

NATIONAL AUSTRALIA BANK LTD  
Form 6-K  
May 15, 2006

FILE NO 1-9945

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON DC 20549

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## FORM 6-K

### REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934

For the month of May 2006

## National Australia Bank Limited

ACN 004 044 937

(Registrant's Name)

Level 24

500 Bourke Street

MELBOURNE VICTORIA 3000

AUSTRALIA

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

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Form 20-F

Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes

No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82

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**National Australia Bank Limited** ABN 12 004 044 937

This document does not purport to be or contain the Group's financial report or financial statements. For the Group's financial report and financial statements for the six months ended 31 March 2006 refer to the Group's Appendix 4D filed with the ASX.

**Results for announcement to the market**

**Reporting period**

6 months ended 31 March 2006

**Previous corresponding period**

6 months ended 31 March 2005

|   |      |       |    | <b>March 31<br/>2006<br/>\$m</b> |
|---|------|-------|----|----------------------------------|
| Revenue   | up   | 7.5%  | to | 20,309                           |
| Profit after tax attributable to members of the Company | down | 27.7% | to | 1,994                            |
| Net profit attributable to members of the Company       | down | 27.7% | to | 1,994                            |

**Dividends**

|  | <b>Amount<br/>per<br/>share</b> | <b>Franked<br/>amount<br/>per<br/>share</b> |
|--|---------------------------------|---|
| Interim dividend   | 83 cents                        | 80.0%                                       |
| Previous corresponding period                                    | 83 cents                        | 80.0%                                       |
| Record date for determining entitlements to the interim dividend |                                 | June 8, 2006                                |

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**TABLE OF CONTENTS****Section 1 - Media Release**

|  |  |
|--|--|
| <b><u>Section 2 - Selected Financial Data</u></b>                        | <b><u>1</u></b>                                |
| <u>Divisional Performance Summary</u>                                    | <u>2</u>                                       |
| <u>Group Key Performance Measures</u>                                    | <u>3</u>                                       |
| <u>Non-GAAP Financial Measures</u>                                       | <u>4</u>                                       |
| <br>   |  |
| <b><u>Section 3 - Financial Review</u></b>                               | <b><u>6</u></b>                                |
| <u>Group Performance Highlights</u>                                      | <u>7</u>                                       |
| <u>Divisional Cash Earnings</u>  | <u>9</u>                                       |
| <u>Total Australia</u>   | <u>12</u>                                      |
| <u>- Australian Banking</u>  | <u>14</u>                                      |
| <u>- Wealth Management Australia</u>                                     | <u>18</u>                                      |
| <u>Total UK</u>  | <u>21</u>                                      |
| <u>Total New Zealand</u>   | <u>26</u>                                      |
| <u>Institutional Markets &amp; Services</u>                              | <u>29</u>                                      |
| <u>Other (Group Funding &amp; Corporate Centre)</u>                      | <u>34</u>                                      |
| <br>   |  |
| <b><u>Section 4 - Report on Group Operations &amp; Results</u></b>       | <b><u>36</u></b>                               |
| <u>Directors</u>   | <u>37</u>                                      |
| <u>Review of Operations and Group Results</u>                            | <u>37</u>                                      |
| <u>Net Interest Income</u>   | <u>38</u>                                      |
| <u>Net Interest Margin</u>   | <u>39</u>                                      |
| <u>Gains Less Losses on Financial Instruments at Fair Value</u>          | <u>40</u>                                      |
| <u>Other Operating Income</u>  | <u>40</u>                                      |
| <u>Operating Expenses</u>  | <u>41</u>                                      |
| <u>Asset Quality</u>   | <u>42</u>                                      |
| <u>Taxation</u>  | <u>46</u>                                      |
| <u>Significant Items</u>   | <u>46</u>                                      |
| <u>Balance Sheet</u>   | <u>47</u>                                      |
| <u>Capital Position</u>  | <u>49</u>                                      |
| <u>Other Matters</u>   | <u>50</u>                                      |
| <u>Corporate Governance</u>  | <u>51</u>                                      |
| <br>   |  |
| <b><u>Section 5 - Detailed Financial Information</u></b>                 | <b><u>53</u></b>                               |
| <u>Condensed Consolidated Income Statement</u>                           | <u>54</u>                                      |
| <u>Condensed Consolidated Balance Sheet</u>                              | <u>55</u>                                      |
| <u>Condensed Consolidated Statement of Recognised Income and Expense</u> | <u>56</u>                                      |
| <u>Condensed Consolidated Cash Flow Statement</u>                        | <u>57</u>                                      |
| <u>Notes to the Half Year Financial Report</u>                           |  |
| <u>1.</u>  | <u>Principal Accounting Policies</u>           |
| <u>2.</u>  | <u>Segment Information</u>                     |
| <u>3.</u>  | <u>Revenue</u>                                 |
| <u>4.</u>  | <u>Operating Expenses</u>                      |
| <u>5.</u>  | <u>Income Tax Expense</u>                      |
| <u>6.</u>  | <u>Dividends and Distributions</u>             |
| <u>7.</u>  | <u>Gross Loans, Advances &amp; Acceptances</u> |

