

GLOSSARY OF TERMS

Cash earnings

Cash earnings is defined as follows:

Net profit

Less:

- Outside equity interest
- Distributions
- Revaluation profit/(loss) after tax

Add:

- Goodwill amortisation

Cash earnings

Cash earnings is a key performance measure and financial target used by the Group. Management externally disclose annual performance targets for the Group based on growth in cash earnings per share (which is calculated on the basis of cash earnings).

Cash earnings is a key performance measure used by the broking 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:

- Outside equity interest - this 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
- Distributions – this reflects payments to holders of National Income Securities and Trust units, and is adjusted from net profit to reflect the amount of net profit that is attributable to ordinary shareholders
- Revaluation profit/(loss) – relates to the movement in net market value (including the value of intangible assets) of investments in life insurance controlled entities recorded on the balance sheet in accordance with Australian Accounting Standards. As it relates to an intangible asset, management believes it is prudent to isolate this amount from the underlying operating result. It is separately identified and discussed in detail. Management further wish to separate this, as the method for accounting for the value of life insurance controlled entities is not comparable on an international basis.
- Goodwill amortisation - relates to the straight-line method of amortising goodwill (an intangible asset recorded on the balance sheet) in accordance with Australian Accounting Standards. Financial statement users generally do not regard goodwill amortisation expense 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.

Cash earnings before significant items (and net profit before significant items)

Under Australian Accounting Standard AASB 1018(5.4) “when 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 such items as ‘significant items’ on its Performance Summaries.

Management believe 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. Further it facilitates the forecasting of future year results.

Cost to income ratio

The cost to income ratio for the Banking divisions 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

Goodwill amortisation

Charge to provide for doubtful debts

Significant expenses

Total costs for purposes of cost to income ratio

Total revenue

Less:

Interest revenue

Life insurance income

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, National Australia Bank does not include net life insurance income and the pre-tax equivalent gross up of certain structured finance transactions.

The Group has set a number of externally disclosed efficiency targets for the cost to income ratio as calculated above.

Economic Value Added (EVA)

EVA is a profitability measure designed to recognise the requirement to generate a satisfactory return on the economic capital invested in the business. If the business produces profit in excess of its cost of capital then value is created for shareholders.

Senior management are required to place a significant percentage of total remuneration at risk depending upon the outcome of Group EVA for the year. This aligns management interests with those of shareholders.

The Group has set an externally disclosed target growth target for EVA.

Sales (Wealth Management)

Includes sales for Retail and Corporate Investment products and Risk products. Investment product sales represent the initial application amount and any additional contributions made. Inflows into cash products and reinvestment of distributions are excluded. Risk sales represent first year annual premiums for new business, CPI increases and one-off increases in the sum insured.