 | 434 | 305 | 391 | 435 | (5) | 55 | 18 | - | 4,278 | 138 | 4,416 |
| Charge to provide for doubtful debts | (410) | (113) | (17) | (4) | (78) | (289) | (98) | (26) | - | - | (1,035) | (11) | (1,046) |
| Cash earnings before tax, IoRE, distribution and non-controlling interest | 1,556 | 566 | 417 | 301 | 313 | 146 | (103) | 29 | 18 | - | 3,243 | 127 | 3,370 |
| Income tax expense | (458) | (169) | (111) | (54) | (100) | (46) | 57 | (10) | 36 | - | (855) | (39) | (894) |
| **Cash earnings before IoRE, distribution and non-controlling interest** | 1,098 | 397 | 306 | 247 | 213 | 100 | (46) | 19 | 54 | - | 2,388 | 88 | 2,476 |
| Net profit - non-controlling interest | - | - | - | (1) | - | - | - | - | - | - | (1) | 1 | - |
| IoRE | - | - | - | 13 | - | - | - | - | - | - | 13 | 13 | 26 |
| Distributions | - | - | - | - | - | - | - | - | - | (111) | (111) | - | (111) |
| **Cash earnings** | 1,098 | 397 | 306 | 259 | 213 | 100 | (46) | 19 | 54 | (111) | 2,289 | 102 | 2,391 |

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

(2) *Excluding acquisitions.*

(3) *No adjustments have been made for foreign currency effects on foreign denominated balances within the Australian businesses.*

Section 7

# Glossary of Terms

| Term | Description |
|---|---|
| ABCP | Asset-backed commercial paper. |
| ABS | Asset-backed securities. |
| ABS CDO - Super-senior note holder | CDO of ABS where a conduit has invested in the most senior note. |
| ABS CDO - Junior note holder | CDO of ABS where a conduit has invested in a note which is subordinated to other note(s). |
| Alt-A | In USA, residential mortgage loans advanced to borrowers falling just outside prime lending criteria, but without the more significant credit or debt servicing limitations seen in subprime lending. |
| ASX | Australian Securities Exchange. |
| ATO | Australian Tax Office. |
| Auto / Equipment | Automotive and equipment receivables. |
| Average assets | Represents the average of assets over the period adjusted for disposed operations. |
| Banking | Banking operations include the Group's:<br>- Retail, business, institutional and agri-business banking operations operating in Business Banking, Personal Banking, UK Banking, NZ Banking, MLC and NAB Wealth and Great Western Bank.<br>- Global Markets and Treasury, Specialised Finance, Financial Institutions business within Wholesale Banking.<br>- Asian operations and Group Treasury within Corporate Functions. |
| Cash earnings | Is a non Generally Accepted Accounting Principles (GAAP) key performance measure that excludes certain items within the calculation of net profit attributable to members of the company. It is also a key performance measure used by the investment community, as well as by those Australian peers of the Group with a similar business portfolio. These specified items are excluded in order to better reflect what the Group considers to be the underlying performance of the NAB Group. It does not refer to, or in any way purport to represent the cash flows, funding or liquidity position of the NAB Group. It does not refer to any amount represented on a cash flow statement. Cash earnings is defined as:<br>Net profit attributable to owners of the company<br>Adjusted for:<br>Distributions<br>Treasury shares<br>Fair value and hedge ineffectiveness<br>IoRE discount rate variation<br>Efficiency, quality and service initiatives<br>Litigation expense<br>Property revaluation<br>Provision for tax NZ structured finance transactions<br>MLC reinsurance dispute<br>ExCaps taxation assessment<br>Amortisation of acquired intangible assets<br>Due diligence, acquisition and integration costs<br>Net profit/(loss) on sale of controlled entities<br>Significant items |
| Cash earnings on average equity | Calculated as cash earnings - ongoing divided by average shareholders' equity, excluding non-controlling interests and other equity instruments and adjusted for treasury shares and exchangeable capital units valuation adjustments. |
| Cash earnings - ongoing | Cash earnings adjusted for disposed operations. The disposed operations results are excluded to assist in the interpretation of the Group's result as it facilitates a like-for-like comparison. |
| Cash earnings per share - basic | Calculated as cash earnings - ongoing divided by the weighted average number of shares adjusted to include treasury shares. |
| Cash earnings per share - diluted | Cash earnings - ongoing, adjusted for interest expense on exchangeable capital units, divided by the weighted average number of ordinary shares, adjusted to include treasury shares. |
| CDO | Collateralised Debt Obligation. |
| CDS | Credit Default Swap. |
| CLO | Collateralised Loan Obligations. |
| CMBS | Commercial Mortgage-Backed Securities. |
| Conduit | SPE used to fund assets through the issuance of ABCP or MTN. |
| Core assets | Represents loans and advances to customers and banks (including leases and acceptances), investments held to maturity, other financial assets at fair value, fixed assets and other assets; net of securitised assets and other liabilities. |
| Cost to Income Ratio | Represents banking operating expenses (before inter-segment eliminations) as a percentage of total banking operating revenue (before inter-segment eliminations). |