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|   |   |                   |
|---|---|-------------------|
| <u>8.</u>   | <u>Doubtful Debts</u>   | <u>102</u>        |
| <u>9.</u>   | <u>Asset Quality</u>  | <u>103</u>        |
| <u>10.</u>  | <u>Details of Associates and Joint Venture Entities</u>                         | <u>105</u>        |
| <u>11.</u>  | <u>Details of Controlled Entities Acquired or Disposed of During the Period</u> | <u>105</u>        |
| <u>12.</u>  | <u>Deposits &amp; Other Borrowings</u>  | <u>106</u>        |
| <u>13.</u>  | <u>Contributed Equity and Reserves</u>  | <u>108</u>        |
| <u>14.</u>  | <u>Notes to the Cash Flow Statement</u>   | <u>111</u>        |
| <u>15.</u>  | <u>Contingent Liabilities</u>   | <u>113</u>        |
| <u>16.</u>  | <u>Disposal Groups Classified as Held for Sale</u>                              | <u>115</u>        |
| <u>17.</u>  | <u>Subsequent Events</u>  | <u>116</u>        |
| <b><u>Section 6 - Supplementary information</u></b> |   | <b><u>117</u></b> |

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**Financial Highlights\*****Cash earnings before significant items (\$m)**

| <b>Mar 06</b> | <b>Half Year to<br/>Sep 05</b> | <b>Mar 05</b> | <b>Sep 05</b> | <b>% Change on<br/>Mar 05</b> |
|---------------|--------------------------------|---------------|---------------|-------------------------------|
| 1,840         | 1,601                          | 1,652         | +14.9         | +11.4                         |

**Net profit attributable to members of the company (\$m)**

| <b>Mar 06</b> | <b>Half Year to<br/>Sep 05</b> | <b>Mar 05</b> | <b>Sep 05</b> | <b>% Change on<br/>Mar 05</b> |
|---------------|--------------------------------|---------------|---------------|-------------------------------|
| 1,994         | 1,234                          | 2,758         | +61.6         | -27.7                         |

Net profit included large significant items in each half year. These included income from the sale of the Irish banks (Mar 05), the cost of restructuring provisions (Mar 05 and Sep 05) and income arising from United Kingdom pensions reforms (Mar 06).

Net profit before significant items of \$1.76 billion was 3.6% higher than the March 2005 half year and 9.2% above the September 2005 half year.

**Dividend**

The interim dividend is steady at 83 cents and will be 80% franked.

**Diluted cash earnings per share (before significant items)**

114.5 cents compared with 105.0 cents in the March 2005 half year.

**Cash earnings on average equity (before significant items)**

17.4% compared with 16.0% in the March 2005 half year.

**Total capital ratio**

10.73% compared with 11.37% at 31 March 2005.

**Net interest margin**

2.31% compared with 2.12% in the March 2005 half year.

**Cost to income ratio (banking)**

55.6% compared with 58.6% in the March 2005 half year.

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\*Prior period numbers have been adjusted for Australian International Financial Reporting Standards.

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**ASX Announcement**

**Thursday, 11 May 2006**

**National Australia Bank Increases Cash Earnings by 11.4%**

National Australia Bank Group Chief Executive Officer, John Stewart, said the March 2006 half year results shows the National Australia Bank is delivering on its promises.

Cash earnings before significant items were 11.4% higher than the March 2005 half year and 14.9% above the September 2005 half year.

Reflecting the large one-off items in each half year, net profit after significant items fell by 27.7% to \$1.99 billion compared with the March 2005 half year. Net profit increased by 61.6% compared with the September 2005 half year.

The improvement in cash earnings in the United Kingdom by Clydesdale and Yorkshire banks was the highlight of an across-the-board improvement in cash earnings compared with the September 2005 half year, he said.

The progress in the last six months shows our businesses are building momentum but much still remains to be done.

We continue to be focussed on the four areas of culture change, compliance and risk, business efficiency and revenue growth, he said.

**Key Performance Measures**

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Net operating income increased by 10.9% to \$7.69 billion compared with the March 2005 half year and was 1.5% higher than the September 2005 half year.

Operating expenses, excluding the charge to provide for doubtful debts and significant items, showed a marginal increase to \$3.93 billion from \$3.90 billion in the March 2005 half year and fell 3.9% compared with the September 2005 half year.

Total lending increased by 17.1% to \$322 billion compared with the March 2005 half year and was up 8.2% on the September 2005 half year (excluding foreign exchange impacts).

The overall net interest margin improved 0.19% to 2.31% compared with 2.12% in the March half year. The net interest margin was up 0.17% on the September 2005 half year.

Non-accrual loans as a proportion of the portfolio fell to 0.30%, down from 0.40% in the March 2005 half year and 0.34% in the September 2005 half year.

We continue to monitor asset quality closely but the overall improvement demonstrates no serious credit issues have emerged, Mr Stewart said.

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## Regional Business Commentary

### Australia

Cash earnings increased 8.5% compared with the September 2005 half year reflecting strong expense management and revenue growth, in both banking and wealth management.

The solid overall performance by the Australian region was underpinned by volume growth balanced with careful margin management. Total banking expenses declined by 0.7% compared with the September 2005 half year.

Banking revenue increased by 8.2% compared with the March 2005 half year.

Asset quality remains strong with the ratio of gross non-accrual loans to gross loans and acceptances steady at 0.22%.

The iSaver and Business Cash Maximiser products were central to better than industry growth rate in deposits.

Business lending growth was also ahead of the industry growth rate.

The Australian bank business created a new brand which received extensive exposure as part of the sponsorship of the recent Melbourne 2006 Commonwealth Games.

The National Australia Bank won the Money Magazine/Cannex Bank of the Year for 2006 award and achieved the largest improvement in customer satisfaction ratings among the major banks according to March 2006 Roy Morgan Research.

Cash earnings in wealth management, excluding the loss of transitional tax relief and the introduction of AIFRS, increased by 14.5% on the September 2005 half, with operating expenses falling 3.7%.

One of the key strategies for wealth management is cross-selling of wealth products within the bank customer base. The sale of insurance and wealth products increased by 27% during the March 2006 half year, on top of last year's 25% increase.

In recent months our focus on risk and return and the growth potential of our businesses resulted in the sales of the MLC Hong Kong and Indonesian life insurance operations and the Custom Fleet business.

### **United Kingdom**

Cash earnings in UK pounds were 13.7% up (up 12.2% in A\$) on the September 2005 half year as income increased reflecting growing business momentum.

This is a strong result for the United Kingdom businesses that demonstrates Clydesdale and Yorkshire banks are starting to deliver sustainable profit growth.

The management team has delivered on the objectives of increased revenue, ongoing margin management and improved efficiency.

Asset quality remained strong with the ratio of gross non-accrual loans declining to 0.27% compared with 0.37% in the March 2005 half year.

The charge to provide for doubtful debts increased as a result of volume growth and the industry-wide issue of increased write-offs for credit card and personal lending.

The UK operations also gained employee and trustee support for pension reforms designed to put UK pension arrangements on a secure and sustainable footing for the future.

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Integrated Financial Solutions Centres increased lending and deposit growth. During the March half year four new integrated Financial Solutions Centres were opened in the south of England making a total of 36 new centres in this region and in addition five centres were relocated and one was upgraded bringing the total to 46.

The Clydesdale and Yorkshire bank branch network showed improved performance in a number of areas with good growth in deposits, improvement in cross-sell and mortgage sales over the same period in the previous year.

The third party distribution channel now has approximately 440 broker relationships and contributed £822 million in mortgages in the half year. (A\$1.94 billion based on A\$1 equals £0.4237).

The separation of back office processing for Northern Bank and National Irish Bank following their sale was successfully completed in line with the original schedule.

#### **New Zealand**

The New Zealand business increased cash earnings in New Zealand dollars by 1.7% compared with the September half year (in Australian dollars 1.8% compared with the September 2005 half year).

Delivering profitable growth in the competitive New Zealand market is a pleasing outcome and reflected good volume growth, effective margin management and strong expense control.

Asset quality improved with the ratio of gross non-accrual loans to gross loans and acceptances falling to 0.22% compared with 0.32% in the March 2005 half year due to the settlement of a large single exposure.

The Bank of New Zealand investment management business was disposed of during the half year.

Balance sheet funding options were diversified with the establishment of BNZ International Funding.

The Bank of New Zealand was awarded the best contact centre in New Zealand for the second year in a row and online banking services were expanded to include text and email account alerts for customers.

**Institutional Markets & Services**

Cash earnings improved by 2.5% compared with the September 2005 half year.