| Term | Description |
|---|---|
| Credit wrapped ABS | Securities backed by monoline-guaranteed portfolios of ABS. |
| Credit wrapped bonds | Monoline-guaranteed infrastructure, utility and energy related corporate bonds. |
| Customer deposits | Deposits (Interest Bearing, Non-Interest Bearing, Term Deposits, Central Bank Deposits). |
| Customer Funding Index (CFI) | Customer Deposits divided by Core Assets. |
| Disposed operations | Are operations that will not form part of the continuing Group. These include operations sold and those that have been announced to the market that have yet to reach completion. This may differ from the treatment for statutory accounting purposes but facilitates a like-for-like comparison. |
| Distributions | Payments to holders of other equity instruments issues such as National Income Securities, Trust Preferred Securities, Trust Preferred Securities II and National Capital Instruments. Distributions are subtracted from net profit to reflect the amount that is attributable to ordinary shareholders. |
| Dividend payout ratio | Dividends paid on ordinary shares divided by cash earnings per share. |
| Due diligence, acquisition and integration costs | Represent costs relating to due diligence on business acquisition and disposal activities and costs associated with integrating acquisitions with the NAB operating model and reporting platforms. |
| Earnings Per Share | Calculated in accordance with the requirements of AASB 133 “Earnings per Share.” |
| Efficiency, quality and services initiatives | Represent those costs that the Group accelerated in response to the economic downturn to bring forward efficiency gains that would otherwise have been realised in subsequent periods. |
| ExCaps taxation assessment | Represents the reduction, in the year ended 30 September 2009, of the carrying value of the $309 million receivable due from the Australian Taxation Office in relation to its exchangeable capital units (ExCaps) to nil. The ATO has disallowed the Group’s objections to the ExCaps taxation assessments and the Group intends to appeal. |
| 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. |
| Fair value and hedge ineffectiveness | Represents volatility attributable to the Group’s application of the fair value option, ineffectiveness from designated accounting and economic hedge relationships and economic hedges of significant approved funding activities where hedge accounting has not been applied. |
| FDIC | Federal Deposit Insurance Corporation. |
| FSB | Financial Stability Board. |
| FSCS | United Kingdom Financial Services Compensation Scheme. |
| Full time equivalent employees (FTEs) | Include all permanent full time staff, part time staff equivalents and external contractors employed by third party agencies. |
| GAAP | Represents generally accepted accounting principles. |
| GSJBW | Goldman Sachs JBWere. |
| GWB | Great Western Bank. |
| Impaired assets | Consist of:<br>- retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue;<br>- non retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest; and<br>- impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.<br>Unsecured portfolio managed facilities are also classified as impaired assets when they become 180 days past due (if not written off). |
| Impairment of MLC & NAB Wealth re-insurance tax receivable | Represents a settlement with the Australian Tax Office (ATO) in relation to a reinsurance dispute. |
| Insurance | Includes the provision of personal and Group 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 items:<br>- investment earnings on surplus assets which are held in the Statutory Funds to meet capital adequacy requirements under the Life Act.<br>- interest on insurance VARC (Value of Acquisition Expense Recovery Component) net of reinsurance costs and represents the unwinding of the discount rate. VARC is defined as the current termination value less policy liabilities, and represents the value of acquisition costs recoverable from future premiums.<br>- 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 the relevant discount rates. |
| IRB approach | The internal ratings based approach refers to the processes employed by the Group to estimate credit risk. This is achieved through the use of internally developed models to assess the potential credit losses using the outputs from the probability of default, loss given default and exposure at default models. |
| Leveraged loans CLOs | CLOs backed by pools of broadly syndicated commercial bank loans. |
| Litigation expense | Represents litigation expenses in relation to non-recurring litigation matters. |