The improvement in cash earnings was achieved while reducing risk weighted assets in the business. During the last six months capital deployed in the business reduced by 15% compared to the September 2005 half year.

Management delivered against its stated objectives for the March 2006 half year in relation to the ongoing transformation program. The focus is to develop the business to provide increasing return on equity, greater efficiency and improving sustainable cash earnings, recognising that the nature of the IMS business contains elements which may cause volatility in cash earnings in any period.

The underlying financial performance in the March 2006 half for IMS has been favourably impacted by the accelerated execution of new business initiatives, together with a strong demand for client sales of risk management products arising from the recent interest and exchange rate volatility, and the low level of doubtful debts.

After considerable work to stabilise and re-base the business, IMS is rebuilding capability to create a stronger, more sustainable business based on a broader product offering, better client service, and investment opportunities for the Group's diverse client base. This will require continued investment to support the rebuilding program.

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## Outlook

We remain comfortable with the global economic outlook but we are not complacent about the risks to growth and inflation in the regions in which we operate.

Global economic indicators show strengthening activity levels. Solid economic growth in the United States is creating employment growth and gains in household incomes. The important economies of Europe and Japan are regaining momentum and China's economy remains strong.

In the United Kingdom economic growth is improving and is expected to be maintained at current levels and underlying inflation remains moderate. However manufacturing remains flat and credit growth is expected to slow.

The New Zealand economy is expected to recover due to the lower currency and the Government's package to boost household incomes but concerns remain about low business confidence and lower business credit growth.

In Australia the recent interest rate rise highlights concern about inflation risks. Economic growth is forecast to improve but credit growth is expected to moderate in line with slower domestic demand.

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Disclaimer

This announcement contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934 and the US Private Securities Litigation Reform Act of 1995. The words anticipate, believe, expect, project, estimate, likely, intend, could, may, target, plan and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Group, that may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements. For further information relating to the identification of forward-looking statements and important factors that could cause actual results to differ materially from those projected in such statements, see Presentation of Information -Forward-Looking Statements and Risk Factors in the Group's Annual Report on Form 20-F filed with the US Securities & Exchange Commission.

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**RESULTS FOR THE HALF YEAR ENDED 31 MARCH 2006**

SELECTED FINANCIAL DATA

1

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## Divisional Performance Summary

## DIVISIONAL PERFORMANCE SUMMARY

|   | Mar 06<br>\$m | Half Year to<br>Sep 05<br>\$m | Mar 05<br>\$m | Sep 05<br>% | Fav / (Unfav)<br>Change on<br>Mar 05<br>% |
|---|---------------|-------------------------------|---------------|-------------|---|
| <b>Cash earnings (1)</b>  |               |                               |               |             |   |
| Australian Banking  | 989           | 882                           | 965           | 12.1        | 2.5                                       |
| Wealth Management Australia   | 174           | 202                           | 201           | (13.9)      | (13.4)                                    |
| Asia Banking & Wealth Management  | 29            | 15                            | 14            | 93.3        | large                                     |
| Total Australia   | 1,192         | 1,099                         | 1,180         | 8.5         | 1.0                                       |
| Total UK  | 257           | 229                           | 307           | 12.2        | (16.3)                                    |
| Total New Zealand   | 167           | 164                           | 153           | 1.8         | 9.2                                       |
| Institutional Markets & Services  | 286           | 279                           | 298           | 2.5         | (4.0)                                     |
| Other (incl. Group Funding & Corporate Centre)                          | 65            | (61)                          | (191)         | large       | large                                     |
| <b>Cash earnings before significant items and distributions</b>         | <b>1,967</b>  | <b>1,710</b>                  | <b>1,747</b>  | <b>15.0</b> | <b>12.6</b>                               |
| Distributions   | (127)         | (109)                         | (95)          | (16.5)      | (33.7)                                    |
| <b>Cash earnings before significant items</b>                           | <b>1,840</b>  | <b>1,601</b>                  | <b>1,652</b>  | <b>14.9</b> | <b>11.4</b>                               |
| Weighted av no. of ordinary shares (million)                            | 1,593         | 1,563                         | 1,555         | (1.9)       | (2.4)                                     |
| <b>Cash earnings per share before significant items (cents)</b>         | <b>115.5</b>  | <b>102.5</b>                  | <b>106.2</b>  | <b>12.7</b> | <b>8.8</b>                                |
| <b>Diluted cash earnings per share before significant items (cents)</b> | <b>114.5</b>  | <b>101.4</b>                  | <b>105.0</b>  | <b>12.9</b> | <b>9.0</b>                                |
| <b>Reconciliation to net profit</b>                                     |               |                               |               |             |   |
| <b>Cash earnings before significant items</b>                           | <b>1,840</b>  | <b>1,601</b>                  | <b>1,652</b>  | <b>14.9</b> | <b>11.4</b>                               |
| <b>Adjusted for:</b>  |               |                               |               |             |   |
| Significant items after tax   | 270           | (380)                         | 1,058         | large       | (74.5)                                    |
| <b>Cash earnings after significant items</b>                            | <b>2,110</b>  | <b>1,221</b>                  | <b>2,710</b>  | <b>72.8</b> | <b>(22.1)</b>                             |
| <b>Adjusted for:</b>  |               |                               |               |             |   |
| Net profit attributable to minority interest                            | 259           | 456                           | 154           | 43.2        | (68.2)                                    |
| Distributions   | 127           | 109                           | 95            | (16.5)      | (33.7)                                    |
| Treasury shares after tax   | (104)         | (96)                          | (47)          | (8.3)       | large                                     |
| Impairment of goodwill  | (5)           |                               |               | large       | large                                     |
| Revaluation gains / (losses) on exchangeable capital units after tax    | (134)         |                               |               | large       | large                                     |
| <b>Net profit</b>   | <b>2,253</b>  | <b>1,690</b>                  | <b>2,912</b>  | <b>33.3</b> | <b>(22.6)</b>                             |
| Net profit attributable to minority interest                            | (259)         | (456)                         | (154)         | 43.2        | (68.2)                                    |
| <b>Net profit attributable to members of the Company</b>                | <b>1,994</b>  | <b>1,234</b>                  | <b>2,758</b>  | <b>61.6</b> | <b>(27.7)</b>                             |
| Distributions   | (127)         | (109)                         | (95)          | (16.5)      | (33.7)                                    |
| <b>Earnings attributable to ordinary shareholders</b>                   | <b>1,867</b>  | <b>1,125</b>                  | <b>2,663</b>  | <b>66.0</b> | <b>(29.9)</b>                             |

(1) Cash earnings is a performance measure used by the management of the Group. Refer to *Non-GAAP financial measures* within Section 2 - *Selected Financial Data* for a complete discussion of cash earnings.



## Group Key Performance Measures

## GROUP KEY PERFORMANCE MEASURES

|   | Note   | Mar 06    | Half Year to<br>Sep 05 | Mar 05    |
|---|--------|-----------|------------------------|-----------|
| <b>Earnings per share (cents)</b>                               |        |           |                        |           |
| Basic cash earnings per ordinary share before significant items | Supp 7 | 115.5     | 102.5                  | 106.2     |
| Diluted cash earnings per share before significant items        | Supp 7 | 114.5     | 101.4                  | 105.0     |
| Basic cash earnings per ordinary share after significant items  |        | 132.5     | 78.2                   | 174.2     |
| Basic earnings per ordinary share after significant items (1)   | Supp 7 | 118.8     | 73.0                   | 173.5     |
| Weighted average ordinary shares (no. million)                  | Supp 7 | 1,571     | 1,541                  | 1,535     |
| Weighted average diluted shares (no. million)                   | Supp 7 | 1,613     | 1,545                  | 1,603     |
| Dividends per share (cents)                                     | 6      | 83        | 83                     | 83        |
| <b>Performance (2)</b>  |        |           |                        |           |
| Return on average equity before significant items               |        | 15.4%     | 14.0%                  | 15.6%     |
| Cash earnings on average equity before significant items        |        | 17.4%     | 14.9%                  | 16.0%     |
| Return on average assets before significant items               |        | 0.73%     | 0.70%                  | 0.74%     |
| <b>Net interest income</b>                                      |        |           |                        |           |
| Net interest spread   | Supp 1 | 1.82%     | 1.68%                  | 1.70%     |
| Net interest margin   | Supp 1 | 2.31%     | 2.14%                  | 2.12%     |
| <b>Profitability (before significant items)</b>                 |        |           |                        |           |
| Cash earnings per average FTE (\$ 000)                          |        | 94        | 81                     | 78        |
| Banking cost to income ratio (3)                                |        | 55.6%     | 59.9%                  | 58.6%     |
| <b>Capital</b>  |        |           |                        |           |
|   |        | 31 Mar 06 | As at<br>30 Sep 05     | 31 Mar 05 |
| Tier 1 ratio  | Supp 3 | 8.05%     | 7.86%                  | 8.30%     |
| Tier 2 ratio  | Supp 3 | 3.66%     | 3.60%                  | 4.12%     |
| Deductions  | Supp 3 | (0.98)%   | (1.01)%                | (1.05)%   |
| Total capital ratio   | Supp 3 | 10.73%    | 10.45%                 | 11.37%    |
| Adjusted common equity ratio                                    | Supp 3 | 5.77%     | 5.49%                  | 5.84%     |
| <b>Assets (\$bn)</b>  |        |           |                        |           |
| Gross loans and acceptances (6)                                 | Supp 2 | 322       | 297                    | 277       |
| Risk-weighted assets  | Supp 3 | 302       | 290                    | 279       |
| Net tangible assets per ordinary share (\$)                     |        | 10.75     | 10.54                  | 10.76     |
| <b>Asset quality</b>  |        |           |                        |           |
| Gross non-accrual loans to gross loans and acceptances (4) (7)  | 9      | 0.30%     | 0.34%                  | 0.40%     |
| Net impaired assets to total equity (parent entity interest)    | 9      | 2.8%      | 2.8%                   | 3.0%      |
| Collective provision to total risk weighted assets (5)          | 9      | 0.60%     | 0.71%                  | 0.73%     |
| Collective provision to credit risk weighted assets (5)         | 9      | 0.62%     | 0.75%                  | 0.76%     |
| Specific provision to gross impaired assets                     | 9      | 25.8%     | 34.9%                  | 34.9%     |
| Total provision to gross impaired assets (5)                    | 9      | 208.5%    | 235.8%                 | 216.8%    |
| <b>Other information</b>  |        |           |                        |           |
| Funds under management and administration (\$bn)                |        | 96        | 91                     | 85        |
| Assets under custody and administration (\$bn)                  |        | 442       | 410                    | 372       |
| Full-time equivalent employees (no.)                            | Supp 5 | 39,298    | 38,933                 | 39,961    |