| Term | Description |
| --- | --- |
| 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 owners 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 non-controlling interest | Reflects the allocation of profit to non-controlling interests in the Group, and is adjusted from net profit to reflect the amount of net profit that is attributable to ordinary shareholders. |
| Net Tangible Assets per Share | Net assets excluding intangible assets, non-controlling interests, preference shares and other equity instruments divided by ordinary shares on issue at the end of the period. |
| Non-conforming residential mortgage | In Australia and UK, residential mortgage loans that are advanced to borrowers who do not generally meet prime lending guidelines and LMI eligibility. |
| Non-LMI prime residential mortgage | Prime residential mortgages but without LMI cover. |
| Non-impaired assets 90+ days past due | Non-impaired assets 90+ days past due consist of well-secured assets that are more than 90 days past due and portfolio-managed facilities that are not well secured and between 90 and 180 days past due. |
| Non-retail deposits and other borrowings | Comprises deposits held by Wholesale Banking, Specialised Group Assets, Group Funding and institutional customers in Business Banking, certificates of deposits, securities sold under agreements to repurchase, and borrowings. |
| Prime residential mortgages | In Australia, residential mortgage loans advanced by traditional residential mortgage lenders and eligible to be covered by an LMI policy. |
| Property revaluation | Represents revaluation decrements of land and buildings based on directors' valuations to reflect fair value. |
| Provision for tax NZ structured finance transactions | Represents the provision established in the year ended 30 September 2009 relating to the amended tax assessments issued by the New Zealand Inland Revenue Department (IRD) regarding certain structured finance transactions undertaken by the business. As a result of settlement with the IRD on 23 December 2009, BNZ released the unused portion of the provision previously made within income tax expense in the Group's results as at 31 March 2010. |
| Retail deposits | Comprises on-demand and savings deposits, term deposits and non-interest bearing deposits in Personal Banking, Business Banking (excluding institutional customers), UK Banking, NZ Banking, MLC and nabWealth, Great Western Bank and Asia Banking. |
| Risk weighted assets | On and off balance sheet assets of the Bank are allocated a risk weighting based on the amount of capital required to support the asset. Under Basel II the Group calculates risk weighted assets for credit risk, market risk, operational risk and interest rate risk in the banking book. |
| SCDO | Synthetic Collateralised Debt Obligation. |
| Scorecards | A decision model incorporating algorithms that calculates a customer risk score, the outcome of which is used in the credit assessment process. |
| Securitisation | Structured finance technique which involves pooling and packaging cash-flow converting financial assets into securities that can be sold to investors. |
| 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 form of a corporation, trust, partnership or unincorporated entity. SPEs are often created with legal arrangements that impose strict limits on the activities of the SPE. |
| Stable Funding Index (SFI) | Term Funding Index (TFI) plus Customer Funding Index (CFI). |
| Sub-prime residential mortgages | In USA, residential mortgage loans advanced to borrowers unable to qualify under traditional lending criteria due to poor credit history or debt payment capacity. |
| Subscription loans | Investment loans to equity investment funds. |
| Term Funding Index (TFI) | Term Wholesale Funding (with a remaining maturity to first call date greater than 12 months) divided by Core Assets. |
| Tier 1 ratio | Tier 1 capital as defined by APRA divided by risk weighted assets. |
| Tier 2 ratio | Tier 2 capital as defined by APRA divided by risk weighted assets. |
| Total Shareholder Return (TSR) | Total Shareholder Return (TSR) is a concept used to compare the performance of different companies' stocks and shares over time. It combines share price appreciation and dividends paid to show the total return to the shareholder. The absolute size of the TSR will vary with stock markets, but the relative position reflects the market perception of overall performance relative to a reference group. |
| Treasury shares | Represents the MLC & NAB Wealth businesses holdings of shares in National Australia Bank Limited. The unrealised mark-to-market movements arising from changes in the share price, dividend income and realised profit and losses arising from share sales are eliminated for statutory reporting purposes. |
| Weighted Average Number of Shares | Calculated in accordance with the requirements of AASB 133 'Earnings per Share.' |