(1) Basic earnings are defined as Earnings attributable to ordinary shareholders .

- (2) *Return calculations use Earnings attributable to ordinary shareholders .*
- (3) *Refer to Non-GAAP financial measures within Section 2 - Selected Financial Data for discussion of the cost to income ratio.*
- (4) *Non-accrual loans are those loans meeting the APRA definition and consist of: retail loans (excluding credit card loans and portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue; non retail loans which are contractually past due and there is sufficient doubt about the ultimate collectibility of principal and interest to warrant the cessation of the recognition of interest revenue; and impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. APRA award an exemption to unsecured portfolio managed facilities whereby they become non accrual at 180 days.*
- (5) *For Asset Quality disclosure purposes provision includes credit adjustment to the Group s entire loan book (ie. both loans recorded at amortised cost and fair value). This differs to the approach required for the statutory financial statements.*
- (6) *31 March 2006 includes acceptances bought back by the Group (classified as Trading Securities in comparative periods).*
- (7) *Excludes securitised loans.*

**Non-GAAP Financial Measures**

**NON-GAAP FINANCIAL MEASURES**

*Cash earnings*

Cash earnings is defined as follows:

**Net profit**

Less:

Minority interests

Minority interests Life businesses

Distributions

Revaluation gains/losses on exchangeable capital units

Treasury shares

Add:

Impairment of goodwill

Cash earnings

Cash earnings is a key performance measure and financial target used by the Group. Dividends paid by the Company are based on after-tax cash earnings (adjusted for significant items).

Cash earnings is a key performance measure used by the investment community, as well as by those Australian peers of the Group with a similar business portfolio.

Cash earnings does not refer to, or in any way purport to represent the cash flows, funding or liquidity position of the Group. It does not refer to any amount represented on a Cash Flow Statement.

Adjustments are made between net profit and cash earnings as follows:

Minority interests reflects the allocation of profit to minority interests in the Group, and is adjusted from net profit to reflect the amount of net profit that is attributable to ordinary shareholders

Minority interests Life Businesses reflects the allocation of profit to controlled unit trusts of life companies

Distributions this reflects payments to holders of National Income Securities, Trust Preferred Securities, and Trust Preferred Securities II, and is adjusted from net profit to reflect the amount of net profit that is attributable to ordinary shareholders

Revaluation gains/losses on exchangeable capital units the Group's exposure to foreign exchange risk is eliminated through the existence of certain conversion features that convert the ExCaps to equity at predetermined exchange rates

Treasury shares relates to the movement in treasury share assets (direct investments in National Australia Bank Limited) caused by the movement in the share price

Impairment of goodwill - relates to the impairment expense recognised on the application of an annual impairment test. Financial statement users generally do not regard impairment of goodwill as being useful information in analysing investments. As it relates to an intangible asset, management believes it is prudent to isolate this amount from the underlying operating result.

In future periods, adjustments will also be made for changes in the value of insurance related acquisition costs that result from discount rate variations. (No adjustment has been made in the 31 March 2006 half year as the amount is insignificant).

#### **Cash earnings before significant items and Net profit before significant items**

Under Australian accounting standards AASB101(83) additional line items shall be presented when such presentation is relevant to an understanding of the entity's performance. For example, where a revenue or an expense from ordinary activities is of such a size, nature or incidence that its disclosure is relevant in explaining the financial performance of the entity for the reporting period and its disclosure is not otherwise required by this or another Standard, its nature and amount must be disclosed separately either on the face of the statement of financial performance or in the notes in the financial report.

The Group has identified items as significant items where management believes that the inclusion of these items distorts the underlying operating results of the Group and cause difficulty in identifying underlying performance trends and issues. Through the clear separation and identification of these items the Group ensures that they are identified and discussed in full, as well as ensuring that the underlying performance is highlighted and discussed in full.





*Cost to income ratio*

The cost to income ratio for the Banking operations (excluding Wealth Management) is calculated as total costs (defined in table below) divided by total income (defined in table below):

Total expenses

Less:

Interest expense

Life insurance expenses

Depreciation on leased vehicle assets

Impairment of goodwill

Charge to provide for doubtful debts

Significant expenses

Total costs for purposes of cost to income ratio

Total revenue

Less:

Interest expense

Life insurance income

Depreciation on leased vehicle assets

Significant revenue

Total income for purposes of cost to income ratio

The cost to income ratio calculated on this basis is a standard efficiency measure used widely across the Australian banking industry. In the above income calculation, the Group does not include net life insurance income and the pre-tax equivalent gross up of certain structured finance transactions.

**RESULTS FOR THE HALF YEAR ENDED 31 MARCH 2006**

FINANCIAL REVIEW

**Group Performance Highlights****Group Performance Highlights****Overview**

The Group recorded cash earnings before significant items for the half year ended 31 March 2006 of \$1,840 million, 14.9% higher than the September 2005 half and 11.4% higher than the March 2005 result on an Australian Equivalents to International Financial Reporting Standards (AIFRS) basis. This reflects the continued rebuilding of the Group's businesses and demonstrates that the Group's turnaround remains on track.

**Summary**

|   | Mar 06<br>\$m | Half Year to<br>Sep 05<br>\$m | Mar 05<br>\$m | Sep 05<br>% | Fav/(Unfav)<br>Change on<br>Mar 05<br>% |
|---|---------------|-------------------------------|---------------|-------------|---|
| <b>Cash earnings before significant items</b> |               |                               |               |             |   |
| <b>AGAAP basis as previously published</b>    |               | 1,692                         | 1,618         |             |   |
| <b>AIFRS adjustments to prior periods (1)</b> |               | (91)                          | 34            |             |   |
| <b>AIFRS basis(2)</b>                         | <b>1,840</b>  | 1,601                         | 1,652         | 14.9        | 11.4                                    |

(1) AIFRS adjustments primarily relate to share based payments, tax effect accounting adjustments, and defined benefit pension expense. Tax adjustments are the primary reason for the decline in performance Sept 05 as compared to March 05 on an AIFRS basis.

(2) For March 2006 represents full application of AIFRS standards; for Sept 05 and March 05 represents application of all AIFRS standards excluding AASB 132, Financial Instruments: Recognition and Measurement, AASB 139, Financial Instruments: Disclosure and Presentation, and AASB 4, Insurance Contracts.

**Movement on September 2005 Half**

The 2005 financial year focused on making a number of key operational changes to stabilise the Group's performance, and the results for the six months to March 2006 reflect the progressive shift in focus toward rebuilding each business and improving the Group's overall financial performance.

Key items include:

Cash earnings before significant items of \$1,840 million are 14.9% higher than the September 2005 half-year result of \$1,601 million. At constant exchange rates the half-on-half comparison is 15.1%.

Total lending for the Group increased by 8.2%(3) to \$322 billion and this, combined with improved deposit volumes which increased by 1.8% to \$216 billion. As well as maintaining growth in lending and deposit volumes, the Group net interest margin has increased to 2.31% from 2.14% during the half. Excluding AIFRS impacts, the net interest margin increased 8 basis points on the September half. Good volume growth combined with margin control resulted in steady revenue growth for the banking business across all regions, especially in Australia where cash earnings for the banking business grew by 12.1% on the September half. Asset quality for the Group remains sound with reductions in the overall level of non-accrual loans from 0.34% at September 2005 to 0.30% at March 2006 as a proportion of the total portfolio.

Considerable work to stabilise the Institutional Markets and Services (IMS) business has resulted in steady comparative cash earnings contribution for that business, while concurrently reducing half on half \$520 million of capital deployed in this business, thus improving returns on risk weighted assets and equity.

Increased focus on costs and ongoing restructuring activities saw operating expenses before significant items fall by 5.1% for the half.

The Group continues to evaluate its business portfolio to ensure alignment with risk/reward objectives designed to achieve satisfactory returns for shareholders. The Group entered into arrangements or negotiations to sell a number of businesses during the half. This included Custom Fleet, MLC Hong Kong and Indonesia life insurance companies, and the Investment Management business in New Zealand.

The resulting diluted cash earnings before significant items per share of 114.5 cents represents an increase of 13.1 cents on the September 2005 half.

The interim dividend has been maintained at 83 cents per share and will be 80% franked. For non-resident shareholders of the Company, the unfranked portion of the dividend will be paid from the Company's foreign income account and therefore will not be subject to Australian withholding tax.

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(3) After adjusting for AIFRS reclassification of discounted NAB own bill acceptances

**Movement on March 2005 Half**

Cash earnings before significant items of \$1,840 million increased 11.4% on the March 2005 half year result of \$1,652 million. At constant exchange rates the half-on-half comparison is 12.1%.

The Group's underlying performance showed solid improvements compared with the previous corresponding half-year, including:

Across the Group strong volume growth has been achieved as the regions stabilised their businesses, focused on lifting sales and service standards, together with the continued roll out of the integrated Financial Solutions Centres and third party distribution strategy in the UK. Total lending for the Group increased by 16.5%(1) to \$322 billion and deposit volumes increased by 3.9% to \$216 billion.

Operating costs were up reflecting rebasing activities that occurred across the Group as it embarks on a restructure and productivity improvement process;

As previously foreshadowed, a change in strategy for the Institutional Markets and Services (IMS) business to reduce the amount of capital utilized, has resulted in a lower comparative cash earnings contribution accompanied by a stronger return on assets and equity; and

Credit quality remained sound.

The resulting diluted cash earnings before significant items per share of 114.5 cents represents an increase of 9.5 cents on the March 2005 half.

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(1) Includes loans at cost and at fair value plus acceptances

## Financial Review: Divisional Cash Earnings

## DIVISIONAL CASH EARNINGS

| Half Year ended  | Total Australia |            |           |            |            |            |           | Eliminations | Total        |
|--|-----------------|------------|-----------|------------|------------|------------|-----------|--------------|--------------|
|  | Banking         | WM         | Asia      | Total UK   | Total NZ   | IMS        | Other(1)  |              |              |
| 31 March 2006  | \$m             | \$m        | \$m       | \$m        | \$m        | \$m        | \$m       | \$m          | Group \$m    |
| Net interest income  | 2,299           | (6)        | 13        | 883        | 401        | 434        | 168       |              | 4,192        |
| Net life insurance income excluding IORE (2)                                       |                 | 910        | 20        |            | 6          |            |           |              | 936          |
| Investment earnings on shareholders retained profits & capital (IORE)              |                 | 42         | 13        |            | 2          |            |           |              | 57           |
| Other operating income   | 1,083           | 310        | 11        | 590        | 232        | 294        | 69        | (87)         | 2,502        |
| Net operating income   | 3,382           | 1,256      | 57        | 1,473      | 641        | 728        | 237       | (87)         | 7,687        |
| Operating expenses (3)   | (1,861)         | (296)      | (29)      | (954)      | (372)      | (366)      | (142)     | 87           | (3,933)      |
| Underlying profit  | 1,521           | 960        | 28        | 519        | 269        | 362        | 95        |              | 3,754        |
| Charge to provide for doubtful debts   | (115)           |            | 1         | (152)      | (22)       | 17         | 1         |              | (270)        |
| Cash earnings before tax   | 1,406           | 960        | 29        | 367        | 247        | 379        | 96        |              | 3,484        |
| Income tax expense   | (417)           | (527)      |           | (110)      | (80)       | (93)       | (31)      |              | (1,258)      |
| <b>Cash earnings before significant items, distributions and Minority Interest</b> | <b>989</b>      | <b>433</b> | <b>29</b> | <b>257</b> | <b>167</b> | <b>286</b> | <b>65</b> |              | <b>2,226</b> |
| Net profit - Minority Interest   |                 | (259)      |           |            |            |            |           |              | (259)        |
| <b>Cash earnings before significant items and distributions</b>                    | <b>989</b>      | <b>174</b> | <b>29</b> | <b>257</b> | <b>167</b> | <b>286</b> |           |              |              |